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This brochure provides information about the qualifications and business practices of Bedlam Asset Management plc. If you have any questions about the contents of this brochure, please contact us at 011-44-20-7648-4300, or by email at info@bedlamplc.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC), or by any state securities authority. Registration with the SEC does not imply a certain level of skill or training.

Additional information about Bedlam Asset Management plc is available on the SEC's website at www.adviserinfo.sec.gov.

February 24, 2012

Material Changes Annual Update

Bedlam Asset Management plc is providing this information as part of its annual updating.

Material Changes since the Last Update

No material changes have occurred since our last annual update dated March 25, 2011.

Full Brochure Availability

Further information for Bedlam can be found on the website, www.bedlamplc.us, or by contacting Bedlam using the details above.

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Advisory Business

Firm Description

Bedlam Asset Management plc (“Bedlam”) is an independent registered investment advisor based in London, England. The firm launched in 2002 and is authorized and regulated by the UK Financial Services Authority and is a SEC registered advisor.

Principal Owners

The firm is 53% owned by employees, the remainder by approximately 75 external shareholders none of which exceeds 6%. There is no joint venture partner and no affiliates. Jonathan Compton, Managing Director, is the principal owner with the largest equity interest (25%).

Types of Advisory Services

Bedlam is a global, all-cap, long only equity fund manager unconstrained by any index. Bedlam offers discretionary investment management services to the types of clients described in the *Types of Clients* section below. Bedlam's Global equity strategy was launched in December 2002. The firm philosophy is to invest in companies, not stocks, with compelling valuations, strong free cash flow and sustainable franchises that possess clearly identifiable catalysts for excess growth. The disciplined three step investment process is valuation driven and combines efficient screening to generate ideas with rigorous bottom up fundamental research. The objective is to maintain a concentrated portfolio with 30-50 best businesses globally. For more information, see the *Methods of Analysis, Investment Strategies and Risks of Loss* section below. Bedlam has investment discretion across all of its accounts; however, this will be subject to certain limitations on business and regional sectors which are agreed in writing at the time of opening an account and subject to review thereafter.

Bedlam has some significant and even unique differences from other equity managers: in its investment process, as a company, and ultimately in performance results. For more information, see the *Methods of Analysis, Investment Strategies and Risks of Loss* section below.

In addition to managing direct accounts, Bedlam is sole sub-advisor to a third party global equity mutual fund in the United States and manager of Bedlam Funds plc, a UCITS fund based in Ireland which is not generally available to US persons. For more information on these relationships, see the *Other Financial Industry Activities and Affiliations* section below. Please contact Bedlam for further details on pooled funds.

Tailored Relationships

Within the investment strategy, subject to agreement with Bedlam, some variations can be accommodated. For example, “International” equities which comply with the investment process and philosophy. Clients may impose restrictions, for example, prohibit securities in certain jurisdictions or specify variations to the standard strategy limits.

Client Assets

At December 31, 2011 assets under management was \$658m – of which \$535m was in the Global equity strategy. All assets are managed on a discretionary basis.

Fees and Compensation

Description

Fees are charged based on the value assets under management.

Separate Account Standard Management Fee Schedule:

1.00% on first \$25 million
0.90% on next \$25 million
0.80% on next \$50 million
0.70% on next \$100 million

There is a minimum annual fee of \$200,000.
Fees for accounts over \$200 million are negotiable.

Fee Billing

Fees on separate accounts are payable quarterly in arrears. Any earned, unpaid fees will be due and payable at the time the account is closed in accordance with contract terms. Fees are based on the account values managed during each period and are invoiced to the client rather than directly debited from the client's assets. For details of fees payable by investors in the Touchstone Investments Global Equity Fund please refer to the website, www.touchstoneinvestments.com.

Other Fees

In connection with Bedlam's advisory services, clients may incur and are responsible for the fees and expenses charged by their custodians and imposed by broker-dealers. Such fees may include, but are not limited to, custodial fees and transaction costs.

Performance-Based Fees & Side-by-Side Management

Bedlam fees do not include performance fees. However, a performance fee structure can be discussed if desired by clients.

