



## **Marshall Wace Asia Limited**

Form ADV Part 2A Brochure – 15 May 2012

### **Item 1 – Cover Page**

This brochure provides information about the qualifications and business practices of Marshall Wace Asia Limited (“MWAL”). If you have any questions about the contents of this brochure, please contact us at 23/F LHT Tower, 31 Queen's Road, Central, Hong Kong. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about MWAL is available on the Securities and Exchange Commission's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

This brochure does not constitute an offer to sell or the solicitation of an offer to purchase any securities of any entities described herein. Any such offer or solicitation will be made solely to qualified investors by means of a private placement memorandum and related subscription materials.

### **Item 2 - Material Changes**

Since the last brochure update on 15 May 2012, the following Material Changes have occurred:

The joint venture between Marshall Wace and GaveKal Holdings, Marshall Wace GaveKal Asia Limited, was disbanded on 1 May 2013. Marshall Wace GaveKal Asia Limited was a Hong Kong-based affiliated investment adviser.

The Firm and its affiliates registered with the US Commodity Futures Trading Commission (“CFTC”) as commodity pool operators on 1 January 2013.

You may request the most recent version of this brochure by contacting us at 852-3761-5000, or [c.pearce@mwam.com](mailto:c.pearce@mwam.com).



### Item 3 - Table of Contents

Item 1 – Cover Page .....	1
Item 2 - Material Changes.....	1
Item 3 - Table of Contents .....	2
Item 4 – Advisory Business.....	3
Item 5 – Fees and Compensation.....	4
Item 6 – Performance-Based Fees and Side-by-Side Management .....	5
Item 7 – Types of Clients .....	6
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss .....	7
Item 9 – Disciplinary Information.....	9
Item 10 – Other Financial Industry Activities and Affiliations .....	10
Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	11
Item 12 – Brokerage Practices .....	13
Item 13 – Review of Accounts .....	16
Item 14 – Client Referrals and Other Compensation .....	17
Item 15 – Custody.....	18
Item 16 – Investment Discretion .....	19
Item 17 – Voting Client Securities.....	20
Item 18 – Financial Information.....	21



#### **Item 4 – Advisory Business**

Marshall Wace Asia Limited (“MWAL”, the “Company”, the “Firm”, “we”, or “us”) is a limited company established in Hong Kong in 2006. It is licensed by the Hong Kong Securities and Futures Commission (“SFC”). MWAL is wholly owned by Marshall Wace Holdings Limited, a limited company based in Hong Kong and registered with the Hong Kong SFC. MWAL is an affiliate of Marshall Wace LLP (“MW LLP”), a limited liability partnership based in London and registered with the United Kingdom’s Financial Conduct Authority (“FCA”). MWAL also is an affiliate of Marshall Wace North America L.P. (“MWNA”), a limited partnership based in Greenwich, Connecticut, and registered with the US Securities and Exchange Commission (“SEC”). MWAL, MW LLP, and MWNA are under the common control of Marshall Wace Holdings Limited and are known collectively as the Marshall Wace Group.

MWAL provides discretionary investment management services in accordance with its clients’ mandates. Our clients may include, but are not limited to, private collective investment vehicles, investment companies organized within or outside of the United States, pensions, charitable organizations, endowment funds, foundations, estates, trusts, and holding companies. Our clients may invest in one or more of our Marshall Wace branded funds or via separately managed accounts. As at 31 March 2013, MWAL had approximately \$4,470 million in regulatory assets under management, all of which is managed on a discretionary basis.

MWAL generally focuses on trading in common equity securities, but may also trade in other equities, debt instruments, options, futures, swaps, other derivatives, private securities, and other investments and instruments. We may permit separately managed account clients to impose restrictions on their accounts with respect to: (1) the specific types of investments or asset classes that we will or will not purchase for their account; (2) the nature of the issuers of investments that we will or will not purchase for their account; or (3) the risk or liquidity profile of instruments we will or will not purchase for their account. Each fund is governed by the terms set forth in its respective offering documents.

Interests in MWAL’s funds under management are not registered under the Securities Act of 1933, as amended (the “Securities Act”), and the funds are not registered under the Investment Company Act of 1940, as amended (the “Investment Company Act”). Accordingly, interests and shares in the funds are offered exclusively to investors satisfying the applicable eligibility and suitability requirements either in private placement transactions within the United States or in non-United States transactions. Interests in the funds are offered in private transactions only to qualified investors and only by means of an offering memorandum.



