

**Firm Brochure: Part 2A of Form ADV**

**Item 1. Cover Page**

**Itau USA Asset Management Inc.**

**767 Fifth Avenue, 50<sup>th</sup> Floor  
New York, NY 10153**

**Dated July 25, 2012**

*This brochure provides information about the qualifications and business practices of Itau USA Asset Management Inc. (the “Firm”). If you have any questions about the contents of this brochure, please contact Steven M. Hurwitz, Chief Compliance Officer, at (212) 710-6734. 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.*

*The Firm is registered with the SEC. The Firm’s registration with the SEC does not imply a certain level of skill or training.*

*Additional information about Itau USA Asset Management Inc. also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

*The Firm’s affiliate maintains a website ([www.itauassetmanagement.com](http://www.itauassetmanagement.com)) which contains information about the Firm.*

**Item 2. Material Changes**

The following is a summary of material changes made to this brochure since the Firm's annual updating amendment to its registration as investment adviser on April 5, 2012. Please read the entire Form ADV, Part 2A for more complete information regarding the Firm.

**Item 5. Fees and Compensation**

- The description of the types of fees that the Firm receives was updated to include that the Firm may receive performance-based fees.

**Item 6. Performance-Based Fees and Side-By-Side Management**

- Disclosure was added regarding the potential conflict created by managing accounts for which the Firm may receive performance-based fees and accounts for which the Firm does not receive performance-based fees.

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## **Item 4. Advisory Business**

### **A. Background Information on the Firm**

The Firm is an investment adviser that provides discretionary and non-discretionary investment advisory services to funds and institutional clients located or domiciled within or outside of the US. The Firm sometimes provides services under the name Itaú USA Asset Management.

The Firm was formed in 1999 under the name UBB Holding Company, Inc. UBB Holding Company, Inc. was a part of the 2008 business combination of Unibanco - União de Bancos Brasileiros S.A. (“Unibanco”) and Banco Itaú S.A. (“Banco Itaú”), large Brazilian banking organizations. From inception until November 2010, UBB Holding Company, Inc. served as a holding company for non-investment advisory businesses. In December 2010, it changed its business to serve investment advisory clients, which previously had generally been clients of affiliates of the Firm, and at that time adopted its current name. On May 13, 2011, the Firm voluntarily filed to become a registered investment adviser with the SEC. As of January 31, 2012, and calculated based on the SEC’s “regulatory assets under management” formula, the Firm provided discretionary advice to 17 clients with total assets under management of USD \$792,450,000; and provided non-discretionary advice to 11 clients with total assets under management of USD \$115,830,000.

The Firm is wholly owned by Itau Global Asset Management Ltd., a holding company that is indirectly wholly owned by Itaú Unibanco Holding S.A., a reporting company under the US Securities Exchange Act of 1934. One or more holding companies held by members of the Moreira Salles family, and the Villela and Setubal families (who, before the business combination, had been significant owners of Unibanco or Banco Itaú, respectively), through indirect interests in Itaú Unibanco Holding S.A., may be deemed to indirectly hold 25% or more of the voting securities of the Firm. The foregoing does not constitute an acknowledgement that such persons control the Firm for any purpose.

### **B. Services that the Firm Offers**

The Firm provides discretionary and non-discretionary advisory services to fund and institutional clients as adviser or sub-adviser in accordance with a contractual sub-advisory agreement with the respective client’s main adviser. Fund clients include pooled investment vehicles and fund of hedge funds. Institutional clients include banking affiliates and an unaffiliated investment adviser. Most of the Firm’s activities involve providing sub-advisory services; and typically, the main adviser is an affiliate of the Firm. When providing non-discretionary services, the Firm may propose trades, but is not responsible for the final investment decision or for causing the trades to be made. The Firm also provides non-discretionary investment recommendations to certain affiliated businesses.

*Fund of Funds.* The Firm provides advisory services to fund of hedge funds and institutional clients in reference to hedge funds. Advisory services to institutional clients may involve providing non-discretionary investment advice in reference to separate account clients of the Firm’s institutional client. The Firm typically seeks to achieve consistent absolute returns with moderate volatility and moderate market correlation. The managers of the underlying funds generally deploy a variety of investment strategies. Although such underlying strategies may include, among others, quantitative analysis (for example, trading pursuant to computer programs or algorithms), such an investment is typically a part of a

larger portfolio of funds. The Firm may provide advice regarding funds that are domiciled within and outside the United States. Although we use the term “hedge funds” above and throughout this brochure, many of the funds are long-only or otherwise do not use hedging strategies sometimes associated with hedge funds. The Firm may also provide research and recommendation of hedge funds and mutual funds and their investment managers. Additionally, the fund of funds strategies may involve the use of derivatives.

*Other Types of Advisory Services.* The Firm provides advisory services in reference to Latin American companies’ stocks traded in local markets and on US exchanges (mainly through American Depositary Receipts (“ADRs”) and Global Depositary Receipts (“GDRS”) and in reference to equities of all kinds – shares in large or small capitalization companies, liquid or illiquid stocks, and global entities or firms in narrow sectors). The Firm may seek long- or short-term capital appreciation, total return, or other objectives. The Firm usually provides active management, but may also follow passive strategies – such as tracking an index – for all or part of a portfolio.

In addition to the foregoing, the Firm might also provide advisory services to clients regarding a broader range of securities and strategies, including (as general examples) US equities and fixed income securities as well as equities, fixed income, cash management and derivatives of other developed countries and emerging market countries.

#### C. Tailoring Services to Individual Needs of Clients

The Firm seeks to tailor its advisory services to the investment objectives of its particular clients through discussions with the client upon commencement of the advisory relationship and again periodically as the Firm evaluates its advice over time. Such processes address the client’s specific needs and requirements with respect to investment goals, restrictions and target return, given an acceptable level of risk.