Types of Clients

Description

Bedlam offers investment advisory services on a discretionary basis to mutual funds, corporations, pension funds, employee benefit plans, endowments, foundations, educational and charitable organizations, trusts, individuals and private investment funds. Other clients advised include insurance companies, educational establishments and financial endowments.

Account Minimums

There is a minimum annual fee of \$200,000 for direct accounts which generally indicates a minimum account size of \$20 million.

Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis and Investment Strategy

The Bedlam investment process has some significant and even unique differences from other equity managers: in its investment process, as a company, and ultimately in performance. Inevitably, active managers have many elements in common, such as emphasizing the quality of their people or avoiding consensus investing by internal financial modelling of potential investments. In these Bedlam is no different but they are not true differentiators. What differentiates Bedlam is the way the investment process is designed to minimize risk and is underpinned by a corporate structure that aligns the company's interests with those of the investors. Alignment is achieved through full investment transparency, capacity constraints on funds under management, an independent staff-ownership structure and a strong balance sheet. It is important to emphasize that Bedlam's view of investment risk is in absolute terms at the company level. This has contributed to consistent downside protection in falling markets.

In searching for 35 to 50 best businesses globally, the driving force behind the process is the unique way that it looks to strip out emotion and minimize two key risks: the risk that a stock price falls because it is either expensive (there's a price for everything) and/or the risk that earnings growth is peaking and facing downward pressure (margins may be at an historical high or facing excessive threats). Thus it looks to strip out the two key risks in buying a stock: high valuations and earnings falling from unsustainable levels. The end result is a portfolio consisting of businesses where valuations are cheap, compared to forecast cash earnings growth, with identifiable catalysts set to drive that earnings growth over the two year forecast period. The unique means by which Bedlam filters out these risks are:

- (i) **Bedlam's strict valuation methodology filters out expensive stocks.** Bedlam's investment process involves comparing earnings and free cash flow yields to a hurdle yield (a 3% equity risk premium added to the domestic 10-year bond yield). Avoiding expensive stocks may seem obvious to any investor seeking to preserve capital but many fund managers fail because they do not set firm entry and exit prices before investing. Bedlam removes the risks of emotional attachment to stocks and of momentum investing through:
 - **A strict target price discipline.** This is calculated on the assumption that a stock's earnings and/or free cash flow yields will compress down to the hurdle yield (i.e. fair value) as the stock price rises. For Bedlam to buy a stock, it must have a minimum 20% gain to fair value. When a holding reaches the pre-set target price, it is reviewed. If there is no change in forecasts then the stock is sold. By avoiding expensive companies, the risk of momentum investing is reduced. The use of pre-set target prices ensures an unemotional sell discipline. As an example in early 2010 Bedlam sold their agriculture holdings in line with the strict target price discipline. In the following five months stock prices across the sector fell 30-40%. This triggered a review and the stocks were bought back; since that time some of them have seen their stock prices double.
 - **The use of local 10-year bond yields within the hurdle yield.** This allows proper valuation comparisons across different growth/inflationary environments. In terms of comparing valuations across economies with different growth, inflation and currency outlooks it is simply wrong to say a Japanese stock on a PE of 15X is more expensive than a US stock trading on 14X. The use of local bond yields also takes account of currency risk at the stock level by comparing returns to the 10-year bond yield from the country in which the company generates its profits. Thus for the last three years Bedlam avoided investing in peripheral Europe by using a long bond yield of 6% (significantly higher than the market rate three years ago) due to the region's unsustainable debt.