## **Item 5 – Fees and Compensation**

### *Performance and Management Fees*

With respect to all types of clients, MWAL generally receives a management fee based on a percentage of assets under management, and incentive income based on net capital appreciation.

Where MWAL is directly appointed in its role as manager, it generally receives a management fee of 2% per annum and an accrued performance allocation that is variable, dependent on performance but not to exceed 20%. Where MWAL serves as a sub-adviser or manages assets of clients of its affiliates, a portion of those fees may be paid to MWAL to compensate it for its sub-advisory role. Investors should refer to the relevant fund(s) offering documents for specific fee schedule details.

In very limited circumstances, MWAL may negotiate specific terms of investment for certain prospective investors of the funds that will differ from the terms applicable to other investors. When we enter into these arrangements, a rebate may be paid by MWAL to the relevant investor.

Fees are deducted from fund assets. Management fees are automatically deducted monthly (or on such other frequency as is agreed with the relevant fund) from each relevant fund's account, in arrears. Performance fees, if applicable to an investor's investment, are charged and automatically deducted from a fund's account as at 30 September in each year, in arrears. Performance fees also are automatically deducted on any interim withdrawal of capital by, or other distribution of monies to, an investor, generally subject to a "high water mark" loss carry-forward provision. In any case, performance fees charged are intended to comply with the requirements of Section 205 of the Investment Advisers Act of 1940 (the Advisers Act) and its applicable rules.

Separately-managed account clients generally have fee arrangements that are similar to the funds, as described above. However, we may negotiate different terms and conditions (including different fee arrangements) in respect of separately managed account clients than the terms and conditions that apply to any of the funds.

### *Expenses*

Investors in the funds also may bear other fees and expenses of the funds. Such expenses may include, but are not limited to: brokerage commissions and charges; all fees and expenses of transactional, risk, market data and trade-related services; all administrative expenses; fees and charges of custodians and clearing agencies; income taxes, withholding taxes, transfer taxes and other charges and duties of governments, agencies or regulatory bodies; fees and expenses of legal advisers, administrators, net asset value calculation agents, accountants and independent auditors; Directors' fees and expenses; the costs of printing and distributing any memorandum and subscription materials and any reports and notices to shareholders or prospective investors; research, database and due diligence costs and expenses, technology and other software costs and expenses; blue sky fees; insurance costs; and consulting fees and expenses and fees of other service providers. Each fund also will bear its organizational fees and expenses. To the extent that MWAL initially bears any of these expenses, funds reimburse it.

Please refer to Item 12 for additional information regarding brokerage and other transaction costs, and to the relevant funds' PPMs or other account offering documents for additional details on fees and compensation.

### *Other*

Neither MWAL nor its officers or employees accept compensation for the sale of securities or other investment products to its clients.



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

MWAL may charge performance-based fees to its funds and separately-managed accounts. (A description of these fees is provided in Item 5.) A performance fee arrangement may create an incentive for MWAL to make investments that are riskier or more speculative than would be the case in the absence of a performance fee, particularly when our incentive fee is payable only upon exceeding a high water mark and performance of a fund is below any such high water mark.

At our absolute discretion, we may allow an investor who meets certain criteria to open a separately-managed account which may have different and, possibly more favorable, terms regarding such aspects as transparency.

The portfolio strategies we and our affiliates use for certain funds could conflict with the transactions and strategies we employ in managing other funds, and may affect the prices and availability of the securities and other financial instruments in which clients would invest. For example, short selling activity by a MW Group-managed fund within five days of a US secondary offering could pre-empt all other MW Group funds from participating in the offering, subject to the conditions and exemptions of Rule 105, Regulation M of the Securities Exchange Act.

MWAL may receive performance-based compensation with regard to unrealized and realized gains. Net capital appreciation generally includes unrealized appreciation of client assets, which may result in our receiving more incentive income than if net capital appreciation were based solely on realized gains. For valuing illiquid assets, or where there is a possible discrepancy on pricing between various sources, the directors of each of our funds have appointed an independent Valuation Committee in order to determine fair value.