Investors in funds to which the Firm provides advisory services are generally not permitted to restrict the types of investments or broker-dealers/counterparties to be used by the Firm on behalf of the funds. Separately managed account clients are generally permitted to restrict the types of investments or broker-dealer/counterparties to be used by the Firm on behalf of their accounts.

#### D. Wrap Fee Programs

The Firm does not currently participate in any wrap fee program, but may do so in the future. At that time, the Firm would provide further brochure disclosures.

#### E. Amount of Client Assets

The Firm manages assets on both a discretionary and non-discretionary basis. Calculated based on the SEC’s “regulatory assets under management” formula and available data: As of January 31, 2012, and calculated based on the SEC’s “regulatory assets under management” formula, the Firm provided discretionary advice to 17 clients with total assets under management of USD \$792,450,000; and provided non-discretionary advice to 11 clients with total assets under management of USD \$115,830,000.

## **Item 5. Fees and Compensation**

### **A. General**

As sub-adviser, pursuant to investment management agreements with affiliated main advisers, the Firm receives periodic fees. Such periodic fees shall correspond to all direct and indirect costs and expenses incurred by the Firm in the performance of sub-advisory activities plus an administrative fee calculated over such costs and expenses, on an arms-length basis. In most such cases, the level or amount of payments is determined internally among the Firm and the main adviser for various business-related reasons. Additionally, the Firm receives periodic fees calculated in the same way as described above when providing advisory services to affiliates in reference to recommendations of hedge funds, mutual funds and their investment managers. As adviser or sub-adviser, pursuant to an investment management agreement with an unaffiliated main adviser or a fund client, the Firm receives fees based on the percentage of net asset value of the fund. The Firm has no set fee schedule. The Firm may charge its fees monthly or quarterly in arrears.

The Firm may receive performance-based fees. Disclosure regarding the performance-based fees which the Firm is entitled to receive is provided in Item 6 below.

Clients that invest in fund of hedge fund strategies are also directly or indirectly subject to the fees and expenses of the underlying hedge funds. As many of the underlying funds' managers will charge performance-based compensation, a client may be indirectly subject to such performance-based compensation payable to certain underlying hedge fund managers even if the overall performance of the client's account is negative.

### **B. Arranging Payment from Clients**

Each advisory client may negotiate different advisory fee payment arrangements. As a sub-advisor, when the Firm receives payments from the client's main adviser, such payment may not correlate to the timing or amount of payments that the client pays to its adviser. The Firm may bill clients for fees incurred generally on a monthly basis or as specified in the relevant agreement between the Firm and the client. The Firm does not currently deduct fees from client assets.

### **C. Other Expenses**

Any advisory client is subject to costs and expenses beyond the investment advisory fee. These expenses may arise from service providers such as a custodian of the client's assets. Such service providers may be arranged by the Firm, the main advisor or by the client, with or without consultation with the Firm. A fund client is subject to service provider expenses, such as those charged by a fund administrator, outside legal counsel and auditors to perform the fund's annual audit and the preparation of annual audited financial statements. A separately managed account client also may be subject to certain costs relating to auditing firms. Clients may seek to negotiate expenses with the Firm, although there is no assurance that the Firm will be flexible with expenses.

When a fund or separately managed account client invests in a hedge fund or mutual fund, the client is subject not only to the advisory fees and expenses paid directly by the client, but also to the management fees and other expenses incurred by the underlying hedge fund or mutual fund. Such layering of fees and expenses reduce the net performance of a fund or account. As many of the underlying funds' managers charge performance-based compensation, a client may be indirectly subject to such performance-based compensation payable to certain fund managers; even if the overall performance of the client's individual investment in that fund is negative.

If the Firm manages a client's assets, the client usually incurs brokerage expenses (such as commissions or spreads) and may incur other transaction costs on the purchases and sales of investments for the client. The client, and not the Firm, is responsible for such expenses and costs. See Item 12 below, which discusses brokerage in more detail.

#### **D. Advance Payment of Fees**

The client's main adviser typically pays the Firm's sub-advisory fees in arrears. The Firm does not have any arrangements with clients for the advance payment of fees. If the Firm enters into such arrangements in the future it will provide further brochure disclosures.

#### **E. Sales of Securities**

The Firm and its personnel do not currently accept compensation for the sale of investment products but, consistent with applicable law, may do so in the future. At that time, the Firm would provide further brochure disclosures.

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

The Firm is party to agreements in which it is entitled to receive a performance-based fee. Portfolio managers of the Firm may manage client accounts for which the Firm is entitled to receive performance-based fees in addition to an asset-based fee at the same time in which they are managing client accounts for which the Firm is not entitled to receive performance-based fees. As such, portfolio managers and the Firm may have an incentive to favor the performance-based fee accounts over those subject only to asset-based fees. In addition, the Firm may receive varying fees described above from its clients. As such the Firm may have an incentive to favor the accounts for which it receives higher fees. Additionally, the Firm may have an incentive to make investments that are riskier and more speculative than would be the case in the absence of such compensation. As mentioned above, the Firm maintains a policy to treat each client equitably and maintain investment allocation procedures intended to implement such policy in an objectively fair manner.

As sub-adviser to a main adviser that may receive performance-based compensation, the Firm is not generally aware of the specific fees or fee types paid by the client to its adviser. Currently, any performance-based compensation that a client pays to such main adviser does not correlate to the level or amount of advisory fee that the Firm receives as sub-adviser. However, since the main adviser is typically an affiliate of the Firm, the Firm may have an incentive (even if not a direct economic incentive) to favor an account that is subject to a performance-based fee over one subject only to an asset-based fee. The Firm believes that such potential conflicts are mitigated by the fact that its own compensation



structure is unrelated to any performance-based compensation paid to another person. Further, as mentioned above, the Firm has a policy to treat each client equitably and maintains investment allocation procedures intended to implement such policy in an objectively fair manner. If the Firm perceives other actual or potential conflicts of interest, it will undertake to take further steps to (as appropriate) mitigate, manage and disclose such conflicts.