- (ii) **Slowing earnings avoided by full analysis of earning cycle, stress testing of earnings assumptions and cross-checking with the company and their competitors.** Businesses may appear cheap on consensus earnings but their operating margins may be at historical highs. In addition they may face significant threats to their future earnings and so in reality are expensive. To avoid this risk Bedlam's process uses:

- **Historical analysis of peak to trough earnings cycle.** One of the first tasks is to understand the industry and company specific reasons behind the company's historical earnings cycle. Particular emphasis is placed on the trends in revenue growth, peak-to-trough operating margins and financial gearing. This provides a good understanding of whether current margins and growth rates are sustainable.
- **Stress testing of key earnings drivers and cross-checking with company/competitors.** The key earnings drivers for companies are cross-checked by the investment team to make sure the analyst has not missed anything important. This also reduces the risk of emotional bias. Importantly Bedlam will speak not only to the company being analyzed but also to their competitors and suppliers to get a clearer picture of industry trends. As an example, when analyzing Carlsberg (Danish beer company) the investment team spoke to not only senior management but also the management of competing brewers (Anadolu Efes, Ambev, Tsingtao and CRE).
- **Credit cycle screening.** Although Bedlam are stock pickers, they believe strongly that no company operates independently of industry trends. For several sectors, credit growth is a key driver of demand (e.g. banks and property). As such, analysis of country, regional and global credit cycles is conducted to understand better whether credit growth is accelerating or slowing. This is important to avoid buying companies, such as banks and property companies, which face threats to their earnings from weak credit growth.

The results

- **Concentrated portfolios** of 35 – 50 best businesses.
- **Portfolios that consists of cheap businesses versus forecast cash earnings growth** accompanied by identifiable earnings catalysts that are set drive that growth over the two year forecast period. As at the end of 2011 the portfolio was trading on a PE of 11.9x 2012 earnings, a free cash flow yield of 8.5% and dividend yield of 4.4%.
- **Proven protection in falling markets.** During 2Q10 the MSCI ACWI (\$) fell 12% with Bedlam's Global Fund outperforming the index by 4.4%. This outperformance in a falling market was repeated in 3Q11 with the fund beating the index by 3.4%.
- **Proven unconstrained** by backward looking indices (tracking error in excess of 8) together with low portfolio turnover below 40% p.a.

Investment decision process and valuation approaches used in regard to the following:

a. Security selection

New stock ideas are generated by the six-member investment team with the named portfolio managers, having joint responsibility for the decision to buy or sell any stock. The investment process breaks down into three distinct stages.

Stage One - Idea Generation

This involves using two screens (a valuation and a sector screen) in parallel to generate an initial list of stock ideas for further analysis. The valuation and sector screening take up approximately 5% of the analysts' time. Once the initial stock ideas have been agreed to by the investment team they are allocated to members for further analysis.

Stage Two - Filtering down

The remaining 95% of the analysts' time is spent on the next two stages. This second stage involves fundamental analysis at the stock and sector level. It involves looking at company financials and valuations, sifting through their annual accounts, analyzing industry data and talking to independent industry specialists, the companies themselves and their competitors in order to gain a deeper understanding of industry trends (changes in supply, demand and new product launches etc.) and identify companies best positioned to benefit from them. This part of the process also helps highlight stocks that may have company specific catalysts to drive their earnings faster than the sector average. At the end of the second stage findings are discussed at the investment team level.

Stage Three - Narrowing down to 30-50 best businesses

The third stage is where detailed in-house financial modeling takes place comprising profit and loss, balance sheet and cash flow models. Bedlam's investment team does not forecast more than two years out, because the compounding of assumptions makes longer-term forecasting spurious. Any off-balance sheet items are taken back on-balance sheet. In addition, to ensure proper comparisons can be made across sectors, accounting assumptions are standardized. The modeling is a means to an end, not an end in itself. It is done to understand how the company generates cash and to identify the catalysts behind its 4-6 key earnings drivers. In order to gain a complete understanding, the analyst will have looked at any relevant industry data, trawled through the annual accounts, spoken to the company (often two or three times), and also their competitors (to cross-check industry trends and to see how they are regarded within the industry).

A key part of the investment process is stress testing of the financial model by the team. This is not about consensus investing but making sure the analyst has not missed anything important by tapping into the investment team's knowledge. All questions need to be answered. Often this will involve further conversations with the company or their competitors. This helps to reduce the risk of making a bad investment. No matter how good an analyst is, there is always the possibility that they may miss something. More often than not this omission is insignificant, but the cross-checking minimizes the risk that a key threat to the company's earnings has been overlooked. By this rigorous forensic accounting a full understanding of a company and its earnings drivers is reached.