Not all investment opportunities offer equal participation among clients. For example, we may have an opportunity to make an investment that benefits a particular fund based on its strategy. However, an opportunity to make a follow-on investment may subsequently arise which is appropriate for all funds, but with differing terms or pricing. We may elect to exclude the fund(s) that initially received the investment opportunity from the follow-on if the allocation is limited. Likewise, the follow-on may be more or less profitable than the initial investment, creating the appearance of inequitable treatment among all funds under management.



## **Item 7 – Types of Clients**

MWAL provides advisory services to hedge funds, whose investors generally are comprised of family offices, institutional investors, public pensions, and high net worth individuals. Generally, the minimum initial capital contribution required for investment into a fund is EUR100,000 (or regional currency equivalent). Separately managed accounts have a significantly higher initial capital contribution requirement; the terms of each managed account are at the sole discretion of the Firm.

Under the terms of its SFC License, MWAL is restricted to advising “Professional Investors”, as defined in its regional regulations.



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

### *MWAL Funds under Management*

The Firm's primary objective is to deliver consistent, absolute returns from a constantly evolving investment landscape. MWAL has two distinct but complementary approaches to its equity long-short fund management. The first is traditional, manager-led fundamental long/short investing. The second is a process-driven strategy based on Marshall Wace's alpha capture system, Marshall Wace TOPS ("MW TOPS"). The MW TOPS investment process comprises a framework of proprietary applications and models which seeks to capture, appraise, optimize and act upon the investment ideas of contributors from the brokerage community and to aggregate them in a dynamic portfolio construction process. This involves five key elements: investment idea collection, contributor relationship management, optimization, risk management, and trade execution.

MWAL generally focuses on trading in common equity securities, but may also trade in other equities, debt instruments, options, futures, swaps, other derivatives, private securities, and other investments and instruments. Specific investment restrictions may be identified in each respective fund's offering documents.

The Firm has a robust independent risk management and advisory function. The Risk Management team examines and continuously monitors pre-trade issues, portfolio construction, post-trade analytics, and proprietary and external research related to fund investments. It uses a proprietary monitoring, alerting, and tracking engine with real-time portfolio risk profiles that have been built using multiple fundamental factor and statistical based models to ensure multi-sourced risk and return. In addition, third-party risk management models are incorporated into the platform.

Please note that investment in securities, irrespective of strategy and risk management approach, involves risk of loss that clients should be prepared to bear. The risks inherent to the strategies employed by MWAL, including those listed in this section of our brochure, are described in further detail in the respective fund's offering documents.

- *The MW TOPS Funds*

The MW TOPS strategy developed out of our conviction that the vast resource spend by brokers on investment research creates a substantial pool of alpha. This alpha is poorly delivered to clients, rarely measured, and therefore remains largely unrealized. MW TOPS seeks to capture this alpha through a web-based interface with participating idea contributors.

The MW TOPS strategy uses an optimization and risk management process which is integral to both the portfolio construction and order management applications. In addition to the proprietary algorithms identifying behavioural characteristics, and the persistence and success factors of contributors, a large number of conventional parameters also are monitored. These include directional market exposure, Value-at-Risk (VAR), and liquidity. The resultant MW TOPS portfolios are highly liquid, scalable and diversified.

The highly liquid nature and diversification of the TOPS Fund portfolios protect the strategy from incurring any significant or unusual risks. However, as with all investment approaches, regional, sector, and market volatility can materially impact the profitability of this strategy. Risks are closely measured and controlled using the Firm's proprietary risk management platform.

MW TOPS Fund strategies use both long and short positions (and/or swaps to simulate either), and investments may be made on exchanges, in over-the-counter markets, and in private transactions (as permitted by the respective fund's offering documents). Given the high volume of idea flow and the corresponding frequency of trading, this strategy can incur higher-than-normal brokerage and other transaction costs and taxes versus other traditional investment strategies. However, trade execution costs are closely measured and controlled, in keeping with the Firm's fiduciary and Best Execution obligations.



- *Manager-Led Strategies*

The Firm's fundamental investment process seeks to identify companies which are substantially mispriced on an absolute or relative basis. In conducting fundamental analysis, the Firm's analysts and/or portfolio managers may review company financials and other publicly disclosed documentation, participate in company and analyst conference calls and meetings and utilize external data (i.e., Reuters, Bloomberg and other externally provided services) to supplement or contrast our own findings. In addition, fundamental strategies may benefit from additional insight into the levels of conviction and consensus in the market on our investments via the aforementioned MW TOPS system.

Manager-Led strategies use both long and short positions (and/or swaps to simulate either), and investments may be made on exchanges, in over-the-counter markets, and in private transactions (as permitted by the respective fund's offering documents). In evaluating potential investments as part of this strategy, the Firm performs extensive quantitative and qualitative analyses. It also performs risk analyses in order to seek to isolate corporate event exposure from systematic and macro-economic risk.

The liquid nature and diversification of the portfolios generally protect the strategy from incurring any significant or unusual risks. However, depending on the investment focus of a particular fund (as defined in its offering documents), Manager-Led strategies can have more concentrated exposures to a particular sector or region, and may from time to time acquire illiquid holdings (as permitted). These exposure concentrations and/or illiquid holdings may pose a material risk to the respective fund(s). In addition, as with all investment approaches, regional, sector, and market volatility can materially impact the profitability of this strategy. Risks are closely measured and controlled using the Firm's proprietary risk management platform.

*Other Strategy Risks*

MWAL may enter into swap and other derivatives transactions on behalf of the funds for either MW TOPS or Manager-Led strategy funds, as permitted by a fund's respective offering documents. In general, derivative contracts typically involve leverage. These contracts can provide exposure to potential gain or loss from a change in the level of the market price of a security, currency or commodity (or a basket or index) in a notional amount that exceeds the amount of cash or assets required to establish or maintain the derivative contract. As a result, any adverse change in the relevant price level can result in a loss of capital in excess of what would have resulted from a non-leveraged investment. These contracts also involve exposure to credit risk because a contract's performance depends in part on the financial condition of the counterparty. Derivative contracts can be expected to involve significant transaction costs.





## **Item 9 – Disciplinary Information**

We do not believe that there have been any legal or disciplinary events that are material to our advisory business or the integrity of our management.



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

### *10A*

Neither the Marshall Wace Group nor any of its management persons are registered, or have applied to register, as a broker-dealer or a broker-dealer representative.

### *10B*

As of the time of our Form ADV filing, neither the Marshall Wace Group nor any of its management persons are registered, or have applied to register, as a futures commission merchant, a commodity trading adviser, or an associated person of the foregoing entities. However, trading activities may require these circumstances to change in the future. Each of MWAL, MW LLP, and MWNA registered with the US Commodity Futures Trading Commission (“CFTC”) as commodity pool operators (“CPOs”) on 1 January 2013.

### *10C*

MWAL has material business relations with the following entities:

MWAL is an affiliate of MW LLP, a limited liability partnership based in London and registered as an investment manager with the FCA. MW LLP also files as an Exempt Reporting Adviser with the SEC and is registered as a CPO with the CFTC.

MWAL also is an affiliate of MWNA, a limited partnership based in Greenwich, Connecticut, is registered as an investment adviser with the SEC and as a CPO with the CFTC.

MWAL, MW LLP, and MWNA are known collectively as the Marshall Wace Group.

Each of MWAL and MWNA performs services relating to the investment management business and is compensated under the terms of agreements directly or indirectly with MW LLP and the respective funds under its management. The affiliated entities of the Marshall Wace Group share research and other benefits described in Item 12.

### *10D*

We do not believe that the contemporaneous management of the Marshall Wace funds and its separately managed accounts causes a conflict. The funds under our management share similar investment strategies, and allocations are made in accordance with our fiduciary responsibilities, Best Execution principles, and each fund's investment allowances or restrictions (as set forth by its respective offering documentation).

Qualified clients of MWAL may be solicited to invest in the funds of other Marshall Wace Group entities. However, clients may opt out of this affiliated marketing in response to the Firm's annual privacy notice.

None of the Marshall Wace Group entities has an affiliated broker-dealer. However, we may have certain relationships with, and receive certain benefits from, non-affiliated broker-dealers that could pose a conflict of interest when selecting and using broker-dealers for trade execution. These relationships and benefits may include referral or recommendation of investors, personal investments by entities or affiliates of a broker-dealer in funds that we manage, and participation in broker-dealer sponsored research and capital introduction conferences. We believe the potential for these conflicts to occur is appropriately countered by the Firm's fiduciary responsibilities and Best Execution principles, all of which are actively monitored.



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

### *Code of Ethics*

MWAL has in place a Code of Ethics (COE) consistent with its regulatory requirements that governs the behavior of its employees, all of whom are defined as Access Persons under SEC regulations. This COE replaces the Firm's Business and Ethical Standards document, which pre-dated SEC registration. The COE, and related policies, reflect the Firm's commitment to ethical conduct. All employees are trained on the COE at the start of their employment, will be trained on an annual basis following registration with the SEC, and as needed due to changes to the code or related state and/or federal laws.

In general, the COE outlines the policies of the Firm pertaining to topics such as personal trading, handling of inside information, gifts and entertainment, and overall professional conduct, all of which are covered in greater detail in the related, stand-alone policies. These policies, along with the COE, collectively comprise the Firm's Compliance Manual.

Binding acknowledgement of the COE, accepting the terms and conditions therein, is obtained from each employee and kept on file. A copy of the COE is available for review by any current or prospective client upon request.

### *Personal Investment Policy*

Employees generally may make personal investments in financial instruments with prior approval. All employees with personal trading accounts must provide the CCO with statement copies no less than quarterly, irrespective of account activity.

For transactions involving securities within the Firm's investment universe, employees generally may buy or sell securities if the Firm or its affiliates are not actively trading the name. All transactions are subject to prior written authorization, which is valid only until the close of trading on the business day for which it was issued. In addition, all transactions are subject to a 90-day holding period. Irrespective of these rules, MWAL reserves the right to deny any transaction request deemed to be counter to the best interests of the Firm.

The Personal Investment Policy generally applies to any personal transaction involving equity or debt securities, or derivatives of such. However, the policy does not apply to transactions involving open-end mutual funds or other instruments in which the investor has no discretion over individual securities transactions. Employees also may invest in certain of the Marshall Wace Group funds, subject to share class restrictions and the terms and conditions of the respective fund(s).

A description of the Firm's Personal Investment Policy is included in the COE, a copy of which is available for review by any current or prospective client upon request.

### *Participation in Client Transactions and Related Conflicts of Interest*

MWAL does not have any proprietary trading activity. The Firm's trading activity is limited to the transactions it effects on behalf of its client funds and separately managed accounts.

MWAL may buy or sell securities for certain funds in a manner that differs from its actions for another fund under management. However, at all times, its actions are in keeping with the Firm's fiduciary responsibilities, Best Execution principles, and each fund's investment allowances or restrictions (as set forth by its respective offering documentation).

MWAL may effect transactions on behalf of its clients in securities which its employees may buy or sell for its or their own accounts. In these cases, the personal investments of the employee(s) in question are subject to the trading restrictions set forth by the Firm's Personal Investment Policy, irrespective of whether the employee investment preceded the client transaction.



The Marshall Wace Group follows a policy of restricting trading activity for all of its related entities when any one entity or employee is exposed to what it knows as or believes to be material non-public information. In the course of conducting its investment business, MWAL or its affiliates may come into possession of material nonpublic information, either intentionally (via participation in a private transaction or a debt holding) or unintentionally (via industry contact). In the event anyone in the Marshall Wace Group is in possession of material nonpublic information, neither MWAL nor its affiliates will be able to use such information for the benefit of any client. Thus, MWAL's possession of such information may cause a client to be frozen in a security position or unable to engage in a transaction in that position until such time that the information is made public.



## Item 12 – Brokerage Practices

MWAL has full investment and brokerage discretion, in accordance with the terms outlined in the offering documents of each respective fund under management. The securities transactions of the funds under management are expected to generate a substantial amount of brokerage commissions and other transaction-based compensation, all of which will be paid by the clients.

The Firm also has a fundamental obligation to act in the best interests of its clients and seek best execution of clients' transactions under the circumstances of the particular transaction. It is noted that there is no specific Best Execution requirement in the investment manager rules of the Hong Kong SFC, MWAL's primary regulator. However, MWAL's SEC registration compels these specific rules for the Firm.

### *Best Execution Considerations*

In selecting brokers and dealers, MWAL will not be required to consider any particular criteria. For the most part, the Firm will seek the best combination of brokerage expenses and execution quality. In evaluating execution quality, historical net prices (after markups, markdowns, or other transaction-related compensation) on other transactions will be a principal factor, but other factors will also be relevant, including: the execution, clearance, and settlement capabilities and overall efficiency of the broker or dealer generally and in connection with securities of the type and in the amounts to be bought or sold; the broker's or dealer's willingness to commit capital; reliability, responsiveness and financial stability; liquidity; the size of the transaction; availability of securities to borrow for short sales; and the market for the security.

Nonetheless, as other factors also are considered in the selection process, MWAL is not required to select the broker or dealer that charges the lowest transaction cost, even if that broker provides execution quality comparable to other brokers or dealers. Specifically, the Firm may allocate commissions based on the quality of research services provided by brokers, including services provided via the MW TOPS process. In addition, MWAL may also take into consideration whether a broker-dealer may provide access to management of companies in which funds advised by the Firm have invested or are considering investing. The funds advised by the Firm may pay commissions to such broker-dealers in an amount greater than average (known as "paying up"). However, all commissions are within a range normal for the industry.

### *Soft Dollars*

As noted above, in addition to execution quality and access to management, MWAL may consider the value of various services or products, beyond execution, that a broker-dealer provides to the funds it advises, to the funds' general partners, directors or to MWAL. The Firm intends to keep any "soft dollar" arrangements with brokers within the "safe harbor" parameters of Section 28(e) of the Securities Exchange Act of 1934. As such, the funds advised by MWAL may pay brokerage commissions at a rate higher than the lowest available as long as (among certain other requirements) it determines that the commissions are reasonable compensation for the brokerage services and/or the "research" acquired. For these purposes, "research" means services or products used to provide lawful and appropriate assistance to MWAL in making investment decisions for its clients. The types of "research" MWAL may acquire include: reports on or other information about particular companies or industries; trade ideas collected via the MW TOPS process; economic surveys and analyses; recommendations as to specific securities; portfolio evaluation services; financial database software and services; computerized news, pricing services; quotation equipment necessary to run software used in investment decision making; and other products or services that may enhance the Firm's investment decision making, provided such products or services reside within the "safe harbor" of Section 28(e) of the Securities Exchange Act of 1934.

It is noted that the foregoing list does not include items previously eligible under the Hong Kong SFC's Code of Conduct, such as a broader definition of eligible hardware and software, and clearing and custodial services. Any SFC-approved items that do not meet SEC eligibility requirements for the safe harbor is excluded from soft-dollar payment.



Within MWAL's last fiscal year, it acquired research services, market data, trade analytics, and proxy voting services (as a mixed use item purchased in part with soft dollars), defined as being within the "safe harbor" of Section 28(e).

MWAL's arrangement for rewarding participating brokers in MW TOPS with commissions based upon the aggregate performance of their trade ideas is a generally accepted industry practice that is believed to be within the safe harbor provided by Section 28(e). Under this arrangement, the Firm may pay for access to trade ideas via the MW TOPS process, which meet the definition of "research" under Section 28(e)(3) as interpreted by the SEC.

Where we receive both eligible research and brokerage services and non-eligible services ("mixed-use services"), we make a good faith determination on the allocation between the eligible research and brokerage services and non-eligible services, and will pay for any non-eligible services with cash. We may face a conflict of interest in making these good faith allocations. For MWAL, a mixed-use service would be payment for a proxy voting service.

As the funds under management share many investments in common, they also share many of the soft-dollar benefits derived from their collective trading. However, the benefits derived by any client may not be in proportion to the costs incurred.

#### *Commission Share Arrangements*

In a typical commission-share arrangement, an investment adviser directs trades to a broker-dealer with the instruction that the broker-dealer execute the transaction and apply a portion of the commission to a pool that is then allocated in part or whole to a third party as compensation for soft dollar products or services (as defined under Section 28(e)). Commission share is commonly used to compensate research providers that do not provide execution services or whose execution services would not meet the investment adviser's best-execution obligations. MWAL, on behalf of the funds it advises, may elect to compensate such research providers via a commission-share arrangement. In these cases, this compensation is intended to fulfill the Firm's commitment to reward MW TOPS contributors or other research providers for their best ideas or other research, which are defined as an allowable research service. The amount of compensation will reflect the value of the research provided.

MWAL, in keeping with its requirements to seek best execution, intends to use certain direct access/electronic brokers to effect commission-share trades, in order to capture liquidity and/or minimize slippage. The majority of the gross commission rate will be applied to the aforementioned soft-dollar pool, which then will be allocated to providers of allowable soft-dollar services, such as MW TOPS contributors for research services provided. This "execution-plus" methodology gives MWAL the ability to trade more efficiently and allocate commission more equitably at month end, instead of on a trade-by-trade basis with individual service providers as a conventional step-out method would.

When MWAL uses client brokerage commissions to obtain research or other products or services, it receives a benefit because it does not have to produce or pay for the research, products, or services. The Firm may also have an incentive to select or recommend a broker-dealer based on its interest in receiving the research or other products or services, rather than on its clients' interest in receiving the most favorable execution.

Many of the funds managed by MWAL, MW LLP and MWNA actively trade outside of their primary region. When these extraterritorial trades occur, they typically are executed by the regional affiliate on their behalf, through a local broker-dealer. If a broker-dealer selected for this trading is one of the commission-share brokers the Firm has engaged, any resultant pooled commissions are segregated by investment manager to ensure that regional expense eligibility requirements are met and that the research or execution expenses of one manager are not being paid from commissions accrued by an affiliated manager's funds.



#### *Allocation among Funds under Management*

As a fiduciary, MWAL allocates investment opportunities among the funds under management in a fair and equitable manner, taking into account strategy differences and fund-specific restrictions identified in the respective offering documents (or management agreements for separately managed accounts).

In the absence of specific segregation requirements, restrictions, or other limitations, trades typically are aggregated (“bulked”) when they are sent to the executing broker, then allocated among the participating funds by the prime broker(s) involved at pre-set percentages that are proportional to the funds’ net asset values. When an order is bulked, the participating funds are identified, further ensuring accurate allocation percentages are used to divide the resultant securities. Bulk execution can provide a substantial reduction in order clearing costs, which benefits the funds’ clients.

From time to time, MWAL may need to rebalance the fund holdings as a result of capital flows. In such circumstances, and where permissible, a cross-trade transaction between two or more funds may be deemed to be in the best interests of those funds (due to efficiency and cost), versus multiple buy/sell transactions in the market. Where these cross trades are identified between separate legal entities, MWAL will effect these trades in the market via an unaffiliated broker-dealer but at a lesser rate than a standard buy/sell transaction. All cross trades are subject to the Firm’s rules for pricing and reporting. Neither MWAL nor any affiliate receives any compensation in connection with rebalancing transactions. For positions held on swap at the same custodian, there is no market transaction and MWAL will instruct the custodian to book the cross transaction.

#### *Other Potential Conflicts*

Trading activity of MWAL and its affiliates in certain funds could conflict with the transactions and strategies we employ in managing other funds. This may result in simultaneous competing orders in opposite directions for the same or similar securities, which may affect the prices and availability of the securities and other financial instruments in which clients would invest. Competing trades could cause an affected fund to buy a security at a higher price or sell at a lower price than they otherwise would have in absence of the competing trades. Likewise, short selling activity by a MW Group-managed fund within five days of a US secondary offering could pre-empt all other MW Group funds from participating in the offering, subject to the conditions and exemptions of Rule 105, Regulation M of the Securities Exchange Act.

MWAL may receive performance-based compensation with regard to unrealized and realized gains. Net capital appreciation generally includes unrealized appreciation of client assets (i.e., gains on assets that the relevant fund continues to hold), which may result in our receiving more incentive income than if net capital appreciation were based solely on realized gains.

As stated in Item 6, not all investment opportunities offer equal participation among clients. For example, we may have an opportunity to make an investment that benefits a particular fund based on its strategy. However, an opportunity to make a follow-on investment may subsequently arise which is appropriate for all funds, but with differing terms or pricing. We may elect to exclude the fund(s) that initially received the investment opportunity from the follow-on if the allocation is limited. Likewise, the follow-on may be more or less profitable than the initial investment, creating the appearance of inequitable treatment among all funds under management.

Brokers to our clients may, from time to time, refer investors to MWAL-managed funds or engage in other transactions with us. Neither MWAL nor its affiliates considers client referrals from a broker-dealer or third party when selecting or recommending broker-dealers as execution counterparties. Nonetheless, client referrals could provide us with an incentive to select the respective broker-dealer for transactions without regard to best execution.



### **Item 13 – Review of Accounts**

MWAL does not conduct formal periodic reviews of fund accounts. Although the Fund Accounting group generates estimated NAVs and other holdings analysis, the funds' appointed independent administrators<sup>1</sup> are responsible for producing final confirmed NAVs and monthly investor statements, which they distribute directly to fund clients. These administrators also work with independent public accountants to produce and distribute the funds' annual audited financial reports, as well as year-end statements and any other such documentation investors may require in completing their income tax filings.

Each month, the Firm produces and distributes written reports about the MWAL managed funds<sup>2</sup> to fund clients, and to prospective clients upon request. These reports include various financial data and information, which also may be available on the Firm's password-protected website. Similar data may also be used in written marketing presentations and bespoke research, which are produced and distributed on an ad hoc basis.

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<sup>1</sup> The processes for separately managed accounts may differ, based on their appointed administrator's contractual obligations.

<sup>2</sup> The Firm does not produce monthly reports or presentations for its separately managed accounts, nor does it include this performance data on its client website. These separately managed accounts have different reporting parameters that are determined by each respective management agreement.





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

MWAL, by way of its affiliates, has entered into contractual agreements with individuals and organizations who solicit clients for certain of the Firm's funds under management for a fee. While the specific terms of each arrangement may differ, fees generally comprise a pre-set portion (percentage or basis points) of the Firm's management and/or performance fees earned on the assets invested by the referred client(s). Referral fees are borne by the Firm, not the referred (or any other) fund client.



## **Item 15 – Custody**

Other than for its separately managed accounts, MWAL is deemed to have custody of its client funds and securities because it has the discretion to open accounts on behalf of its fund clients. As noted in item 13, these funds have appointed independent administrators who work directly with the respective funds' qualified custodians to verify and value fund assets. This data then is used to produce, among other things, monthly investor statements, which they distribute directly to fund investors. These administrators also work with independent public accountants to produce and distribute the funds' annual audited financial reports, as well as year-end statements and any other such documentation investors may require in completing their income tax filings.

All fund investors should carefully review their account statements and any other such documentation received with respect to asset valuation.



## **Item 16 – Investment Discretion**

With the exception of certain separately managed accounts, MWAL has investment discretion over the funds it manages. This investment discretion generally pertains to buying and selling securities and other instruments for its clients in a manner consistent with each client's stated investment objectives. The extent of this discretion, and any restrictions, is outlined in the investment management agreement in place for each respective fund.

As noted in Item 4, separately managed accounts may impose additional restrictions on the Firm's investment discretion.



### **Item 17 – Voting Client Securities**

In general, MWAL has authority to cast all proxy votes on behalf of the funds it manages. In doing so, MWAL employs an independent agent to manage US proxy voting on its behalf. This agent analyzes proxy statements to recommend vote decisions, and manages the complete proxy voting process, including the receipt of proxies, reconciliation, vote execution, vote disclosure and reporting. The service offers MWAL full transparency, with full record reporting and vote monitoring.

When proxy materials arrive at the funds' prime brokers (the securities holder on record), they are forwarded to the proxy agent for review and action. The agent then votes on behalf of MWAL, in accordance with stated voting objectives. The agent ensures that all proxies are voted, and maintains our proxy records in accordance with SEC requirements. It also provides the Firm with an online platform that allows the Firm to change its vote recommendations, run vote record reports, and view account information. MWAL - or an affiliate acting on its behalf - reviews the proxy voting agent's voting activity on a quarterly basis to ensure the service meets its needs and best serves the interests of its investors.

A copy of the Firm's Proxy Voting policy, the voting guidelines in use, and/or information on how MWAL voted client securities can be obtained by fund clients upon request.



## **Item 18 – Financial Information**

MWAL does not believe that there are any financial conditions reasonably likely to impair its ability to meet its contractual commitments to its fund clients.