## **Item 7. Types of Clients**

Currently, the Firm provides advisory services to funds and institutional clients domiciled or located within or outside of the United States on a discretionary and non-discretionary basis as advisor and sub-advisor. Most of the Firm's clients are domiciled or located outside the United States. The main adviser in reference to sub-advisory relationships is generally an affiliate of the Firm. The Firm may accept clients of any kind or from any geographical location, including, but not limited, US or non-US individuals, US tax-exempt entities, US or non-US funds or institutional investors. When the Firm provides its advice to a fund or institutional client, such advice can be discretionary or non-discretionary. In the case of non-discretionary sub-advisory advice, the main adviser may either also provide only non-discretionary advice to the client or, if the main adviser provides discretionary advice, it has the option to decline to act on the advice provided by the Firm. To open an account, a prospective client or client's adviser should contact the Firm using the information provided on the cover page of this brochure. The Firm reserves the right to decline any new engagement, or to negotiate terms of any kind.

The Firm also provides advice to certain affiliated businesses. This advice is general in nature, and is not intended to address the needs of any particular customer of the Firm's respective affiliate. Currently, such advice relates primarily to analysis of hedge funds, mutual funds and their managers. The Firm does not necessarily know whether any of such advice is included in the services provided to the affiliates' clients.

Should the Firm advise a fund that relies on Section 3(c)(1) or 3(c)(7) of the Investment Company Act of 1940 (the "Company Act") to avoid registration requirements under the Company Act, such fund's investors generally must be "accredited investors" and/or "qualified purchasers" as defined by the SEC. This heightened standard may serve investor protection purposes.

The Firm has no specific minimum account size or investment amount. Nevertheless, the Firm's clients currently place assets under the Firm's management at levels of over USD \$1 million. At any time, the Firm may accept smaller investment accounts, or impose any higher minimum, in its discretion. The main adviser to funds or accounts for which the Firm acts as sub-adviser may impose their own account minimums, which may vary greatly, and over which the Firm generally has no influence.

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

### **A. General**

The Firm uses various methods of analysis and pursues different investment strategies for its clients. Below we discuss fund of funds strategies, accounts that focus on Latin America equity strategies, or other kinds of strategies that the Firm may advise. Investing in securities involves risk of loss that clients should be prepared to bear. Such risks are discussed further, below in this Item.

The Firm has a limited operating history. Past performance of the Firm, including any strategy or any security may not be an accurate indicator of future performance. The Firm can offer no assurance that any client's investment objective will be achieved.

*Funds of Funds.* Whether managing a fund of hedge funds, providing advice regarding separately managed accounts that invest in hedge funds, or providing analysis of hedge funds, mutual funds or their investment managers to affiliates, the Firm generally applies an organized approach to selecting appropriate funds or managers. The Firm applies a process of investment diligence concerning each underlying fund. Generally, the Firm overlays a top-down view (that is, determining allocations among categories of managers) on a bottom-up selection of managers (that is, determining appropriate managers to receive allocations within such categories), though the Firm may not always engage in any particular conduct when making any particular investment decision or recommendation. Hedge funds generally have greater flexibility in terms of investment management than many other financial products, and the Firm generally seeks greater consistency of returns by focusing on diversification of sources (for example, investments in multiple hedge funds).

*Other Types of Strategies.* The Firm may advise in strategies involving Latin American companies' equities, regardless of size of capitalization, liquidity or sector. The Firm may also advise in strategies involving US equity securities regardless of size of capitalization, liquidity or sector. The Firm may seek long- or short-term capital appreciation, total return, or other objectives determined in consultation with a client. The Firm generally trades actively, but at times may follow passive strategies, for all or part of a client's portfolio. The Firm may also engage in hedging and derivative strategies.

In addition to the foregoing, the Firm advises clients on a broader range of securities and strategies, including (as general examples) fixed income securities, equities (including equity-related securities such as rights and securities convertible into equities), cash management and derivatives of developed and emerging market countries.

The Firm may formulate its advice based on any number of factors, including research produced internally or by third parties.

## B. Risks of Strategies

The following is not necessarily a comprehensive list of risks a client may be subject to with respect to investment strategies of the Firm. The Firm may also, in consultation with clients, develop other strategies that entail other risks not considered below.

*Fund of Funds Strategies.* Fund of hedge fund strategies may involve significant exposure to speculative investment techniques. Clients may lose all or a substantial amount of their investment with this strategy.

Despite any efforts to diversify sources of investment returns by investing in multiple hedge funds or mutual funds, the Firm's clients could be subject to concentration through multiple managers holding the same underlying position(s) at the same time. The Firm will not always be in a position to be aware of such concentration risk, which may result in volatility or losses to Firm clients.

Traditional investments tend to be suited to rising markets. Hedge funds often utilize a variety of financial instruments and strategies, sometimes to "hedge" against market losses. On the other hand,

however, funds that hedge against losses may not benefit from general market gains in the same way as a traditional investment. For that reason, hedge fund investors sometimes may miss out on the full extent of market rallies.

Although the Firm's fund of hedge fund strategies seek to deliver "alpha" (often through better-than-market returns), there can be no assurance that the Firm will be successful in achieving that goal. Similarly, although the Firm may seek assets having low directional exposure, its fund of hedge fund strategies may nevertheless have results that correlate to the overall markets.

The Firm often seeks to find managers of hedge funds or mutual funds that have a "repeatable" process. Despite any analysis of past activities of a manager, however, there can be no assurance that any manager will be able to repeat its process or will do so with the same discipline as in the past. The flexibility that hedge funds generally have in terms of investment management can result in a risk that a hedge fund manager may be more able to act in ways that benefit the manager over the interests of the fund or its investors.