A target price is then set, based upon the assumption that the two-year earnings forecasts and free cash flow yields compress down to the hurdle yield. If there is at least a 20% upside in the share price then it can be bought - subject to the stock, sector and regional country limits.

b. Country Selection

There are no country selection decisions. These are a fall out from the stock picking process. The objective of Bedlam's investment strategy is to identify "best" companies worldwide that fit the Bedlam model without constraint. Maximum regional limits are in place at the portfolio construction stage to avoid concentration.

c. Sector selection

Sector screens may emphasize and help prioritize certain sectors to research; however, there are no specific sector selection decisions. The objective of the strategy is to identify "best" companies worldwide that fit the Bedlam model without constraint. Maximum sector limits are in place at the portfolio construction stage to avoid concentration. Over the history of the strategy, there have been investments in each of the MSCI sectors. Typically there is investment in six to nine sectors at any given time.

d. Portfolio construction

Final portfolio construction is conducted by portfolio managers. Once the fundamental analysis is complete, a target price is set based on two-year earnings forecasts driven from the free cash flow and earnings yield versus the hurdle rate. In addition to fitting the Bedlam investment process for a stock to be added to the portfolio four additional questions need to be answered:

1. Does the stock provide exposure to a favorable company or industry dynamic that does not already exist in the portfolio?

2. When choosing between two or more potential additions to the portfolio, which has the strongest, most visible and near term catalysts for earnings growth?
3. Which has the biggest upside to target price?
4. What is its market capitalization?

The answers to these questions will determine whether the stock is purchased and if so the size of the initial position which will be between 1.5% and 3% of the portfolio.

Risk of Loss

Investing in securities involves risk of loss that clients should be prepared to bear. The Bedlam strategy invests in securities listed on recognized stock exchanges.

General Market Risks

In most cases Bedlam buys investments for clients, and realizes their capital value, by transactions in the securities markets. The market value of investments fluctuates and may go down as well as up. Although market value should, in the long term, reflect the performance of the company concerned, in the short term it will be influenced by various other factors, including economic and political developments, interest rates and foreign exchange rates. There is no certainty that client will get back the amount invested.

Bedlam's ability to sell investments promptly at a price reflecting their underlying value also depends on the "liquidity" of the market concerned. A liquid market is one where there is a sufficient volume of transactions to ensure that there will be a willing buyer when the investor wishes to sell, and that prices are competitive. While certain markets are normally highly liquid (e.g., the trading of FTSE 100 stocks on the London Stock Exchange) others are less so. Subject to any restrictions in client agreements, Bedlam may invest in securities which are illiquid where it believes that the opportunity for gain outweighs the risk. It will generally only do so if it is satisfied that it can realize the securities at the appropriate time.

Under certain trading conditions or the application of certain rules in force in some markets it may be difficult or impossible for an investment manager to dispose of securities. This may happen, for example, at times of rapid price movement if the price of an investment rises or falls in one trading session to such an extent that under the rules of the relevant exchange trading of that investment is suspended or restricted. Most electronic and auction trading systems are supported by computerized systems for order routing and trade checking, recording and clearing. Like all automated procedures, these systems are subject to the risk of stoppages and malfunctions, which may result in orders not being executed in accordance with an investment manager's instructions or remaining unexecuted.

Overseas markets may involve different risks to the Client's home markets. In some cases the risks will be greater. Some markets may be subject to less regulatory oversight than the markets in Europe and the U.S. The potential for profit or loss from transactions on overseas markets or in contracts denominated other than in the client's base currency will be affected by fluctuations in overseas exchange rates against the client's base currency.

Equities

"Equities" is the market term for shares which entitle the holder to share in the overall economic performance of the company concerned (and correspondingly expose the holder fully to the risk of its failure). Holding equities will generally entitle a client to receive dividends reflecting the profits of the company and to a share in its assets if it is wound up. In the long term the market value of equities should reflect the performance of the company, but in the short term the value may fluctuate for a variety of reasons. Consequently there will be good and bad times to sell equities, and they are not a suitable investment for funds to which clients may need access in the short term or at short notice.

