



## **Macquarie Capital Investment Management LLC**

### **ADV Part 2A – Firm Brochure**

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**This brochure provides information about the qualifications and business practices of Macquarie Capital Investment Management LLC (“MCIM”). If you have any questions about the contents of this brochure, please contact us at 212-231-1000. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Macquarie Capital Investment Management LLC is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Referring to Macquarie Capital Investment Management LLC as a registered investment adviser does not imply a certain level of skill or training of its officers.**

## **Item 2: Material Changes**

The following material updates were made since the previous update to this brochure, which was on March 31, 2012:

- Addition of Portfolio Manager Anthony Felton

### **Item 3: Table of Contents**

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## **Item 4      Advisory Business**

### **A.      Advisory Firm**

Macquarie Capital Investment Management LLC (“MCIM”) is an indirect wholly owned subsidiary of Macquarie Group Limited (“Macquarie”), a publicly listed company in Australia (ASX: MQG). MCIM was formed on January 14, 2004 and became registered with the U.S. Securities and Exchange Commission as an investment adviser on February 6, 2004.

### **B.      Advisory Services Offered**

MCIM provides investment advisory services to registered investment companies, ERISA accounts and other institutional clients, both foreign and domestic. These accounts principally invest in either globally listed equity issued by companies engaged in infrastructure activities or emerging market securities. The underlying investors in the accounts of MCIM’s clients may be either institutional or retail. MCIM may also provide advisory services related to unlisted securities and other hybrid, equity-like securities or instruments related to infrastructure, such as interests in private infrastructure partnerships.

### **C.      *Tailored Advisory Services***

MCIM provides advice to client accounts based on specific investment objectives and strategies agreed upon prior to commencement of investing for the account. Clients may impose restrictions on investing in certain securities, or certain types of securities. MCIM may provide services on a discretionary or non-discretionary basis.

### **D.      Wrap Fee Programs**

None

### **E.      Assets Under Management**

As of March 31, 2012, MCIM had approximately \$1,641,838,000 client assets under management. As of that date, MCIM managed \$1,608,589,000 on a discretionary basis and \$33,249,000 on a non-discretionary basis..

## **Item 5      Fees and Compensation**

### **A.      Compensation**

MCIM does not have a basic fee schedule. MCIM charges its clients that are registered investment companies and ERISA accounts a base management fee for investment advisory services. This fee, charged in arrears, is expressed as a percentage of gross or net assets under management. Gross and net assets may be calculated utilizing cost, par value, fair market value or other mutually agreed upon measures. The specific fee arrangements, including the

amount, timing and basis of calculation, have been determined through negotiations with each client and documented in a written agreement.

MCIM's other clients are charged a management fee and/or a performance-based fee. Performance-based fees will be charged in compliance with Rule 205-3 of the Investment Advisers Act of 1940, as amended. Advisory fees and performance-based fees are specified in the relevant Investment Management Agreement ("IMA") with a client. Clients may pay higher or lower fees than a second client who is receiving substantially similar services.

The registrant serves as a non-discretionary investment adviser to collective investment trusts and receives fees for the non-discretionary investment advisory services it provides thereunder.

**B. *Payment of Fees***

The time at which fees are payable is negotiated with the client. In general, management fees are payable monthly or quarterly in arrears. Performance fees are payable on outperformance above an agreed benchmark, and may be subject to a high watermark. The written agreement with the client generally provides that the client may terminate the agreement under specific circumstances without the payment of any penalty, upon giving sufficient notice to MCIM.

**C. *Other Fees***

No additional fees are paid to the registrant by clients in connection with advisory services provided.

Custodians (generally banks and broker-dealers) will be used to provide custodial and/or administrative services in connection with the management of client assets. The cost of these services is not included in the management fees discussed above.

Clients will incur brokerage and other transaction costs. Please see "Item 12: Brokerage Practices" below for more complete information regarding MCIM's brokerage practices, including its use of its global affiliate Macquarie Capital USA Inc. ("MCUSA") through which it may place client transactions.

In addition, if client assets are invested in a mutual fund or exchange traded fund ("ETF"), the client indirectly bears a ratable share of operating expenses incurred by the mutual fund or ETF, including, without limitation, brokerage fees and transaction costs, transfer agency fees and custodial expenses. These expenses are described in greater detail in the Prospectus and/or Statement of Additional Information for the relevant mutual fund or ETF.

**D. *Payment of Fees in Advance***

MCIM clients do not pay fees in advance.

## **E. Compensation for Sale of Securities or Other Investment Products**

None of MCIM's supervised persons accepts compensation for the sale of securities or other investment products, including asset based sales charges or service fees from the sale of mutual funds.

## **Item 6 Performance-Based Fees and Side-by-Side Management**

MCIM does charge performance-based fees on certain of its accounts. MCIM access persons may manage accounts that are charged both a performance-based fee and accounts that are charged another type of fee.

As noted above, MCIM charges both performance-based fees and asset-based fees. Performance based fees have the potential to cause a conflict of interest by creating an incentive to favor accounts charging such fees over accounts charging asset-based fees. MCIM allocation policies (see Item 12: Brokerage Practices, below) address such potential conflicts of interest by prohibiting the Portfolio Manager from unfairly favoring one account over another. These policies, which apply equally to accounts that charge asset-based fees and those that are charged performance-based fees, generally require allocations of investment opportunities and executions among similarly managed accounts to be made on a pro rata basis, as described in the Brokerage Practices section below.