The Firm conducts diligence on each investment manager with which it causes a fund of funds to invest, and seeks updated information from managers over time. Despite any efforts, however, the Firm cannot provide any assurance that it will identify all matters of potential concern or address all such concerns in a consistent manner across underlying investment managers.

Additionally, hedge funds and mutual funds may invest in a variety of financial instruments and strategies including the strategies outlined below.

*Other Types of Strategies.* A strategy involving purchasing equities – a "long" strategy – may be most effective during rising markets. During severely falling markets, such a strategy may lose a significant percentage of its value.

For accounts in which the Firm trades actively, a client is subject to the risk that the Firm times markets incorrectly (such as selling a stock that then rises in value) or that the results of the Firm's research (such as a client should purchase or sell a security) are not consistent with subsequent market sentiments (such as the overall market selling the security and depressing its value). For accounts in which the Firm follows more passive strategies, a client is subject to the risk that the Firm may not have the flexibility to respond to market events or apply certain research to the benefit of a client.

The Firm's clients may engage in fixed-income strategies which involve credit and default risk and interest rate risk. Credit risk is the risk of loss due to credit events related to an issuer; and default risk is the risk of an issuer's default on its obligation to pay interest and repay principal.

In addition, the Firm's clients may engage in derivative strategies to attempt to enhance return. These strategies may include the use of options, forward currency exchange contracts, swaps and futures contracts and options thereon. Participation in the options and futures markets and in currency exchange or swaps transactions involve risks such as an increase in volatility of the client account and risk of loss to the client account; and such strategies are speculative.

Some clients of the Firm's clients may seek long-term growth in asset value, which may result in holding an asset despite its loss of value or missing out on new market trends. Other clients of the Firm may seek

short-term gains, which may result in higher turnover rates; increase a client's tax liabilities; increase a client's transaction costs over time, due to potentially greater incidences of brokerage or similar expenses; and increase volatility of the portfolio. In addition, the Firm may seek to concentrate client investments in specialized market sectors, specialized industries or in a limited number of issuers. A portfolio with such concentration may involve greater risk and volatility than a portfolio with broadly based investments.

Additionally, some of the clients of the Firm may engage in short sales, which may be used to hedge against the risk of declines in the market value of the Fund's long portfolio. However, there is no guarantee that such hedging operations will be successful. Additionally, short sales that are made "against the box" are considered to be speculative.

Some of the Firm's clients may use hedging transactions, such as short selling and the use of derivatives. Such hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the value of the portfolio positions or prevent losses if the values of such positions decline. Such hedging transactions also limit the opportunity for gain if the value of the portfolio position increases.

### C. Risks of Securities

The Firm's clients may invest in any form of securities and other instruments or assets. For purposes of the following discussion, we note only certain securities on which the Firm places a special emphasis overall. Such securities are not part of every client's portfolio, and it is possible that certain accounts could invest solely in categories of securities not included below. When investing in a fund or account advised or sub-advised by the Firm, the client is advised to review the risks outlined in the offering memorandum or any other risk-related disclosures provided by the fund or the Firm or, if the Firm is a sub-adviser to an account, by its main adviser. Advisory personnel are also available to discuss risks with any client.

*Hedge Fund or Mutual Fund Interests.* An investment in hedge fund or mutual fund securities carries with it many risks, in addition to those set out above concerning hedge fund and mutual fund strategies. Key risk areas identified by the Firm as it conducts its diligence on a hedge fund or mutual fund investment manager include:

- *People.* Hedge fund managers tend to rely more on the expertise of particular individuals within the manager than certain other investment firms. Mutual funds may also rely on the expertise of particular individuals. For these reasons, an event that affects a key person, or the departure of a key person, can have a significant effect on the performance of the hedge fund or mutual fund. Such an event or departure can also cause a strong reaction by fund investors, who may seek an exit from the fund or other extraordinary action that could have an adverse effect on any of the Firm's clients that continue to hold an interest in such a fund.
- *Processes.* A fund manager's processes may be less rigorous or subject to fewer checks and balances within the organization than certain other asset managers. The Firm's clients could be adversely affected by a fund manager that does not consistently act in a manner expected by the Firm.

- *Valuation Control.* Valuation is often difficult to determine in a precise and objective manner. Fund managers receive compensation based on the valuation of fund assets, and have a significant conflict of interest with respect to such valuation. While many fund portfolios receive independent valuations, not all do. In any event, a fund's valuation agent generally relies on at least some information provided by the fund manager. Further, the Firm is not able to independently verify managers' valuations. Although the Firm seeks to assure that fund managers prepare valuations appropriately, and although audit or review of fund financial statements can provide assurance beyond the Firm's own diligence, no assurance can be provided that proper valuations will at all times be determined by all fund managers in which the Firm's clients invest.
- *Technology Infrastructure.* Although this is an area covered by the Firm's diligence, the technology of fund managers varies greatly, and the Firm's clients are subject to risk of loss should problems with the manager's technology resources arise.
- *Compliance.* Although part of the Firm's diligence, the implementation of a compliance program can require constant attention, and issues concerning compliance by a hedge fund manager with regulations, investment restrictions or other important matters may from time to time arise. Such occurrences may have an adverse effect on the manager's ability to focus appropriately on its investment program, and under certain circumstances compliance lapses could have direct adverse effects on values of the portfolios of the Firm's clients.
- *Service providers and counterparties.* The Firm's clients are subject not only to risks involving a fund manager, but also the fund's service providers. Although part of the Firm's diligence with respect to hedge fund investments, no assurance can be provided that the actions of such other service providers will not result in losses to the Firm's clients. Funds also may have important relationships with counterparties, such as lenders, borrowers (including issuers of notes or other debt), and derivatives counterparties. Should such counterparty fail to meet its obligations to a fund, the Firm's clients would generally indirectly suffer any losses incurred by the fund, and contractual and other legal remedies may be limited or inadequate.