On the insolvency of a company, claims of the company's creditors will be given preference to those of shareholders, and shareholders may receive very little if anything.

Disciplinary Information

Neither Bedlam nor any of its management personnel has been involved in a disciplinary proceeding. In addition, they have not been involved in any legal proceeding that might reasonably be considered material to a client's evaluation of Bedlam's advisory business or the integrity of its management.

Other Financial Industry Activities and Affiliations

Affiliations

Bedlam is an independent registered investment adviser, 53% owned by employees, the remainder by approximately 75 external shareholders none of which exceeds 6%. Bedlam has no affiliates or joint ventures.

Industry Activities

Bedlam is sole sub advisor to a third party global equity mutual fund in the United States, Touchstone Investments Global Equity Fund (see www.touchstoneinvestments.com for further details) and manager of Bedlam Funds plc, a UCITS fund based in Ireland which is generally not available for US persons. Bedlam receives only management fees from these funds. There are no conflicts of interest arising from these activities.

Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Code of Ethics

Bedlam has adopted a Code of Ethics (the "Code") which sets out the principles to guide the day to day business activities of directors, officers and employees ("Supervised Persons" as defined in the Investment Advisors Act 1940) of Bedlam. Underlying this Code is the objective that Bedlam expects all supervised persons to maintain the highest standards of integrity and conduct in order to meet their respective duties and obligations and to enable Bedlam to meet its own fiduciary responsibilities.

Every director, officer and employee of Bedlam must read, acknowledge receipt and understanding of this Code. If they become aware of any violations of the Code they are required to report the violation to Bedlam's compliance officer.

The Code includes sections on

- Compliance with Laws and Regulations
- Conflicts of Interest
- Confidential Information
- Personal Dealing
- Insider Trading
- Fair Dealing
- Safeguarding Assets and Property
- Administration and enforcement of the Code

A copy of the Code of Ethics is available from Bedlam on request.

Invest in Same Securities Purchased for Clients

Bedlam serves as investment adviser to a number of managed accounts. In addition, the Investment Manager and its principals and affiliates may trade for their own account and for other customer accounts. Bedlam generally seeks to apply its investment strategy to all of its long only equity accounts. Bedlam makes trading decisions on an equitable basis among all accounts traded pursuant to the same investment strategy. In evaluating these conflicts of interest, investors should be aware that Bedlam has a responsibility to clients to exercise good faith and fairness in all dealings.

Employees of Bedlam may conduct investment activities for their own account but not where there may be a conflict of interest. Rules apply to all staff and to connected persons of these individuals. Permission from the Compliance Officer or Managing Director must be obtained by all staff before making or disposing of investments. Bedlam has the right, at any time and for any reason, to restrict or cancel transactions or to require, at the employees' expense, the liquidation of a position in their investment account.

Brokerage Practices

Selecting Brokerage Firms

Bedlam operates a select panel of executing brokers for effecting all client transactions. With only one current exception*, all are industry-leading, major global firms. All executing broker counterparties selected must be compliant with the EU Markets in Financial Instruments Directive (MiFID) and must have provided to Bedlam written statements of their Best Execution policies and their commitment to adhering to the stated key execution criteria, and to their ongoing monitoring and transparent reporting of transactions. (* Smaller, domestically-focused houses may be included in the panel for their added expertise/execution capabilities in a particular given market or market segment, as long as they fulfill the other requirements for selection).

In selecting which appropriately compliant brokers will make the panel, Bedlam will consider a number of core factors, including the level and consistency of their execution capabilities and market/instrument expertise, transactional costs and, in some cases, the extent and quality of their research resources. All

selected brokers are committed to ongoing monitoring of compliance with their stated best execution policies. Furthermore, post-trade Bedlam will check fulfillment of orders and execution prices obtained in terms of the key execution criteria, notably by comparison to VWAP. Bedlam's full Best Execution Policy is available upon request.

Directed Brokerage

There is no client directed brokerage.