## **Item 7 Types of Clients**

MCIM's clients may include individuals, investment companies, pension and profit sharing plans, ERISA accounts and other corporations or business entities. MCIM's clients may also include governments, government agencies, international organizations, educational institutions and other pooled investment vehicles that are exempt from the definition of an investment company under the Investment Company Act of 1940. MCIM's clients also include foreign companies or entities, some of which may be related persons of MCIM.

Certain asset strategies within MCIM may impose a minimum dollar value of assets of \$500,000 for starting or maintaining an account. Additionally, MCIM's clients may impose a minimum dollar value of assets or other conditions for their underlying investors.

Minimum invest requirements for the mutual funds advised or sub-advised by MCIM are set forth in the fund's respective prospectus and SAI (if applicable).

## **Item 8 Methods of Analysis, Investment Strategies and Risk of Loss**

### **A. Methods of Analysis and Investment Strategies**

MCIM's methods of analysis include fundamental, technical and charting. The main sources of information used by MCIM are financial newspapers and magazines, interviews of corporate officers and facilities tours, financial research reports and materials prepared by others, publications and ratings issued by corporate rating services, periodic and annual

reports, prospectuses and other filings with the Securities and Exchange Commission and similar foreign organizations, company press releases, and other publicly available information considered useful by MCIM. In addition to those sources enumerated, MCIM also utilizes various additional sources of information to evaluate the investment merits of particular investments, including private placement memoranda prepared by commercial and investment banks, independent credit analysis and market research prepared by banks and brokers.

The investment strategies used to implement any investment advice given to clients may include one or more of the following: long term purchases (securities held at least a year), short term purchases (securities sold within a year), trading (securities sold within 30 days), short sales, margin transactions and option writing (including covered options, uncovered options or spreading strategies).

MCIM may utilize leverage through the issuance of leverage instruments, consistent with clients' investment guidelines and, in the case of advisory services provided to registered investment companies, with the restrictions on leverage imposed by the Investment Company Act of 1940.

MCIM, in certain accounts, concentrates its investments in securities issued by companies principally engaged in the infrastructure industry. This may create greater exposure to the potential adverse economic, regulatory, political, and other changes affecting such entities.

Subject to a client's IMA and applicable rules and restrictions, MCIM may purchase futures to hedge client portfolios against certain correlation risks between the performance of the United States securities markets and the performance of the emerging markets' equity and debt securities. Subject to a client's IMA and applicable rules and restrictions, MCIM may also hedge the exposure of client portfolios to fluctuations in the United States Dollar relative to foreign currency by purchasing futures contracts or entering into forward contracts. Subject to a client's IMA and applicable rules and restrictions, MCIM may also use credit default contracts to take and/or hedge certain exposures within the client portfolios as an alternative to using fixed income securities as a means to take on such exposure.

These methods, strategies and investments involve risk of loss to clients, and clients must be prepared to bear the loss of their entire contribution/investment.

## **B. Material Risks**

The material risks relating to the foregoing investment strategies and/or securities may include the following risks:

- **Buy and Hold.** The registrant may buy securities and hold them for a relatively longer period of time, regardless of short-term factors such as fluctuations in the market or volatility of the security price.

- **Concentration/Nondiversification.** Investments that are concentrated in a particular issuer, geographic region, or sector may make the account's value more susceptible to the events or conditions impacting the issuer, geographic region, or sector.
- **Counterparty.** A counterparty to a financial instrument entered into by an account may become bankrupt or otherwise fails to perform its obligation due to financial difficulties, including making payments to the account.
- **Derivatives.** Derivatives are financial instruments that have a value which depends upon, or is derived from, the value of something else, such as one or more underlying securities, pools of securities, options, futures, indexes or currencies. In addition to the potential for increased losses, the use of derivative instruments may lead to increased volatility within the account.
- **Foreign Currency.** Foreign currency risk is the risk that the value of an account's investments may be negatively affected by changes in foreign currency exchange rates.
- **Hedging.** There can be no assurances that a particular hedge is appropriate, or that certain risk is measured properly.
- **Investment Objective.** Investment objective risk is the risk that a client's objectives will not be met by the Advisers choice of investments.
- **Issuer.** An issuer may perform poorly, and therefore, the value of its securities may decline.
- **Leverage.** Leverage arises due to a client's ability to borrow. Leverage may result in more volatile performance of the client's account, potentially magnifying the gains or losses incurred.
- **Liquidity.** Liquidity risk exists when particular investments are difficult to purchase or sell, preventing the ability to close out a position or rebalance within a timely period and at a fair price.
- **Market.** All the strategies have market risk, which is the risk that the market value of a security or financial instrument will fluctuate, sometimes rapidly and unpredictably. These fluctuations may cause a security or financial instrument to be worth less than it was at the time of purchase.
- **Master Limited Partner.** Master limited partnership risk is the risk that holders of the units of master limited partnerships have more limited control and limited rights to vote on matters affecting the partnership. There are also certain tax risks associated with an investment in units of master limited partnerships.
- **Short selling.** Short selling exposes the client to the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly and without effective limit.

No MCIM strategy currently employs frequent trading as part of its portfolio management process.

### **C. Materials Risks of Particular Securities**

Material risks of particular types of securities employed in the foregoing investment strategies may include:



- Infrastructure-related companies risk. Infrastructure-related businesses are subject to a variety of factors that may adversely affect their business or operations including high interest costs in connection with capital construction programs, costs associated with environmental and other regulations, the effects of economic slowdown and surplus capacity, increased competition, uncertainties concerning availability of fuel at reasonable prices, the effects of energy conservation policies and other factors.
- Emerging Markets risk. Emerging market risk is the possibility that risks associated with international investing will be greater in emerging markets than in more developed foreign markets because, among other things, emerging markets may have less stable political and economic environments. These markets are in early stages of development and can be extremely volatile. They can be marked by extreme inflation, devaluation of currencies, dependence on trade partners, and hostile relations with neighboring countries.

## **Item 9      Disciplinary Information**

### **A.      Criminal or Civil Action**

Neither MCIM nor any of its management persons has been the subject of any criminal or civil actions.

### **B.      Administrative Proceedings before a Regulatory Agency**

Neither MCIM nor any of its management persons has been the subject of any administrative proceeding before the SEC, any other federal regulatory agency, any state regulatory agency, or any foreign financial regulatory authority.

### **C.      Self-Regulatory Agency Proceedings**

Neither MCIM nor any of its management person has been the subject of any self-regulatory organization (SRO) proceeding.

## **Item 10      Other Financial Industry Activities and Affiliations**

### **A.      Broker-Dealer Registrations**

No members of MCIM are registered with our affiliated broker-dealer – MCUSA Inc.

As noted in Item 5, when MCIM has brokerage discretion to select broker-dealers to effect securities transactions for clients, MCIM may utilize MCUSA to effect a portion of such transactions if client investment guidelines and applicable regulations allow it. Clients whose investment guidelines do allow trading through MCUSA may nonetheless trade with other brokers or dealers that are not affiliated with MCIM. All security transactions are effected based on the expectation that best execution can be achieved.

These arrangements represent a conflict of interest because they provide an economic incentive for MCIM and its personnel to use MCUSA, in lieu of other brokers to effect client securities transactions.

Please see the response to Item 12 for more complete information regarding MCIM's brokerage practices.

## **B. Other Registrations**

Neither MCIM nor any of its *management persons* are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of any of the forgoing entities.

## **C. Affiliations or Relationships Material to Advisory Business**

### Broker-dealer

MCIM's related parties include Macquarie Capital (USA) Inc., an SEC registered broker-dealer that may offer interests in the pooled investment vehicles that it sponsors and/or advises. Management persons and/or Access Persons of MCIM may also be associated with Macquarie Capital (USA) Inc., as discussed in Item 10.A.

### Banking or Thrift Institution

MCIM is an indirectly wholly owned subsidiary of Macquarie Bank Limited ("MBL"), an Australian banking institution. MBL is wholly owned by Macquarie Group Limited ("MGL"), an Australian financial institution, and MCIM's ultimate parent company.

### Other Investment Advisers

Macquarie Capital Investment Management (Australia) Limited ("MCIML"), an Australian-based investment adviser registered with ASIC, the Australian securities regulator, dually employs the same investment staff as MCIM. MCIM's parent, MBL, wholly owns Delaware Management Business Trust ("DMBT"), a U.S.-registered investment adviser, and DMBT is a co-sub adviser with MCIM to the Macquarie/First Trust Global Infrastructure Utility Dividend and Income Fund, a closed-end registered investment company listed on the New York Stock Exchange (MFD). MCIM also sub-advises certain funds for MCIML, a U.S. registered investment adviser and sub-advises certain registered investment companies and other accounts for DMBT.

Please refer to Item 11 for a full discussion of any conflicts of interest these relationships may raise and how they are addressed.

## **D. Recommending Other Investment Advisers for Compensation**

MCIM does not recommend or select other investment advisers for its clients where it receives compensation directly or indirectly from those advisers. However, MCIM may enter into sub-advisory relationships with other investment advisers.

## **Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **A. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

MCIM has a written Code of Ethics ("Code") which all MCIM staff are required to adhere to. MCIM's Code imposes restrictions on the ability of its employees and their supervised persons who are "Access Persons" as defined in the Investment Advisers Act to invest in securities that may be recommended or traded in MCIM client accounts. The Code currently applies to most securities transactions (including transactions in equity or debt securities, municipal bonds, exchange-traded securities, securities indices, derivatives of securities and similar instruments) and mutual fund transactions (including transactions in closed end mutual funds, excluding money market funds, open-end mutual funds and other mutual funds specifically designed for short-term investment).

Pursuant to the Code and MGL's personal dealing policy, Access Persons are required to pre-clear all of their personal securities transactions in securities that are not exempt from the Code or MGL's personal dealing policy. Access Persons must also receive prior approval before purchasing any securities in a private placement or pursuant to an initial public offering.

Access Persons are subject to a 14-day holding period between purchases and sales in the same securities and mutual funds with certain exceptions (such as transactions in mutual funds subject to periodic purchase plans and other exceptions specifically granted by MCIM Compliance). Certain Access persons are also subject to specific blackout period restrictions.

All Access Persons are subject to reporting obligations, including filing a quarterly personal securities transaction report (which provides information with regard to all securities and mutual fund transactions that are required to be reported, if any, effected during the previous quarter for their own accounts and any accounts over which they have direct or indirect beneficial interest, influence and/or control). Access Persons are also required to disclose their securities and mutual fund accounts to MCIM upon hire and annually confirm the information.

Further, MCIM Access Persons are also subject to additional approval procedures, restrictions and reporting requirements with respect to serving on a board of a publicly traded company, engaging in certain other outside activities that may conflict with MCIM's obligations to its clients, giving or receiving gifts and entertainment and making political contributions.

Any Access Person who violates the Code may be subject to disciplinary actions, including possible dismissal. In addition, any securities transactions executed in violation of the Code, such as short-term trading or trading during blackout periods, may subject the Access Person to sanctions, ranging from warnings and trading privilege suspensions to financial penalties, including but not limited to, unwinding the trade and/or disgorging the profits as well as additional disciplinary action. Violations and suspected violations of criminal laws will be reported to the appropriate authorities as required by applicable laws and regulations.

MCIM's clients and/or prospective clients may obtain a copy of its Code of Ethics upon request by calling their client service representative.

## **B, C. & D. Potential Conflicts of Interest**

As discussed above, MCIM's ultimate parent is MGL, a multi-national financial services company. Therefore, MCIM is affiliated with a number of entities that may provide, and/or may engage in commercial banking, insurance, brokerage, investment banking, financial advisory, broker-dealer activities (including sales and trading), hedge funds, real estate and private equity investing, in addition to the provision of investment management services to institutional and individual investors. Since MGL, its affiliates, directors, officers, and employees (the "Macquarie Group") are engaged in businesses and have interests other than managing asset management accounts, such other activities may involve real, potential or apparent conflicts of interests. These interests and activities include potential advisory, transactional and financial activities and other interests in securities and companies that may be directly or indirectly purchased or sold by MCIM for its clients' advisory accounts. These are considerations of which advisory clients should be aware and which may cause conflicts that could be to the disadvantage of MCIM's advisory clients. Present and future activities of the Macquarie Group, in addition to those described herein, may also result in conflicts of interest that may be disadvantageous to MCIM's clients.

MCIM has established policies, procedures and disclosures designed to address conflicts of interest arising between advisory accounts and the Macquarie Group's businesses. It is MCIM's policy that MCIM personnel involved in decision making for advisory accounts must act in the best interests of their advisory clients and generally without knowledge of the interests of proprietary trading and other operations of the Macquarie Group and/or personnel of the Macquarie Group. Where advisory personnel do know of conflicts or potential conflicts among advisory accounts or between advisory accounts and the Macquarie Group and/or personnel of the Macquarie Group, it is MCIM's policy to disclose the existence of such conflicts or potential conflicts in general form through this Form ADV or directly to clients.

MCIM (i) has related parties that may act as principal, broker or agent in connection with securities transaction with or for clients (ii) may recommend that clients buy or sell securities in which MCIM or another affiliate has a financial interest; and (iii) may buy and sell for its own account securities that it recommends to clients.

MCIM may enter into arrangements with affiliates and third party service providers to perform various administrative, back-office and other services relating to client accounts. Such service providers may be located in the US or in non-US jurisdictions.

MCIM acts as a fiduciary with respect to its asset management activities and owes its clients a duty of undivided loyalty. As a fiduciary, MCIM is required to act solely in the best interests of the clients whose assets it manages.

On occasion, other entities within the Macquarie Group may have engagements and responsibilities which could give the appearance of a conflict with MCIM's duty of loyalty. To minimize these conflicts, as a general matter, MCIM employees associated with the investment process (including portfolio managers and research analysts) have no contact with employees of the Macquarie Group outside of MCIM regarding specific clients, business matters or initiatives, unless permissible by internal procedures, or approved by MCIM Compliance.

The Macquarie Group is a major participant in global financial markets and it acts as an investor, investment banker, investment manager, financier, advisor, market maker, trader, lender, agent and principal in the global fixed income, currency, commodity, equity and other markets in which MCIM's advisory accounts may directly and indirectly invest. As permitted by, and in conformity with applicable laws and regulations, MCIM's advisory accounts may invest in, engage in transactions with, make voting decisions with respect to, or obtain services from entities for which the Macquarie Group performs or seeks to perform banking or other services. Additionally, it is likely that MCIM's advisory accounts will undertake transactions in securities in which the Macquarie Group makes a market or otherwise has direct or indirect interests. MCIM makes decisions for its clients in accordance with its fiduciary obligations as manager of its advisory accounts. As noted below, however, certain activities of the Macquarie Group may have a negative or detrimental effect on advisory accounts of MCIM.

MCIM may take investment positions in securities in which its clients or related persons within MGL or MCIM itself have different investment positions. There may be instances in which MCIM is purchasing or selling for its client accounts securities in which the Macquarie Group and/or MCIM is undertaking the same or differing strategy. Prices, availability, liquidity and terms of the investments may be negatively impacted by the Macquarie Group's and MCIM's activities and the transactions for MCIM's clients may, as result, be less favorable. The investment results for MCIM's clients may differ from the results achieved by the Macquarie Group, itself and other clients of the Macquarie Group. In addition, results among MCIM clients may differ. For a summary of the restriction of the flow of certain information between MCIM and other parts of Macquarie Group, please see "Information Barrier Walls" below. As noted, MCIM makes decisions for its clients in accordance with its fiduciary obligations as manager of its advisory accounts; independent of what decisions may be made by or in other parts of the Macquarie Group.

The investment activities of the Macquarie Group may limit the investment opportunities for MCIM's client accounts. This may occur in certain regulated industries, private equity markets, emerging markets, and in certain futures and derivative transactions where restrictions may be imposed upon the aggregate amount of investment by affiliated investors. MCIM may voluntarily limit transactions for client accounts or limit the amount of voting securities purchased for client accounts, or waive voting rights for certain securities held in client accounts, which may limit positions, in order to avoid circumstances which, in the view of MCIM, would require aggregation of such client account positions with investments elsewhere in the Macquarie Group that would approach or exceed certain ownership thresholds.

MCIM may engage in security transactions with brokers who coincidentally sell shares of registered investment companies advised by MCIM, provided that it reasonably believes that the broker will provide best execution. There are no quid pro quo arrangements or agreements in place with these brokers. However, trading with these brokers may raise the appearance of a conflict of interest.

Certain Access Persons of MCIM also serve as the investment team for another MGL wholly-owned subsidiary (“Participating Affiliate”) that provides investment advisory services to funds and managed accounts that are offered outside of the United States (“non-US client accounts”). These individuals, on behalf of MCIM and the Participating Affiliate, may give advice or take action with respect to the investments of client accounts and non-US client accounts (together “Client Accounts”) that may not be given or taken with respect to other Client Accounts with similar investment programs, objectives, and strategies. Accordingly, Client Accounts with similar strategies may not hold the same securities or instruments or achieve the same performance. These individuals, on behalf of MCIM and the Participating Affiliate, may also advise Client Accounts with conflicting programs, objectives or strategies. These activities may also adversely affect the prices and availability of other securities or instruments held by or potentially considered for one or more Client Accounts. Finally, MCIM and the Participating Affiliate may have conflicts in allocating their personnel’s time and services among Client Accounts. MCIM will devote as much time to each Client Account as MCIM deems appropriate to perform its duties in accordance with its management agreement.

MCIM and the Participating Affiliate may have portfolio managers who manage long/short Client Accounts alongside long-only Client Accounts. For example, MCIM and/or the Participating Affiliate may hold on behalf of a Client Account a security for which MCIM and/or the Participating Affiliate may establish a short position on behalf of another Client Account. The subsequent short sale may result in impairment of the price of the security held long in the Client Account. Conversely, MCIM and/or the Participating Affiliate may on behalf of a Client Account hold a short position in the same security which it may purchase on behalf of another Client Account. The subsequent purchase may result in an increase of the price of the underlying position in the short sale exposure.

MGL may from time to time in its sole discretion invest in one or more Client Accounts with no obligation to invest in any or all Client Accounts. MGL may also engage MCIM to manage proprietary money in accounts or funds that are separate from Client Accounts (“MGL proprietary accounts”). MCIM may buy, sell, or hold securities or other instruments for MGL proprietary accounts while entering into different investment decisions for one or more Client Accounts.

### *Information Barrier Walls*

The Macquarie Group may come into possession of confidential, material non-public information particularly in connection with its commercial and investment banking activities. The Macquarie Group, including MCIM, has internal procedures in place intended to limit the potential flow of any such non-public information. Should MCIM come into possession of material, non-public information, MCIM has procedures that prohibit trading activities based on

such information by MCIM for its clients and by MCIM employees. MCIM may not use material, non-public information obtained from any division of the Macquarie Group when making investment decisions for its clients. As a result of these procedures and prohibitions, client accounts may be precluded from purchasing or selling certain securities, which could have a detrimental effect on one or more client accounts. There may be instances where members of MCIM senior management who are not involved in the investment process may be privy to material, non-public information about transactions or securities due to discussions with senior personnel from other departments within the Macquarie Group. However, when in possession of material, non-public information, such members of senior management may not participate or use that information to influence trading decisions or securities; nor may they pass that information along to personnel within MCIM involved in the investment process (e.g., portfolio managers, research analysts and traders).

There may also be periods during which MCIM may not initiate or recommend certain types of transactions, or may otherwise restrict or limit its advice given to clients in certain securities issued by or related to companies that the Macquarie Group is performing banking or other services, or companies in which the Macquarie Group has a proprietary position. As a result, client accounts may be precluded from purchasing or selling certain securities, which could have a detrimental effect on one or more client accounts.

#### *Proprietary Account Trading*

In accordance with the Macquarie Group's policy, MCIM may invest and manage proprietary capital in certain products and strategies also managed by MCIM for clients; these investments may be hedged against market risk, while client assets may not be so hedged. The portfolio management and trading of the proprietary capital investment as well as any associated hedge activity is undertaken in accordance with MCIM policies and procedures. Proprietary capital may not perform the same as similarly managed client accounts for a variety of reasons, including regulatory restrictions on the type and amount of securities in which the proprietary capital may be invested, differential credit and financing terms, as well as any hedging transactions. While MCIM acts solely in the best interests of its clients, these circumstances may give rise to the appearance of a conflict of interest.

## **Item 12      Brokerage Practices**

### **A.      Selection of Broker-dealers**

MCIM has several policies and procedures in place with respect to the selection of broker-dealers for portfolio transactions. These include Affiliated Broker, Best Execution, Soft Dollar Arrangements and Fair Allocation (discussed in Item B. below).

### *Affiliated Broker*

Unless otherwise instructed or directed by a client for which it has discretion, MCIM has the authority generally to determine the broker to be used to effect a client's securities transactions and the commission rates to be paid in connection with a client's securities transactions. When it has discretion to select broker-dealers to execute securities transactions for clients, MCIM selects brokers in accordance with its obligation to seek best execution and may use MCUSA, its affiliated broker-dealer, to effect a portion of the client's transactions. Although MCIM believes that MCUSA commission rates are generally competitive with that of unaffiliated broker-dealers providing comparable services and overall qualitative execution, MCIM does not represent to clients it will necessarily obtain the lowest possible commission charge on every trade. MCIM effects all transactions through MCUSA on an agency basis. All affiliated broker-dealer transactions will be done according to applicable laws and regulations.

### *Best Execution*

MCIM places all orders for the purchase or sale of securities with the primary objective of seeking to obtain the best execution from responsible executing broker-dealers at competitive rates. MCIM seeks to deal with executing broker-dealers that can provide high-quality execution services. MCIM takes into account all factors that it considers to be relevant, including, by way of illustration, price, the size of the transaction, the nature of the market of the security, the amount of the commission, the timing and impact of the transaction taking into account market prices and trends, the reputation, experience and financial stability of the broker-dealer involved, the willingness of the broker-dealer to commit capital, the need for anonymity in the market, and the quality of the services rendered by the broker-dealer in other transactions, including the quality of the research provided by the broker-dealer.

### *Soft Dollar Arrangements*

MCIM may also utilize brokers providing research and brokerage services even though lower commissions may be charged by brokers not offering such services. Commonly referred to "soft dollar" arrangements, MCIM will acquire brokerage and research services that provide lawful and appropriate assistance to MCIM in carrying out its investment decision-making responsibilities. Under these arrangements, rather than spending "hard dollars" (cash) MCIM obtains brokerage and research services from a broker in exchange for commissions. MCIM intends for these arrangements to comply with Section 28(e) of the Securities Exchange Act of 1934. In addition, client commission arrangements ("CCA") have been implemented with specific brokers by which MCIM contracts for brokerage services at a specified commission rate with a portion of the commissions generated being deposited in a separate commission "pool".

MCIM will periodically direct the CCA vendor to pay specified dollar amounts from that pool for 28(e) eligible research services rendered by another provider. Payment to the research provider is not conditioned, directly or indirectly, on the execution of any particular transaction(s) in securities that are analyzed by the research service. Further, the research service provider does not perform other functions typically characteristic of broker-dealers activity (i.e.



execute, clear or settle securities transactions). The determination as to Section 28(e) eligibility and the value of the research service received is the sole independent responsibility of MCIM under its soft dollar arrangement procedures.

Neither the research services nor the amount of brokerage given to a particular broker-dealer are made through an arrangement or commitment that would obligate MCIM to pay selected broker-dealers for the services provided.

In certain cases, a research service may serve additional functions that are not related to the making of investment decisions (such as accounting, record keeping or other administrative matters). Where a product obtained with commissions has such a mixed use, MCIM will make a good faith allocation of the cost of the product according to its use. MCIM will not use soft dollars to pay for services that provide only administrative or other non-research assistance.

Below is a list of the items MCIM utilizes, in whole or in part, for investment decision-making and currently pays for, in either whole or in part, with soft dollars:

- Fact Set – risk application system utilized to provide market fundamental and macroeconomic data required for the development of risk models;
- Bloomberg – subscription service which allows access to financial, regulatory and market databases through their Bloomberg Terminals;
- Sunguard APT (Arbitrage Pricing Theory) - risk model provider capable of providing portfolio risk drivers and user-defined risk factors;
- Reuters Knowledge – web-based information and analytics tool that provides access to broker research fundamental data, real-time estimates and market news and events;
- Index License Fees (i.e., S&P Global Infra Index) - used in the investment process;
- MSCI Index – portfolio risk and performance analytics and governance tools

Though MCIM currently utilizes Macquarie Capital USA, Inc. (MCUSA), an affiliated US registered broker-dealer, for trade execution, and evaluates this broker-dealer using the same guidelines as stated above, MCIM has not entered into any soft dollar arrangements with MCUSA.

The use of client commissions to obtain research and brokerage products and services raises conflicts of interest. For example, MCIM will not have to pay for the products and services itself. This creates an incentive for MCIM to select or recommend a broker-dealer based on its interest in receiving those products or services, rather than MCIM's clients' interest in receiving the most favorable execution.

To monitor this conflict, MCIM staff will periodically meet to review the brokerage and research products it obtains from brokers and the commissions charged with respect to such products to determine whether the commissions are reasonable in relation to the value of the brokerage and research products. This determination will be viewed in terms of either the specific transaction or MCIM's overall responsibilities to the accounts or portfolios over which MCIM exercises investment discretion. The benefits derived from a particular broker in return for commission business may be used in serving some or all of MCIM's clients. In addition, some research or other benefits may not necessarily be used by MCIM in servicing the clients whose commission dollars provided for the benefit or research.

#### *Client Referrals*

MCIM does not consider, in selecting or recommending broker-dealers, whether it or a MCIM affiliate receives client referrals from a broker-dealer or third party.

#### *Directed Brokerage*

Clients may direct MCIM to use specific broker-dealers. If a client directs MCIM to use a specific broker-dealer, it may lose any discounts that MCIM may negotiate on aggregated transactions, it may pay higher transaction costs or brokerage commissions and MCIM may be unable to achieve the most favorable execution. Directing MCIM to use a particular broker-dealer might also affect the timing of a client's transaction. There may be times when MCIM may not trade with a client's directed broker-dealer until all non-directed brokerage orders are completed.

### **B. Aggregation of Orders**

As part of MCIM's duty to seek best execution, MCIM may, but is not required to, aggregate purchases and sales of the same security for several clients and allocate the trades, in a fair and equitable manner, across participating accounts. To address these circumstances, MCIM has adopted the fair allocation policies described below. The procedures are designed to help assure that investment opportunities are allocated in a manner that is fair and equitable to each client and that no client of MCIM is improperly favored over any other client or account.

Under such circumstances, and where allowed by each client, MCIM may aggregate the purchase or sale orders if the following conditions are met:

- 1) Each of MCIM's clients will receive individual investment advice and treatment.
- 2) MCIM determines that the purchase or sale of the security is consistent with the investment objectives of and is otherwise in the best interests of each client.
- 3) MCIM believes that such aggregation is consistent with its duty to seek best execution for each client.

4) MCIM does not favor one client over any other client, over time. Each client that participates in an aggregated order will participate at the average share price for all of the aggregated transactions in that security on a given business day, with transaction costs shared pro rata based on each client's participation in the transaction.

5) Before entering an aggregated order, MCIM staff will complete a written statement (the "*Allocation Statement*") specifying the participating client accounts and how MCIM intends to allocate the order among those accounts. If the order is filled in its entirety, it shall be allocated among the accounts in accordance with the Allocation Statement. If, however, the order is partially filled, it shall generally be allocated pro rata based on the Allocation Statement, unless otherwise noted in the Allocation Statement.

6) Notwithstanding the foregoing, the order may be allocated on a different basis from that specified in the Allocation Statement if all accounts of clients whose orders are allocated receive fair and equitable treatment, over time, and the reason for the allocation is explained in writing by the Investment Team and the CCO is promptly notified, unless the allocation is due to one of the reasons below:

The Investment Team may allocate a partial fill other than pro rata in the following circumstances

- if an aggregated order is filled 10% or less; or
- if the smallest client account that participated in the aggregated order would receive an allocation that is less than \$15,000.

If the Investment Team deems it appropriate to not allocate a partial fill pro rata in either of these circumstances, the order will be allocated to each client's account on a random basis by the Trading System. The MCIM Compliance Team shall review random allocations periodically, but at least quarterly, to ensure that all clients are treated fairly over time.

Additionally, it may be appropriate to deviate from the Allocation Statement when, subsequent to entering the trade but before the final allocation, MCIM determines that the security in question would be unsuitable for one of the clients designated in the Allocation Statement.

However, in all situations, MCIM will ensure that all funds are treated fairly over the long-term.

7) Funds and securities of clients whose orders are aggregated will be deposited with one or more banks or broker-dealers, and neither the clients' cash nor their securities will be held collectively any longer than is necessary to settle the purchase or sale in question on a delivery versus payment basis. Cash or securities held collectively for clients will be delivered out to the custodian bank or broker-dealer as soon as practicable following the settlement.

8) MCIM would not receive additional compensation or remuneration of any kind as a result of the proposed aggregation.

9) The policies for aggregation of transactions have been fully disclosed to MCIM's clients and the broker-dealers through which the orders are placed. With respect to clients that are investment companies, the Board of Directors, as applicable, of each such client for which transactions will be aggregated must have approved these policies and procedures.

10) All records required to be created pursuant to these procedures, including the Allocation Statements, written statements explaining any deviations there from, and client account records will be created and maintained in accordance with the record-keeping requirements outlined in MCIM's Compliance Manual.

11) MCIM will review these procedures and their application at least annually to ensure that no client is being systematically disadvantaged as a result of the aggregation of orders. MCIM will revise these procedures should any client be systematically disadvantaged by the aggregation of orders.

12) For any instances in which a participating portfolio has 25% or more Macquarie proprietary or seed money, the portfolio will be deemed a proprietary ("prop") account. Prop accounts may not receive an allocation in an aggregated order until all other participating portfolios have received the full intended allocation.

## **Item 13      Review of Accounts**

### **A. & B.      Review of Accounts**

Each account managed by MCIM is assigned to a specific portfolio manager or co-portfolio manager. The portfolio managers are responsible for becoming familiar with the client's investment objectives, policies and investment restrictions. The portfolio manager may be assisted by other managers or analysts, depending on the size, complexity and investment strategy of the account.

MCIM conducts reviews of client accounts based on the nature of such accounts. Reviews may include ongoing regular or periodic reviews as well as reviews on a more frequent basis as needed, depending on specific client's mandate, economic conditions and changes in the general market.

### **C.      Frequency of Regular Reports Provided to Clients**

MCIM provides regular written reports to its clients (at least quarterly). The reports may include a review of the performance of the account overall, performance of the underlying portfolio companies as appropriate, and a review of the general market conditions. Additional

reports are provided as requested. The frequency of reports provided is typically agreed upon in the investment management agreement between the client and MCIM.

## **Item 14 Client Referrals and Other Compensation**

### **A. Other Compensation**

No one who is not a client of MCIM provides an economic benefit to MCIM for providing investment advice or other advisory services to its clients.

### **B. Compensation for Client Referrals**

From time to time MCIM and its affiliates may utilize both affiliated and non-affiliated third party placement agents. Payment of a referral fee does not result in additional cost to the client. In the event MCIM does enter into such arrangements it intends to comply with disclosure and other requirements applicable to such relationships under applicable laws and regulations.

## **Item 15 Custody**

MCIM does not act as custodian of clients' assets; neither does it hold custody of assets. Client assets managed by MCIM shall be held at a third party custodian under the client's name pursuant to an agreement between the client and the third party custodian. MCIM does not appoint or recommend the appointment of custodians to hold custody assets for clients.

## **Item 16 Investment Discretion**

Generally, MCIM is retained on a discretionary basis and authorized to make the following determinations in accordance with clients' specified investment objectives without client consultation or consent before a transaction is effected:

- which securities to buy or sell;
- the total amount of securities to buy or sell;
- the broker or dealer through which securities are bought or sold;
- the commission rates at which securities transactions will be effected; and
- the price at which securities are to be bought or sold, which may include dealer spreads or mark-ups and transaction costs.

Before assuming discretionary authority, MCIM requires a client to enter into a written investment management agreement with MCIM. Any limitations on MCIM's discretion in the case of a particular client will be agreed in advance and set forth in the investment management agreement between MCIM and such client. For registered investment companies, MCIM's authority to trade may also be limited by certain federal securities and tax laws.

## **Item 17      Voting Client Securities**

Where MCIM vote proxies on behalf of its clients and accounts, and/or recommends voting action on behalf of its clients and accounts, MCIM shall do so in a manner that is consistent with the best interest of each of its clients and accounts and their shareholders, considered as a group rather than individually, unless it determines that abstaining from the vote would be in the best interest of their clients. For this purpose, “best interest” means in the best economic interest of each client or account and its shareholders, as investors, without regard to any self-interest which MCIM, its management or affiliates might have in a particular voting matter or any interest which its clients’ shareholders may have other than their economic interest, in common, as investors.

MCIM has engaged the services of RiskMetrics to make recommendations to MCIM with respect to voting proxies related to securities managed by MCIM. RiskMetrics’ recommendations will be based on RiskMetrics’ pre-established voting guidelines.

MCIM will review each RiskMetrics recommendation and will generally vote in accordance with such recommendation unless it determines that the recommendation is not in the best interest of MCIM clients and accounts.

In the event that MCIM determines that it is not in the best interest of its clients and accounts to vote, or to vote in accordance with a RiskMetrics recommendation, regarding a particular voting matter, MCIM will document its reasons for such determinations.

In the event that MCIM, or an affiliate of MCIM, manages the assets of a company that a client or account holds securities in, MCIM will vote proxies relating to that company’s securities in accordance with RiskMetrics’ recommendations to avoid any actual or apparent conflict of interest in the matter.

In the event, apart from the situation described immediately above, that MCIM determines it has an actual, potential or apparent conflict of interest regarding a particular voting matter, it will generally follow the RiskMetrics recommendation to ensure that such conflict is avoided. For clients, should MCIM determine that a vote according to RiskMetrics’ recommendation regarding such a matter would not be in the best interest of its clients, MCIM will promptly escalate the matter to the client so that voting instructions may be obtained from the client. For accounts that are not separately managed clients, MCIM will vote according to RiskMetrics recommendations to avoid a conflict.

MCIM will follow any specific voting procedures adopted by its clients, unless it determines that it is unable to do so. In the event that MCIM is unable, for any reason, to follow specific procedures adopted by its clients, it will document the reasons for its determination and promptly notify the client.

Clients may obtain a copy of MCIM’s Proxy Voting Policy, or, if applicable, information regarding how MCIM voted proxies, upon request.

If a client withholds authority from MCIM to vote its proxies, the client should make arrangements directly with its custodian to receive proxy statements. While a client may seek MCIM's guidance in this regard, proxy issues are often time sensitive and it may not be practical to request MCIM's input.

## **Item 18 Financial Information**

### **A. Prepayment of Fees**

MCIM does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

### **B. Financial Conditions**

MCIM is not aware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients.

### **C. Bankruptcy**

MCIM has not been the subject of a bankruptcy petition at any time during the past ten years.