Hedge fund interests are generally illiquid and permit redemptions only infrequently. Investors in hedge funds often have no or limited voting rights. Such investors may be subject to significant levels of fees and expenses. Other investors may be party to side letters with a hedge fund manager that provides the investor favorable rights or terms as compared with those of a Firm client, including with respect to fees, liquidity or transparency of information.

A hedge fund or mutual fund manager may use speculative investment techniques and may employ substantial leverage (including borrowing for investment purposes) that can magnify gains, losses and volatility. The Firm expects to have no ability to direct or influence the manager of an underlying fund. A hedge fund investment may provide for indemnification to the hedge fund manager that could result in an investor's return of redemption proceeds or distributions under certain circumstances.

A hedge fund could, from time to time, provide for in-kind redemptions, whereby a redeeming fund investor could receive portfolio securities rather than cash. Investors may not be prepared to accept such securities and may incur costs and delays in handling or disposing of such securities.

The performance of the Firm's fund of funds strategies depends primarily on the underlying hedge fund or mutual fund managers. No assurance can be given that any hedge funds or mutual funds will successfully implement their investment strategies or achieve their investment objective.

Hedge fund managers will generally become subject to greater regulation and compliance burdens. As a result, the cost of investing in a hedge fund may increase, which would have an adverse effect on the net returns for Firm clients.

*Investments in Securities of Latin America and Other Emerging Market Countries.* The Firm has an international reach and may provide advisory services with respect to securities worldwide. The Firm's clients may invest in non-US funds, non-US equity, non-US debt securities and other non-US instruments or investments involving non-US counterparties. Based on its affiliation with Brazilian companies, the Firm may provide advice in reference to Brazilian or other Latin American equities to a great degree. The Firm also invests in equity, fixed income securities and derivative instruments of other emerging market countries, in addition to those of Brazil or other Latin American countries. Investment in securities of emerging market countries (such as Brazilian or Latin American securities) may be subject to greater risks than US securities and securities of developed markets. Such securities may be subject to greater volatility than investments in developed countries. The economies of such countries may be adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other measures imposed or negotiated by the countries with which they trade. Some of these countries may have relatively unstable governments; economies based on only a few industries and may not have well developed regulatory systems. The securities of emerging market countries may also have relatively less trading volume, resulting in a lack of liquidity, higher transaction costs and higher volatility. In addition, they may be subject to fluctuation of currency exchange rates and may be subject to risks involved in settlement of securities transactions, because counterparties in such countries may not be well capitalized. Accordingly, changes in currency exchange rates will affect the value of investments. Further, the client investments may incur costs in connection with conversions between currencies. Furthermore, custody and registration of assets in some of these countries may be unreliable. Additionally, such countries may have generally accepted accounting, auditing and financial reporting practices that are different from those in developed markets. The accounting, auditing and financial reporting standards, practices and disclosure requirements applicable to companies in such countries may be less stringent than those of developed countries.

*Fixed Income.* In addition, the Firm may recommend investments in fixed income securities of developed and emerging market countries. Emerging market fixed income securities are subject to high risk and may not be rated for creditworthiness by an internationally recognized credit rating organization. In addition, fixed income securities, in general, may be subject to price volatility due to interest rate sensitivity, market perception of the creditworthiness of the issuer and general market risk.

*Derivatives.* The Firm may also recommend investments in financial derivative instruments of developed and emerging market countries which may include the use of derivatives (e.g., options, forward currency exchange contracts, warrants, swaps and futures contracts and options thereon). Such instruments involve investment risks and transaction costs. Such risks include increased volatility, failure to produce expected results and may result in losses to the portfolio. These instruments are speculative. Certain positions may be subject to wide and sudden fluctuations in market value, resulting in fluctuation of the amount of

profits and losses. Using derivative instruments has the risk of leverage. Trading in derivatives can result in large amounts of leverage. The leverage offered by trading in derivative instruments may magnify the gains and losses that are experienced by the client. Derivative instruments not traded on exchanges are also not subject to the same type of government regulation as exchange-traded instruments and many of the protections afforded to participants in a regulated environment may not be available in connection with such instruments.

*Equity Securities.* The Firm's clients may invest in US equity securities and equity securities of other developed countries and emerging market countries. The investment performance of equity securities depends on factors which are difficult to predict. Such securities are subject to sudden or prolonged market declines and risks associated with individual companies. Equity security values may fluctuate in response to general market conditions or in response to the activities of the issuer.

*Small Cap Equities.* The Firm's clients may invest in small cap equities of companies of developed and emerging market countries. There are certain risks associated with investing in the securities of small companies. The market prices of small cap securities may be more volatile than those of larger companies. In general, there is usually less publicly available information about small cap companies than there is for larger companies. In addition, small cap companies may have smaller market share than larger companies and thus, they may be more vulnerable to changes in the economy than larger companies.

## **Item 9. Disciplinary Information**

The Firm is a subsidiary of a large financial conglomerate in the Southern Hemisphere, with its indirect parent company considered one of the largest banks in Brazil based on market capitalization. The conglomerate provides a broad range of commercial, investment and credit consumer banking services to a diversified international client base. Given that, the conglomerate is subject to a range of commercial litigation arising out of the ordinary course of the business, as well as to reviews by different regulators.

The Firm is required to disclose whether there are any legal or disciplinary events that are material to a client or prospective client's evaluation of our advisory business or the integrity of our management. The Firm has no such event to disclose. In addition, during the past 10 years, no advisory affiliate has been subject to any material adverse final action or agreed to pay material settlement fees under any regulatory or civil proceeding having an investment-related nature, it being understood that such materiality corresponds to decisions or settlements involving amounts greater than USD \$50,000 per action. During that period, advisory affiliates of the Firm have had around 100 final investment-related actions falling below the above-noted materiality, together representing a total amount of less than USD \$5,000,000 (i.e., less than 0.01% of the conglomerate net worth as of March 31, 2012). Such approximately 100 actions can be divided in 5 major groups of claims: (i) account manager's operational mistake; (ii) clients' requests for documents or information; (iii) losses arising from market-to-market indexation; (iv) payment of dividends; and (v) information about risks or lock-up period. There are also certain civil claims against an advisory affiliate arising in connection with the Bernard L. Madoff matter, none of which is material to any advisory affiliate's results and each which the conglomerate is vigorously contesting.

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

The Firm has numerous affiliates in the financial services industries. Its indirect parent is Itaú Unibanco S.A., a large privately owned financial institution in Brazil.

The Firm may, from time to time, cause its clients to use the brokerage of an affiliated broker-dealer consistent with the Firm's best execution obligations and in compliance with client consent required by applicable law. The use of an affiliated broker-dealer may involve material conflicts of interest, as the Firm may have an incentive to benefit an affiliate to the disadvantage of the Firm's clients. The Firm may have incentive to direct trades to affiliated broker-dealers even though they may charge higher commissions or provide inferior pricing or executions than unaffiliated broker-dealers. To address these conflicts of interest, the Firm has adopted a policy of treating clients fairly in connection with brokerage and has adopted best execution, trade allocation and broker approval procedures. The Firm reviews such practices periodically for assurance that the brokerage was directed for appropriate reasons and with only the interests of the client in mind. The Firm may execute trades with affiliated broker-dealers, Itau BBA USA Securities, Inc. and Itau Corretora S.A.

The Firm may purchase certificates of deposits or other monetary instruments distributed by Itau Unibanco S.A. for its clients and may execute such orders through affiliated broker-dealers. Such purchases are at an arms-length basis.

The Firm has entered into service level agreements with Itau Unibanco S.A., an indirect parent company of Itau USA Asset Management Inc. and Itau Global Asset Management, Ltd., its parent company, pursuant to which the Firm provides discretionary and non-discretionary advisory services as sub-advisor. In addition, pursuant to these agreements, the Firm provides marketing and relationship management services to Itau Unibanco S.A. and Itau Global Asset Management Ltd. Additionally, the Firm has entered into an expense sharing agreement with Itau Unibanco S.A. – NY Branch, Itau BBA USA Securities Inc. and Banco Itau Europa International for expenses relating to shared office space, personnel and other services. In addition, certain employees of the Firm are registered representatives of Itau BBA USA Securities, Inc., an affiliated broker-dealer registered with the US Financial Industry Regulatory Authority. Such employees may be engaged in sales activities involving interests in funds managed by IUAM.

Additionally, some of the Firm's directors may serve on the board of directors of the pooled investment vehicles that the Firm manages. The Firm receives the support services from Itau Unibanco S.A., including the following services: legal, auditing, business continuity planning, information technology and operations. The Firm also has an insurance company affiliate and certain non-US affiliated investment advisory or other financial entities that have no interaction or arrangements with the Firm.

The Firm's parent company, Itau Global Asset Management Ltd., has entered into an agreement with the Firm's affiliate, Itau Japan Asset Management Ltd. ("Itau Japan"), in which Itau Japan is compensated for referring clients to Itau Global Asset Management Ltd.

Further, Itau Unibanco S.A. Banco Itau Europa Luxembourg S.A., Banco Itaucard S.A., and Banco Itau Chile provide custodial and/or administrative services to funds managed by the Firm.



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

### **A. Code of Ethics**

The Firm has adopted a Code of Ethics in its Compliance Manual that summarizes the Firm's duties as a fiduciary. The Code of Ethics describes standards of conduct and includes a personal trading policy.

The Code of Ethics requires each employee to acknowledge that they have an obligation to hold themselves to the highest standard of fairness and to comply with all US federal securities laws and the rules governing the capital markets. Employees must, among other things, avoid circumstances that could produce conflicts or the appearance of conflicts between their personal interests and those of the Firm and its clients, as well as abide by strict rules governing personal trading.

The Code of Ethics provides for initial and annual reporting by employees (called "Access Persons") of various matters, including conflicts of interest, compliance with laws and rules, and accounts over which an Access Person has beneficial ownership interest or may exert influence or control and that hold or can hold reportable securities. In addition, Access Persons must report all transactions in reportable securities on a quarterly basis. Access Persons must obtain pre-clearance from the Compliance Officer prior to opening any new brokerage account and for any personal securities transactions in securities. Access Persons are generally prohibited from making direct investments in Brazilian equity securities except under limited circumstances and are subject to restrictions in reference to trading any securities issued by Itau Group. Furthermore, Access Persons are subject to restrictions when trading securities in their personal accounts which are also traded in client accounts. In addition, Access Persons are restricted from short-term trading and may not trade pursuant to material non-public information. Employees must inform the Compliance Officer of any violation of the Code of Ethics that comes to his or her notice. Each employee of the Firm must sign a certificate at least annually that the employee has read, understood and has complied with the Code of Ethics.

A copy of our Code of Ethics is available to any client or prospective client upon request.

### **B. Recommendations of Securities to Clients**

The Firm recommends to clients securities in which our employees may have an interest. A conflict of interest may arise by which an employee may have an incentive to recommend or trade such a security for a client in order to indirectly benefit the performance of the security, although the Firm expects that such an effect would be likely to occur only rarely. To mitigate or address such conflict of interest, the Firm has adopted a policy of placing client interests before those of the Firm or its personnel and has implemented the Code of Ethics described above in this Item.

The Firm or its affiliates may, as principals, enter into securities transactions with clients. Although the Firm does not currently expect to engage in this practice frequently, clients may seek certain investment strategies under which the practice may occur. In such an event, the Firm will obtain such informed consent from clients as is required by applicable law. The Firm would have a conflict of interest in connection with any such transaction, and may be motivated to choose to engage in such a transaction rather than seeking a more appropriate third party, as it or its affiliates may receive economic benefits

from being on the other side of such transaction. The Firm would also have an incentive to value any such asset in a manner favorable to it or its affiliate, and unfavorable to the client. To mitigate or address such conflict of interest, in addition to any consent process, the Firm has adopted a policy of placing client interests before those of the Firm or its personnel, has implemented the Code of Ethics described above in this Item, and has adopted objective valuation procedures.

The Firm may encounter additional conflicts of interest in connection with client transactions and to mitigate or address such conflicts, generally will follow policies and procedures similar to those described above. For example, the Firm may advise a client to invest in a fund in which the Firm or an affiliate of the Firm serves as a sponsor or distributor; or which the Firm or an affiliate of the Firm advises; or which an affiliate of the Firm has a material financial interest. In such a case, as the Firm or its affiliate would receive fees and may receive other benefits from that investment, the Firm has an incentive to place clients in such investments. Where a conflict of interest is expected to arise, senior personnel will typically be consulted, and the Firm will review such transactions over time and consider additional, improvements to policies or procedures. Additionally, the Firm has implemented the Code of Ethics as described above and other trade allocation procedures to ensure that all clients are treated fairly.

### C. Personal Trading

The Firm and its personnel may, from time to time, hold or trade in the same securities as clients hold or trade. The Firm's personnel have several restrictions in place to avoid potential conflicts of interest, including, but not limited to, restriction on type of securities, Compliance Officer pre-clearance for personal securities transactions and other restrictions placed on personal securities trading. Still, such activity may result in conflicts of interest, as the Firm or its personnel who invest in securities may have an incentive to place clients in those same securities to the advantage of the Firm or the personnel, and may have an opportunity to engage in activities such as front-running (that is, trading in advance of fund transactions). To mitigate or address such conflict of interest, the Firm has adopted a policy of placing client interests before those of the Firm or its personnel, has prohibited front-running and has implemented the Code of Ethics described above in this Item, as well as investment opportunity allocation procedures. The Firm periodically reviews reports made under the Code of Ethics and other information, and will generally take measures in the event that an intentional or inadvertent advantage in favor of the Firm or its personnel is detected from time to time, or over time.

The Firm or its personnel may engage in the trading described in the preceding paragraph at the same time, and in the same securities, as such trading occurs in client accounts. The conflicts of interest, and mitigation of such conflicts, are as described in the preceding paragraph. In addition, under certain circumstances, a portfolio manager may undertake to have "skin in the game" (that is, trading in the same securities as the client account he or she manages, with the purpose of aligning the portfolio manager's interests with those of the client). Despite any intent to align interests, such a trading program may also pose conflicts of interest. For example, such a portfolio manager may have an incentive to cause the client account to trade in a security based on the portfolio manager's personal desire for exposure to that security. The Firm's Code of Ethics requires that employees, including portfolio managers, obtain pre-clearance for personal securities transactions and places restrictions on the period of time in which an employee may trade a security that is also held or traded in a client account. The Firm may take measures

in the event that an intentional or inadvertent advantage in favor of the portfolio manager or any other personnel or the Firm is detected.

## **Item 12. Brokerage Practices**

### **A. Selecting Broker-Dealers**

The Firm generally does not select any broker-dealer when making hedge fund investments. Nevertheless, hedge fund investments may be subject to placement agent fees or other transaction costs that are incurred by clients. The Firm also generally does not select any broker-dealer when it provides nondiscretionary advice to a fund or account client. In its other strategies, the Firm selects broker-dealers to execute transactions. Broker-dealers must be defined specifically for each market as follows: futures, equities, options, forwards, etc.

All broker-dealers must undergo a due diligence assessment prior to being selected by the Firm as an approved broker-dealer. The assessment consists primarily of submitting a questionnaire covering detailed aspects of (i) identification and contacts, (ii) institutional information, (iii) financial information, (iv) regulatory entities and auditing, (v) compliance and internal controls, (vi) back-office processing and structure and (vii) risk management.

The due diligence process must be conducted in coordination the following business areas of Itau Group (i.e., affiliates of Itau): asset management, operational risk, financial risk, back and middle office and information security. At this stage, operational aspects of control and technology structure are assessed, such as: (i) software used; (ii) existence of contingency plan; (iii) existence of code of ethics; (iv) the existence of compliance and risk structure and controls and (v) existence of procedures manual. Itau Group's credit area also analyzes financial data and character of the broker-dealer and the asset management team analyses the quality of the broker-dealer's services, including execution capabilities, commission rates and the value of any research.

Broker-dealers analyzed are submitted to the Itau Group bi-annual brokerage committee for evaluation and final decision by committee members, who determine whether a broker-dealer is eligible to be on the approved brokers list until the next committee review.

Itau Group has a committee made up of senior personnel, one responsibility of which is to focus on broker-dealer selection and other areas in the Firm's due diligence processes.

Below, we address certain specific brokerage practices:

1. *Research and Other Soft Dollar Benefits.* The Firm does not currently receive research or other products or services other than execution from a broker-dealer or a third party in connection with client securities transactions (that is, the Firm does not have what is sometimes called "soft dollar" arrangements). The Firm may do so in the future, subject to policies and procedures relating to conflicts of interest and related matters. At that time, the Firm would provide further brochure disclosures.
2. *Directed Brokerage.* The Firm does not routinely recommend, request or require that a client direct the Firm to execute transactions through specified broker-dealers.

## B. Aggregation of Securities for Multiple Client Accounts

The Firm is not required to aggregate trades for multiple client accounts, and will not always do so, even when multiple clients are purchasing or selling the same security at the same time or on the same day. Should the Firm not aggregate trades in the same security, each client involved may pay higher transaction costs than would otherwise apply had the trades been aggregated. This is because a single trade made in a larger, aggregated amount may benefit from a discounted brokerage commission or otherwise have economies of scale relative to multiple smaller trades. Despite those possible benefits, the Firm believes that, when portfolios are not being operated in a coordinated manner (such as being managed by different personnel, or following different strategies), it may be appropriate to provide for each portfolio to transact separately, even if they happen to trade in the same security at or around the same time. In addition, for investments in hedge funds, for various reasons, it is not always practicable for multiple investors to be accepted by a particular underlying manager at the same time.

Any determination whether to aggregate a trade among multiple client accounts will be made on a case-by-case basis, and will be made consistent with the Firm's policy to seek to act in the best interests of each client and treat each client in a fair manner. Factors that the Firm's personnel may consider include, for example, whether the accounts have the same strategy, the liquidity of the security, benefits of aggregating a trade, whether the aggregation will reduce the speed with which the trade may take place, and whether trades in the same security are contemplated for multiple accounts early in the day. Not all of these factors will necessarily be considered in each instance, and other factors may be considered as portfolio managers determine appropriate under the circumstances.

The Firm has a policy of treating each client account fairly relative to other client accounts. The Firm will periodically review its aggregation practices, and should any resulting material disadvantages to one or more clients over time be identified, take measures to improve the processes in this area.

### **Item 13. Review of Accounts**

Clients' accounts are continuously reviewed by the portfolio managers. During such reviews, the account's performance, compliance with investment restrictions and similar measures are considered.

Additionally, the Chief Compliance Officer (CCO) will particularly review an IUAM account under management upon receiving an indication of potential, material compliance issues relating to the account. The CCO will document the date of the review, the accounts reviewed and any irregularities or other identified issues.

The Firm will also conduct due diligence regarding the managers of hedge funds and mutual funds in which client assets are invested. The appropriate portfolio manager has ultimate responsibility for the initial approval and ongoing monitoring of each underlying third-party manager of the Firm's fund of fund strategies and for conducting due diligence in reference to third-party investment managers. Due diligence includes a third-party research process which includes the identification of the universe of managers that offer the appropriate investments and uses qualitative and quantitative analysis.

The Firm generally provides its clients with monthly reports and other reports requested by the clients. Generally, clients may receive monthly, quarterly and annual written reports which provide market and

economic commentary and the performance of the account. These reports may be sent to clients in addition to the quarterly account statements and audited financial statements referred to in Item 15 below.

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

The Firm does not consider, in selecting or recommending broker-dealers, whether the Firm or an affiliate receives client referrals from a broker-dealer or third party.

The Firm has not directly entered into agreements which compensate third parties for client referrals, or receive economic benefits from non-clients (other than the main adviser of a fund or account, when the Firm acts as sub-adviser) for advising client accounts. Please refer to Item 10. However, the Firm's parent company, Itau Global Asset Management Ltd., has entered into an agreement with the Firm's affiliate, Itau Japan Asset Management Ltd. ("Itau Japan"), in which Itau Japan is compensated for referring clients to Itau Global Asset Management Ltd. The Firm may receive a benefit from this arrangement in that its parent company may delegate to it the provision of investment advisory services for such accounts.

#### **Item 15. Custody**

The Firm may be deemed to have custody of certain accounts for which it provides advisory services, because an affiliate of the Firm is deemed to have custody; or the Firm acts in a capacity that gives it legal ownership or access to client funds or securities. The custodians of such accounts may be affiliated or unaffiliated with the Firm. The clients of such accounts either receive audited financial statements or quarterly account statements or more frequent statements from the custodian. Clients should ensure that they carefully review the statements that they receive from such custodians.

#### **Item 16. Investment Discretion**

The Firm provides investment advice on both a discretionary and nondiscretionary basis, depending on the arrangement with the client. Funds and client accounts may impose investment restrictions and limitations, and the adviser will seek to follow the investment objectives and agreed strategies of a client. When the Firm exercises investment discretion, however, there are typically no express limitations on the adviser's authority to cause the fund or account to purchase or sell securities, aside from investment guidelines and restrictions, and provisions relating to brokerage and other practices, that may be part of a client's investment advisory agreement with the Firm. To assume this authority, the Firm and its client (or, when the Firm acts as sub-adviser, the main adviser) will enter into an investment management agreement or similar arrangement by which such authority is provided to the Firm.

#### **Item 17. Voting Client Securities**

It is not the practice of the Firm to vote Client proxies. However, should the Firm agree with the client to have the authority to vote Client proxies, the Firm will follow its Proxy Voting Policy. The Firm shall exercise proxy voting rights at general meetings on behalf of the investment funds under its management, and shall be guided therein by loyalty to the interests of the funds and their fund shareholders, and on defending the latter's rights shall take all due care and diligence the circumstances require. In this respect, when voting at meetings and representing funds under its management, the Firm shall strive to vote in favor of resolutions it believes will add value to the fund's portfolio assets. Similarly, the Firm

shall vote against resolutions it believes may erode the value of the fund's portfolio assets. Additionally, when exercising voting rights, the Firm shall take into account aspects relating to business sustainability and be guided by three pillars: proactively advocating environmental preservation, social development and good corporate governance.

#### **Item 18. Financial Information**

The Firm has never filed for bankruptcy and is not aware of any financial condition that is reasonably expected to affect its ability to meet its contractual commitments to its clients.

#### **Item 19. Requirement for State Registered Advisers**

The Firm is not registered with any state authorities and therefore, this Item is not applicable.