Research and Soft Dollars

Bedlam does not have any soft dollar arrangements and research or other products or services other than execution from a broker-dealer or a third party are not considered in selecting brokers.

Order Aggregation

Bedlam combines purchase or sale orders on behalf of an account together with orders for its other managed accounts in the interest of achieving the most favorable net results for clients. Bedlam aggregates trades in individual securities for as many accounts as practicable. Each account that participates in a block trade that is filled at several different prices through multiple trades will receive the average share price and will share the non-account specific transaction costs on a pro rata basis.

Review of Accounts

Periodic Reviews

Bedlam has a limit on the number of investment accounts and investment professionals whereby no one person is responsible for more than 10 accounts. Full reviews are conducted at least quarterly by investment professionals who are members of the investment team with daily internal reporting and weekly (at least) provision of portfolio details available to clients. The investment committee is responsible for all decisions and meets three times a week (or more). Therefore any major movements will be picked up for discussion. Oversight of transactions is carried out using daily and periodic reports by both the investment and operations/compliance team. Internal systems include details of portfolio/client mandate restrictions; any exceptions (should they occur) are reported immediately and acted upon.

Regular Reports

Formal reporting to clients is done at least quarterly, and can be monthly if required.

Reporting may be tailored for client requirements. For direct accounts this normally comprises:-

Monthly

- Certification of portfolio market value at month-end (reconciled with the Custodian)
- Certification of monthly performance results
- Schedule (in Excel) of full month-end portfolio assets, including the value of each Investment
- Schedule (in Excel) of monthly portfolio transactions

Quarterly

- Certification of portfolio market value at quarter-end (reconciled with the Custodian)
- Certification of quarterly performance results
- Schedule (in Excel) of full quarter-end portfolio assets, including the value of each Investment
- Schedule (in Excel) of quarterly transactions
- Performance for the quarter, year-to-date, one year, three years and since inception
- Key quarterly performance attribution statistics and analysis

- Portfolio sector and regional weightings, including anticipated future movements
- Summary of financial markets and economic outlook
- Review of portfolio strategy, themes and outlook
- Commentary on portfolio transactions
- Update on firm assets and organizational structure - personnel, process or systems developments
- Report on voting rights exercised during the prior quarter.

Client Referrals and Other Compensation

Bedlam has entered into an agreement with a third-party marketing firm in the United States for its solicitation of certain prospective clients in the United States. This third-party marketing firm is paid a retainer and is also compensated based on a percentage of the annual management fee earned on referred accounts.

Bedlam complies with Rule 206(4)-3 (the Cash Solicitation Rule) of the Advisers Act, and all such arrangements are pursuant to a written agreement with the solicitor, and fully disclosed to, and acknowledged by, the client in writing pursuant to Rule 206(4)-3 under the Advisers Act. The specific terms may differ but the compensation is not a factor in determining the percentage Bedlam charges for its investment management fees. Bedlam is in full compliance with “Pay to Play” rules as is the sole solicitor in the US which Bedlam has arrangements with.

Custody

Bedlam does not take possession of client funds or securities. Client assets are housed in nationally recognized banks or brokerage firms, otherwise known as custodians. Bedlam urges clients to compare the statement the client receives from the qualified custodian with the reports the client receives from Bedlam. For more information on fee billing, see the *Fees and Compensation* section above. For more information on the types of reports provided to clients, see the *Review of Accounts* section.

Investment Discretion

Discretionary Authority for Trading

Bedlam has discretionary authority over all accounts. Within the investment strategy, subject to agreement with Bedlam, some variations can be accommodated, for example, “International” equities which comply with the investment process and philosophy. Clients may impose restrictions, for example, prohibit securities in certain jurisdictions or specify variations to the standard strategy limits. Any such client requirements are agreed formally when a client agreement is signed or subsequently when agreed by both parties.

Voting Client Securities

Proxy Voting

Bedlam manages three different types of mandate:

1. Those requiring Bedlam to vote on their behalf at every meeting*.
2. Those which leave voting entirely to Bedlam's discretion*.
3. Those where voting rights are retained by clients; proxies or other solicitations are received by clients directly from their custodian.

* - clients are able to direct how Bedlam votes if they wish.

In both cases 1 and 2 the guiding principles are the same. They can be defined as an alignment of management and shareholders, along with equal treatment, management rewards commensurate with shareholder returns and prudent stewardship of the business. Voting decisions are taken by either the CEO or CIO in all cases; standing instructions are not employed. Meetings are monitored and instructed on using the secure third-party electronic platforms.

There is a single and overriding principle when casting votes:-

'Proxies are always voted in the best medium term interests of clients as shareholders'.

'Medium term' is defined as within two years - the same as the minimum forecasting time period utilized in Bedlam's internal modeling process when analyzing each investment.

Within this single governing principle there are many elements to consider; there must be alignment of management and shareholder interests; likewise the equal treatment of all shareholders; management rewards must be commensurate with shareholder returns; and there must be a broad focus on the prudent stewardship of the business. Specific examples of how these work in practice are set out below.

- **Dilution, share buy-backs and placements**

In all circumstances proxy votes are cast against any form of dilution unless all shareholders are treated equally. Where a power is sought to re-purchase a company's shares, a formula is required to demonstrate it enhances shareholder value. If a general power is sought without this or other price constraints, it is voted against. For placements, a favorable vote is cast provided apportionment is equal to all shareholders.

- **Directors and management - appointments, contracts, compensation and options**

- i) In the majority of cases votes are cast in favor of existing management and the reappointment of directors (as with auditors), unless there is a poor track record, such as little creation of shareholder value or poor attendance. Occasionally votes have been cast against re-appointment where there is an excess of family and related parties, because of the risks of misalignment between family and other shareholder interests.
- ii) Compensation packages must pass the 'reasonable man' test, including current market rates, proven value added, and the rate of return to shareholders.

iii) Option packages are supported provided there is a clear formula and rationale. The benefits of diluting shareholders in favor of employees must be explained; they must be fairly priced and with stock repurchase programs, re-priced upwards accordingly. Should options expire worthless because of weak management, falling profits, poor stock price action or similar reasons, proxies are cast against re-issuance of options at a lower price; they are a reward for success, not failure.

- **Donations and ‘gifts’**

Votes are cast against all political donations. As regards ‘gifts’ such as corporate sponsorship, these must be reasonable and relevant to the company’s business. Charitable donations of up to 3% of pre-tax profits will usually be supported.

- **Management buy-outs and takeovers**

All management buy-outs are conflicted. Internal managers will wish to acquire the business at less than full value, hence usually they are voted against. For takeover approaches, the two year rule applies - i.e. the price must be higher than the value ascribed to the company over the next two years from Bedlam’s internal modeling (plus a theoretical cost of funds), versus the immediate short-term price increase. Thus votes are cast in favor of over-priced bids only.

- **Clarity**

If a given motion is poorly explained or drafted, or potentially conflicted, votes will be cast against. Examples would include a general power to increase debt levels without a specific purpose, or corporate restructuring without a clear rationale.

These are but some examples of voting rules, always in the best interests of client shareholders. Naturally there will be many specific circumstances when other factors must be considered, such as debt ceilings or borrowing powers, where the appropriate level will vary depending on each company’s individual business.

Bedlam’s approach is that it is buying a share in a business. Before this takes place, the company will already have been modeled in detail. The process includes meetings with management, and their competitors/suppliers. Such dialogues continue after investment. On most occasions Bedlam would expect to be in agreement with the company’s direction and management policies. Voting against management too frequently must be seen as a sign of a failure in the investment process.

Bedlam does not seek to be a corporate activist, such as lobbying for corporate break-up to create short-term value or a change in direction - unless poor shareholder returns and mis-management have been so prolonged that all other options have failed. The fundamental tenet is to allow good management to do what they are paid for within the parameters above. Finally, all votes are always used to ensure that the company continues to operate within its area of expertise.

A record of voting rights exercised, along with our full proxy voting policies, is made available each quarter where requested.

Financial Information

There is no financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients.