

McDonnell Investment Management, LLC

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This brochure provides information about the qualifications and business practices of McDonnell Investment Management, LLC. If you have any questions about the contents of this brochure, please contact us at (630) 684-8600 and/or information@mcdmgmt.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority. We are a registered investment adviser with the SEC. This registration does not imply any level of skill or training.

Additional information about McDonnell Investment Management, LLC also is available on the SEC's website at www.adviserinfo.sec.gov.

No information contained herein should be construed as a solicitation or offer, or recommendation, to buy or sell any security, or as an offer to provide advisory services. Any offering or potential transaction that may be related to information in this brochure will be made pursuant to separate and distinct documentation.

Item 2 – Material Changes

There have been no material changes to the information provided in this brochure from the previous version dated March 28, 2013. There were enhancements and clarifications to the sections regarding *Other Financial Industry Activities and Affiliations*, *Brokerage Practices*, and *Client Referrals and Other Compensation*, and other minor changes throughout. For more detailed information please refer to the corresponding full disclosures.

A copy of this brochure may be requested by contacting us at (630) 684-8600.

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Item 4 – Advisory Business

McDonnell Investment Management, LLC (“McDonnell”) is a registered investment adviser providing customized investment management services. McDonnell is a direct subsidiary of Natixis Global Asset Management, L.P., which is an indirect subsidiary of Natixis Global Asset Management (“NGAM”), an international asset management group based in Paris, France. NGAM is in turn owned by Natixis, a French investment banking and financial services firm. Natixis is principally owned by BPCE, France’s second largest banking group.

McDonnell specializes in providing fixed income investment management solutions to clients. McDonnell’s fixed income group primarily offers investment grade taxable and tax-exempt strategies as well as blended taxable and tax-exempt strategies. Clients select from investment mandates that encompass: core, limited maturity/duration, multi-sector, and customized benchmark blends. Taxable, tax-exempt and blended strategies are provided to:

- Separate Accounts
- Managed Account Programs (“SMA’s”) (also known as wrap programs)
- Sub-Advised Mutual Funds
- Private Funds

In addition to providing investment management services, McDonnell also provides credit information services to an independent third party.

McDonnell is able to tailor advisory services to meet the different needs of individual clients, and clients are generally able to impose restrictions on investing in specific securities or types of securities (e.g., no alcohol related securities or restrictions from trading in derivatives). The details of McDonnell’s advisory services with respect to SMAs are set forth in Item 5 – “Fees and Compensation.”

As of June 30, 2013, McDonnell managed approximately \$12,455,081,000 of client assets on a discretionary basis and approximately \$20,497,000 on a non-discretionary basis.

Item 5 – Fees and Compensation

McDonnell’s management fees are generally a percentage of assets under management based on an annual rate and paid quarterly. The annual rate is established in the client’s written agreement and typically applies to the sum of all cash and fair market value (including accrued interest) of the securities in the account on the last day of the preceding quarter.

The standard fee schedule for the various McDonnell products is set forth below. McDonnell has made, and may make in the future, exceptions to its general fee schedule in its sole discretion based on various circumstances, such as client’s relationship to McDonnell, expectations of significant capital additions in the future, product line, or composition of portfolio, among other reasons. In such cases, different and reduced fee arrangements have been and may be negotiated with individual clients or underlying investors in a private fund.

In addition to McDonnell's advisory fees, clients, depending upon the product, are subject to various expenses, including but not limited to custodial, brokerage, audit, legal and third party administration. Please see Item 12 – "Brokerage Practices" for more information on McDonnell's brokerage practices.

Fees for Separate Account Clients

Taxable Bond, Municipal Bond, and Municipal/Taxable Blend Portfolios

Market Value of Assets

\$5 million	0.40%
Next \$5 million	0.32%
Next \$15 million	0.28%
Over \$25 million	0.24%

Advisory fees may be invoiced either directly to the client, or through the client's financial consultant, or may be deducted directly from the client's custodial account. Clients can instruct McDonnell which method they prefer in their written agreement. Advisory fees are exclusive of brokerage commissions, transaction fees, and other related costs when we purchase or sell securities for your account.

The periods over which fees are calculated and their method of payment may be varied based upon the requirements of individual clients. In some cases, client custodial values are used. Otherwise, account asset values are determined in accordance with McDonnell's pricing procedures and are generally priced by independent third party pricing agents who may employ methodologies that utilize actual market transactions, broker supplied valuations, or other electronic data. In circumstances where an account holds positions in its portfolio for which reliable independent third party pricing is not readily available or is not reflective of fair value, McDonnell evaluates sufficient information to enable it to make a "good faith" determination that the valuation method used results in fair value. McDonnell has designated a Pricing Committee to make all necessary determinations of fair value. To the extent its fees are based on the value or performance of client accounts, McDonnell may benefit by receiving a fee based on the impact, if any, of the increased value of assets in an account.

A client agreement may be terminated at any time by the client, for any reason, typically upon thirty (30) days' prior written notice. Upon termination of any account, any prepaid unearned fees will be refunded to the client. The client can contact McDonnell's Client Accounting group at (630) 684-8634 with any questions regarding refunds. The refunded fee amount is determined by computing the earned fees from the beginning of the quarter to the date the account is terminated, and then deducting that amount from the fee that was paid in advance.

Fees for SMA Program Clients

McDonnell is retained by certain clients under SMA programs (also known as wrap programs) offered by a third party sponsor, where the sponsor may: (1) recommend retention of McDonnell as investment adviser; (2) pay McDonnell's investment advisory fee on behalf of the client; (3) monitor and evaluate McDonnell's performance; (4) execute the client's portfolio transactions without commission charge (in the case of transactions with such broker/dealer sponsors); and (5) provide custodial services for the client's assets, or provide any combination of these or other services, all for a single fee paid by the client to the third party sponsor.

SMA programs are further divided between “bundled” and “unbundled” programs. McDonnell provides investment management services through both types of programs. Bundled programs are offered for a single fee payable to the sponsor, of which a percentage is payable to McDonnell for its asset management services. The sponsor’s fee covers various charges, which can include investment management, brokerage and custodial services, record-keeping and reporting. Fees, investment minimums, and other features of these programs may vary, as described in each sponsor’s Schedule H disclosure.

For unbundled programs, McDonnell enters into separate agreements with clients. Clients pay compensation separately to McDonnell as well as to the sponsor for its services, which may include preparing an investment policy statement, considering an appropriate asset allocation, and providing account statements, among others. Whether bundled or unbundled, in evaluating such an arrangement, a client should recognize that brokerage commissions for the execution of transactions in the client’s account may not always be negotiated by McDonnell. Transactions through such broker/dealer sponsors are effected “net” (i.e., without commission), and a portion of the SMA fee paid is generally considered as including such commissions. Prices on fixed income transactions typically include a bid/ask spread.

Given the types of securities that McDonnell manages in these SMA programs, the broker/dealer sponsors may not be able to obtain best execution for transactions in securities that McDonnell manages. Accordingly, McDonnell is permitted to execute trades with other broker-dealers on a best price/best execution basis, the transaction cost (i.e., bid/ask spread) of which is in addition to the SMA fee. The client should consider that, depending upon the level of the SMA fee charged by the broker/dealer, the amount of portfolio activity in the client’s account, the value of custodial and other services provided under the arrangement, and other factors, the fee may or may not exceed the aggregate cost of such services if they were to be provided separately and if McDonnell were free to negotiate commissions and seek best price and execution of transactions for the client’s account.

SMA fees are typically paid quarterly, in advance, to the sponsor of the program. McDonnell receives a portion of this fee as compensation for investment advice it provides clients that typically ranges from 0.20% to 0.35% of the client’s assets under management.

Fees for Sub-Advised Mutual Funds

McDonnell serves in a sub-advisory capacity for U.S. registered investment companies that are advised by third parties. Fees received by McDonnell for sub-advising investment companies are negotiable and based on an annual rate. The fees are paid monthly based on the funds’ average daily assets under McDonnell’s management.

Fees for Private Fund

As investment manager to a private, pooled investment vehicle, McDonnell receives an annual advisory fee that is equal to a percentage of the net asset value attributable to the capital account of each investor during the relevant calendar year. The advisory fee, which is described in the fund’s private offering documents, is calculated and paid monthly in arrears.

The governing documents for investment companies and private funds managed by McDonnell may provide different termination rights than those for separate account clients, as shown above.

Additional Information Concerning Advisory Fees

From some clients, McDonnell may receive a performance-based fee in compliance with Rule 205-3 under the Investment Advisers Act of 1940, as amended (“Advisers Act”). Performance-based fees are discussed further in Item 6 – “Performance-Based Fees and Side-By-Side Management.”

McDonnell has and may in the future enter into agreements with separate account clients or underlying investors of its private funds that contain provisions which grant such client or investor certain preferential terms, including but not limited to: most favored nations, fees, reporting or liquidity. Such provisions may apply to a single product or across multiple products advised by the firm.

McDonnell may, on behalf of certain clients, invest in pooled or collective investment vehicles, including investment companies (i.e., open and closed-end funds and exchange traded funds) and private funds. Subject to applicable law and regulation and the terms of the applicable agreements, such clients may bear the costs and expenses charged by such investment vehicles to their investors, such as management and administrative fees, in addition to McDonnell’s management fees charged for its investment management services.

In addition, McDonnell may invest a portion of a client’s assets in investment vehicles that are advised or sub-advised by McDonnell (affiliated funds), where the affiliated fund provides a more efficient and cost-effective way to diversify an account. To the extent that McDonnell invests client assets in an affiliated fund, McDonnell will, depending upon the affiliated fund used, either (1) not charge an advisory fee to the client for investing in such fund, (2) waive investment advisory fees on the assets invested in such affiliated fund, or (3) credit or avoid through other means the payment of the separate account advisory fees on the assets invested in an affiliated fund. However, assets invested in an affiliated fund are subject to the fund fees and charges applicable to all investors in the affiliated fund. Therefore, the client may incur a higher total investment advisory fee if the affiliated fund’s management fee rate exceeds the rate the client would otherwise pay for the management of its assets.

Credit Information Services Fees

McDonnell also provides credit information services, which consist of credit research support services and research reports (“credit research”), to third parties. McDonnell receives fees for credit research that vary according to the level of credit research provided and are dependent upon the nature of research reports delivered.

Item 6 – Performance-Based Fees and Side-By-Side Management

McDonnell has entered into arrangements with separate account clients where fees are based on a share of capital gains or capital appreciation of the assets in a client account. For example, in addition to the base annual management fee, an account would also include a performance-based fee payable when the account’s performance return exceeds a predefined performance hurdle on an index or benchmark (e.g., Barclays Capital Aggregate Bond Index plus 25 basis points). Performance fees are negotiable as part of the client’s written advisory contract. In measuring client assets for the calculation of performance-based fees, McDonnell includes realized and unrealized capital gains and losses.

Clients should understand that performance fees rates vary by client and that McDonnell may enter into different types of performance fee arrangements in the future. Performance fee arrangements may create an incentive to recommend investments which are riskier or more speculative than those which would be recommended under a different fee arrangement. Also, in situations where our portfolio managers manage these accounts side-by-side with accounts that do not have a performance fee, there is a conflict of interest which may create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities.

McDonnell has adopted procedures to address these conflicts of interests that are designed to ensure that all clients are treated fairly and equitably. The firm's trade aggregation and allocation procedures, which are detailed in Item 12 – "Brokerage Practices," are designed to ensure that transactions where the same securities are bought or sold for multiple clients simultaneously are traded such that no participating client is favored over any other client. Another procedure involves the review of account performance over time for accounts employing similar investment strategies.

Because the amount of fees received is based on the value or performance of client accounts, account asset values are determined in accordance with detailed pricing procedures. Assets are generally priced by independent third party pricing agents. In circumstances where an account holds positions in its portfolio for which reliable independent third party pricing is not readily available or is not reflective of fair value, the firm evaluates sufficient information to make a "good faith" determination that the valuation method used results in fair value.

Item 7 – Types of Clients

McDonnell provides advisory services to many types of clients including individuals, insurance companies, banks, corporations, pension and profit sharing plans, trusts and estates, charitable organizations, mutual funds, and private investment funds.

The minimum fee and account size requirements for opening an account are shown below. In most cases, McDonnell can waive the minimum requirements.

For Separate Account Clients

Taxable Bond, Municipal Bond, and Municipal/Taxable Blend

Minimum annual advisory fee:	\$16,000
Minimum account size:	\$5,000,000

For SMA Program Clients

Minimum requirements for SMA client accounts vary depending on the program sponsor and investment strategy and typically range from \$50,000 to \$1,000,000. Minimums are subject to change.

For Sub-Advised Mutual Funds

Minimum investment amounts are disclosed in the current prospectus for each mutual fund.

For Private Fund Investors

McDonnell International Fixed Income Fund

Minimum investment: \$500,000

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

Investment Strategies

McDonnell employs a disciplined, value-added approach to fixed income management which is intended to outperform the market and dampen volatility in relative rates of return. McDonnell strives to achieve these goals by 1) maintaining portfolio duration close to that of the predetermined benchmark; 2) evaluating opportunities among the various fixed income market sectors; 3) effecting yield curve positioning to take advantage of potential yield shifts; and 4) identifying securities with superior relative value characteristics.

Portfolio strategies are tailored to meet the specific objectives of each client and generally include an investment objective, average maturity range, average duration range, average credit quality, sector and one or more benchmarks. McDonnell strives to employ a consistent investment process that is anchored by sound risk management practices and comprehensive proprietary investment research. Implementation of this process is facilitated by a progressive technology platform that enables team members to efficiently gather and analyze market data.

Taxable Security Portfolios

McDonnell invests in taxable debt securities. Investments primarily consist of investment-grade securities, including securities issued by the U.S. government, its agencies and instrumentalities, municipal securities, mortgage-backed and other asset-backed securities, and corporate and bank obligations, including commercial paper, corporate notes and bonds. McDonnell may invest in securities of any maturity.

McDonnell generally employs a total return and/or capital preservation investment strategy which emphasizes sector and security selection and yield curve positioning. Sector and security decisions are reached through fundamental credit analysis as well as an assessment that incorporates the sector and security's credit momentum. The total return strategy places a limited dependence on adjusting the portfolio in anticipation of a change in the level of interest rates.

McDonnell invests client assets primarily in investment grade securities, which are securities rated in one of the top four credit quality categories by at least one nationally recognized statistical rating organization (a "rating agency"). In addition, certain strategies utilize non-investment grade or high yield securities. Those securities are not rated in one of the top four credit quality categories by at least one rating agency rating that security.

Municipal Security Portfolios

McDonnell invests in municipal securities and will invest, under normal market conditions, primarily in tax exempt general obligation, revenue and private activity bonds and notes, which are issued by or on behalf of states, territories or possessions of the U.S. and the District of Columbia and their political subdivisions, agencies and instrumentalities. Tax-exempt means that the bonds pay interest that is excluded from gross income for regular federal income tax purposes. Investments generally include municipal securities with a full range of maturities and broad issuer and geographic diversification.

McDonnell generally employs an after tax total return or capital preservation investment strategy that emphasizes sector and security selection and yield curve positioning. Sector and security decisions are reached through robust fundamental credit analysis as well as an assessment that incorporates the sector and security's credit momentum. The total return strategy places a limited dependence on adjusting the portfolio in anticipation of a change in the level of interest rates.

McDonnell invests primarily in investment grade securities, which are securities rated in one of the top four credit quality categories by at least one rating agency.

Municipal/Taxable Blend Portfolios

The Municipal/Taxable Blend is a combination of the strategies detailed above. The allocation between strategies is determined based on client information related to tax and income objectives. Gains tax implications are included as part of a relative value analysis when McDonnell evaluates investment alternatives. Loss harvesting transactions are an integral part of the investment process.

Methods of Analysis

McDonnell uses various methods of analysis related to the development and implementation of fixed income strategies. The strategies utilized are managed according to predefined client guidelines that incorporate client goals and objectives for their fixed income portfolios. Guidelines may be drafted by the client in concert with their investment consultant or directly with McDonnell. For SMA programs, account guidelines are predefined by the third party program sponsor.

McDonnell believes that duration or interest rate sensitivity is a key element in controlling the risk of client portfolios. McDonnell manages portfolio duration in accordance with client guidelines, and believes that duration targets should be relatively consistent with the client's investment time horizon, return, and income objectives. A client's benchmark duration should define their risk tolerance. McDonnell then seeks to control the duration or interest rate sensitivity of the portfolio relative to the benchmark. As the duration of individual client portfolios shorten with the passage of time, portfolio managers sell and buy bonds to adjust the duration back to the target. By managing duration in this way, McDonnell limits its dependence on market timing.

In addition to managing interest rate risk, McDonnell seeks opportunities to outperform a client's stated benchmark by identifying relative value opportunities among sectors and securities, and exploiting shift patterns of the yield curve.

McDonnell's investment process can be highlighted by the following five steps:

1. **Identify Portfolio Risks and Opportunities:** Risk management systems seek to identify and effectively measure the risks and opportunities of the assets under management.
2. **Identify Market Risks and Opportunities:** McDonnell attempts to add value by identifying opportunities within the yield curve; sectors; coupon anomalies; and predefined, disciplined duration adjustments.
3. **Extensive Credit Analysis:** Information is evaluated over a meaningful period of time to capture credit trends and vulnerability to economic cycles.
4. **Portfolio Optimization:** As the markets change, relative value changes may occur and the portfolios then need to be optimally adjusted.
5. **Implementation of Strategy:** Trading strategies and market finesse are particularly important. McDonnell's experienced portfolio management teams possess the trading relationships and market maker contacts to facilitate efficient trade execution.

The components of the investment process and sources of value added applicable to taxable and tax-exempt investment management are highlighted below:

- **Duration:** Target the appropriate interest rate sensitivity for the portfolio based on analyses of individual risk/return tolerances. Duration bands are established relative to client benchmark.
- **Sector/State Emphasis:** Allocate the portfolio among the various market sectors based on client tax rate, market research and quantitative relative value analysis.
- **Security Selection/Credit Quality:** Identify potential under- and over-valued securities based on credit research and quantitative relative value analysis.
- **Maturity Structure:** Construct the portfolio to seek maximized return potential based on the current and projected changes in the shape of the yield curve.
- **Taxable/Tax-Free Allocation (Blended Strategies):** Determine portfolio allocation between taxable bonds and tax-exempt bonds based on client's tax rate and relative value. Because of the unique tax needs of individual clients, McDonnell has incorporated into its overall investment process a focus on tax efficiency. In managing a tax-exempt portfolio, McDonnell endeavors to minimize adverse impacts of capital gains taxes. Portfolio managers seek to minimize taxable capital gains and attempt to offset gains with realized losses. While tax consequences are not the sole determinant of portfolio strategy, they are a significant factor in establishing portfolio strategies for taxable investors.

Research Analysis

The credit review process is an integral component of the McDonnell's overall investment management process. Varying to some degree by a client's stated investment objectives, capital preservation is a core value of the overall management approach. In seeking to ensure consistent performance for clients, McDonnell places specific emphasis on accurately gauging credit quality and credit momentum within the appropriate view of relative value. Analysts perform ongoing credit reviews utilizing market

information sources, information databases and individual professional contacts to identify fundamental and technical trends and conditions that might impact bond performance. The analytical process places a special emphasis on determining credit and market trends in an effort to minimize potential adverse price movement due to deteriorating conditions. Likewise, analysts look for positive trends on both an absolute and relative basis.

McDonnell employs a research process that includes three main steps:

- 1) Apply fundamental analysis to assess expected default risk;
- 2) Assess credit momentum trends to gauge the risk of credit dilution or improvement; and
- 3) Integrate fundamental analysis with relative value pricing.

While fundamental default risk assessment is a basic element of the eligible securities credit process, analysts largely target credits for purchase that possess positive trends relative to their finances, business environment, and economic characteristics. On the other hand, they look to sell credits that are deemed negative trending relative to credit fundamentals, business environment, and economic characteristics. As an example, a highly competitive industry with a trend of weak free cash flow and rising debt to capitalization would be a sell candidate because it would receive a negative momentum score. Analysts quantitatively assign both a short term (one year) and a long term (one to three years) horizon credit confidence score. The strategy is to increase the urgency of a sale if the analyst changes the confidence score to a more negative score.

McDonnell's philosophy has always been committed to the dynamic integration of risk management into the investment process. In addition to implementing controlled interest rate anticipation strategies, strong emphasis is placed on extensive quantitative and qualitative research capabilities to control overall portfolio risk and to proactively identify value within individual bond securities and sectors. Portfolio managers maintain a focus on risk relative to the appropriate portfolio benchmark, and seek to minimize specific security risk. Sector and individual security weightings are measured in terms of both market and duration weighted exposure. McDonnell believes it is important to measure these risks both on an absolute basis and relative to the index.

McDonnell's team-based quantitative research is performed by portfolio managers and portfolio analysts. Through regular formal and informal strategy meetings, quantitative tools are applied to client portfolios through a broad range of fixed income strategies designed to meet client objectives. Identification of portfolio risks and opportunities is the first step in the quantitative process. Core risk measures include option adjusted duration, convexity and yield/income. The sector specific risk measures include taxable/tax-free allocation and spread risk within and across both taxable and municipal sectors. The yield curve specific risks are typically measured in terms of parallel yield shifts, non parallel yield movements and yield curve roll. Security specific risks are assessed through a review of security structure (i.e. call risk) and a credit risk assessment. Sector, yield curve, and security specific risks/opportunities are assessed on both a market weighted and duration weighted basis.

McDonnell has made significant investments to its quantitative tools and research capabilities to assist with the development, implementation and monitoring of portfolio risks and opportunities. The firm's comprehensive and integrated quantitative research leverages both external vendors and internally developed systems. External vendors include Investortools-Perform, Capital Management Sciences-BondEdge, Bloomberg Trading Systems, and Merritt Research Services-CreditScope. Certain senior executives of McDonnell have a controlling interest in Merritt Research Services, LLC ("Merritt

Research”). In addition, McDonnell’s Chief Research Officer, Richard Ciccarone, is President and CEO of Merritt Research.

Risks

Principal Risks of Investment Strategies

Set forth below is a summary of certain risk factors applicable to the advisory services provided by McDonnell. The summary is qualified in its entirety by the risk factors set forth in each client’s offering materials, if applicable. The list of risk factors does not purport to be a complete explanation of the risks involved in McDonnell’s advisory services.

Fixed income investing is subject to a number of risks that may affect the value of securities including:

Credit Risk is the risk that the inability or perceived inability of the issuer to make interest and principal payments will cause the value of its securities to decrease, and cause a loss. If an issuer’s financial health deteriorates, it may result in a reduction of the credit rating of the issuer’s securities and may lead to the issuer’s inability to honor its obligations, including making timely payment of interest and principal. Although a downgrade of a bond’s credit ratings may not affect its price, a decline in credit quality may make bonds less attractive, thereby increasing the yield on the bond and driving down the price. Declines in credit quality can result in bankruptcy for the issuer and permanent loss of investment.

Rating agencies are private services that provide ratings of the credit quality of fixed income securities. Ratings assigned by a rating agency are not absolute standards of credit quality and do not evaluate market risks. Rating agencies may fail to make timely changes in credit ratings and an issuer’s current financial condition may be better or worse than a rating indicates. Further, rating agencies may also lose credibility or end coverage of a previously-rated security. McDonnell does not rely solely on credit ratings, and develops its own analysis of issuer credit quality. McDonnell may purchase unrated securities if it determines that the security is of comparable quality to a rated security. Unrated securities may be less liquid than comparable rated securities and involve the risk that McDonnell may not accurately evaluate the security’s comparative credit rating.

Interest Rate Risk is the risk that fixed income securities will decline in value because of changes in interest rates. Generally, the value of debt securities falls as interest rates rise. Specific fixed income securities differ in their sensitivities to changes in interest rates depending on their particular characteristics. Fixed income securities with longer durations tend to be more sensitive to changes in interest rates, usually making them more volatile than securities with shorter durations. Duration is determined by a number of factors including coupon rate, whether the coupon is fixed or floating, time to maturity, call or put features, and various repayment features.

Leverage Risk magnifies the potential gains and losses from an investment and increases the risk of loss of capital. To the extent that income derived from investments purchased with borrowed funds is greater than the cost of borrowing, net income will be greater than if borrowing had not been used. Conversely, if the income from investments purchased with borrowed funds is not sufficient to cover the cost of borrowing, the net income will be less than if borrowing had not been used. The extent to which the gains and losses associated with leveraged investing are increased will generally depend on the degree of leverage employed. Leverage may also be limited with respect to specific securities held in a portfolio due to margin rule considerations.

Liquidity Risk exists when particular investments are difficult to purchase or sell. During periods of market turbulence or low trading activity, in order to meet client withdrawals it may be necessary for McDonnell to sell securities at prices that are less advantageous. Additionally, the market for certain investments may become illiquid independent of any specific adverse changes in the conditions of a particular issuer. Smaller portfolios may have increased exposure to liquidity risk.

Management Risk exists because securities selected by McDonnell may not perform to expectations. This could result in underperformance compared to other portfolios with similar investment objectives.

Market Risk involves the possibility that the value of the investments will decline, sometimes unpredictably or rapidly, due to drops in the securities markets generally or particular industries represented in the securities markets. The prices of and the income generated by securities held may decline in response to certain events, including those directly involving the companies and governments whose securities are owned by in portfolios, general economic and market conditions, regional or global instability, and interest rate fluctuations.

Notwithstanding the existence of a public market for particular financial instruments, such instruments may be thinly traded or may cease to be traded after an investment is made in them. In addition to being relatively illiquid, such instruments may be issued by unstable or unseasoned issuers or may be highly speculative.

Prepayment Risk is the risk that, if interest rates fall, it is possible that issuers of certain bonds will call, or prepay, their bonds before their maturity date. If a call were exercised by the issuer during a period of declining interest rates, McDonnell is likely to have to replace the called security with a lower yielding security which would decrease net investment income.

Economic Conditions. Changes in economic conditions, including, for example, interest rates, inflation rates, industry conditions, competition, technological developments, trade relationships, political and diplomatic events and trends, tax laws and innumerable other factors, can affect substantially and adversely client's investments.

Availability of Investment Strategies. Identification and exploitation of certain investment strategies to be pursued by McDonnell can involve a high degree of uncertainty. No assurance can be given that McDonnell will be able to locate suitable investment opportunities.

Analytical Model Risks. McDonnell employs certain strategies which depend upon the reliability, accuracy and analyses of its analytical models. To the extent such models (or the assumptions underlying them) do not prove to be correct, the investments may not perform as anticipated, which could result in substantial losses. All models ultimately depend upon the judgment of the investment team and the assumptions embedded in the models.

Diversification. Although diversification is used as one of the tools of risk management, McDonnell is not always restricted as to the percentage of the assets that may be invested in any particular instrument or market in order to optimize the risk-reward profile. To the extent McDonnell concentrates investments in a particular issuer, security, currency or market, the investments will become more susceptible to fluctuations in value resulting from adverse economic or business conditions affecting that particular issuer, security, currency or market.

Changes in Law. Changes in non-U.S. or U.S. state and federal laws applicable to McDonnell or its clients, and other securities or instruments in which a client may invest may negatively affect a client's returns. The global financial markets continue to be subject to extensive and unprecedented governmental intervention. Such intervention has in certain cases been implemented on an emergency basis with little or no notice, with the consequence that some market participants' ability to continue to

implement certain strategies or manage the risk of their outstanding positions has been suddenly and/or substantially eliminated or otherwise negatively impacted. Given the complexities of the global financial markets and the limited time frame within which governments have been able to take action, these interventions have sometimes been unclear in scope and application, resulting in confusion and uncertainty, which in itself has been materially detrimental to the efficient functioning of such markets as well as previously successful investment strategies.

Risks of Specific Security Types

Asset-Backed Securities. Asset-backed securities (“ABS”) are bonds backed by pools of loans or other receivables. ABS are created from many types of assets, including auto loans, credit card receivables, home equity loans, and student loans. ABS are issued through special purpose vehicles that are bankruptcy remote from the issuer of the collateral. The credit quality of an ABS transaction depends on the performance of the underlying assets. To protect ABS investors from the possibility that some borrowers could miss payments or even default on their loans, ABS include various forms of credit enhancement.

Some ABS, particularly home equity loan transactions, are subject to interest-rate risk and prepayment risk. A change in interest rates can affect the pace of payments on the underlying loans, which in turn, affects total return on the securities. ABS also carry credit or default risk. If many borrowers on the underlying loans default, losses could exceed the credit enhancement level and result in losses to investors in an ABS transaction. Finally, ABS have structure risk due to a unique characteristic known as early amortization, or early payout, risk. Built into the structure of most ABS are triggers for early payout, designed to protect investors from losses. These triggers are unique to each transaction and can include: a big rise in defaults on the underlying loans, a sharp drop in the credit enhancement level, or even the bankruptcy of the originator. Once early amortization begins, all incoming loan payments are used to pay investors as quickly as possible.

Common Stock. Although common stock has historically generated higher average total returns than fixed-income securities over the long term, common stock also has experienced significantly more volatility in those returns. An adverse event, such as an unfavorable earnings report, may depress the value of a particular common stock. Also, the price of common stock is sensitive to general movements in the stock market and a drop in the stock market may depress the price of common stock. Common stock prices fluctuate for several reasons, including changes in investors’ perceptions of the financial condition of an issuer or the general condition of the relevant stock market or when political or economic events affecting the issuers occur. In addition, common stock prices may be particularly sensitive to rising interest rates, as the cost of capital rises and borrowing costs increase.

Convertible Securities. McDonnell may invest in convertible securities, which are debt securities or preferred equity securities that are exchangeable for other debt or equity securities of the issuer at a predetermined price. Convertible securities entitle the holder to receive interest payments paid on corporate debt securities or the dividend preference on preferred equity securities until such time as the convertible security matures or is redeemed or until the holder elects to exercise the conversion privilege. As a result of the conversion feature, convertible securities typically offer lower interest rates than if the securities were not convertible. Also, in the absence of adequate anti-dilution provisions in a convertible security, dilution in the value in a holding may occur in the event the underlying stock is subdivided, additional securities are issued, a stock dividend is declared or the issuer enters into another type of corporate transaction which increases its outstanding securities.

Corporate Debt. Corporate debt securities are subject to the risk of the issuer's inability to meet principal and interest payments on the obligation and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity. When interest rates rise, the value of corporate debt securities can be expected to decline. Debt securities with longer maturities tend to be more sensitive to interest rate movements than those with shorter maturities.

Default and Counterparty Risk. Some of the markets in which McDonnell effects transactions are "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. In addition, in the case of a default, the investment could become subject to adverse market movements while replacement transactions are executed. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where McDonnell has concentrated its transactions with a single or small group of counterparties. The ability of McDonnell to transact business with any one or number of counterparties, and the absence of a regulated market to facilitate settlement may increase the potential for losses.

Derivative Instruments. Where permitted by client guidelines, McDonnell may invest in complex derivative instruments that seek to modify or emulate the investment performance of particular securities, obligations, commodities, currencies, interest rates, indices or markets, or specific risks thereof, primarily on an unleveraged basis which can be equivalent to a long position in the underlying asset or risk. These instruments generally have counterparty risk and may not perform in the manner expected, thereby resulting in greater loss or gain than might otherwise be anticipated. These investments are all subject to additional risks that may result in a loss of all or part of an investment, such as interest rate and credit risk volatility, world and local market price and demand and general economic factors and activity. Derivatives may have high leverage embedded in them which may substantially magnify market movements and result in losses substantially greater than the amount of the investment. Finally, when used for hedging purposes, an imperfect or variable degree of correlation between price movements of the derivative instrument and the underlying investment sought to be hedged may prevent the investment from achieving the intended hedging effect or expose the portfolio to the risk of loss.

Dollar Rolls, Delayed Delivery Transactions and When Issued or Forward Commitment Securities. The purchase or sale of when-issued securities enables an investor to hedge against anticipated changes in interest rates and prices by locking in an attractive price or yield. The price of delayed delivery transactions, including when-issued securities, is fixed at the time the commitment to purchase or sell is made, but delivery and payment for the securities takes place at a later date, normally one to two months after the date of purchase. During the period between purchase and settlement, no payment is made by the purchaser to the issuer and no interest accrues to the purchaser. Such transactions therefore involve a risk of loss if the value of the security to be purchased declines prior to the settlement date or if the value of the security to be sold increases prior to the settlement date. A sale of a when-issued security also involves the risk that the other party will be unable to settle the transaction. Dollar rolls are a type of forward commitment transaction. Purchases and sales of securities on a forward commitment basis involve a commitment to purchase or sell securities with payment and delivery to take place at some future date, normally one to two months after the date of the transaction. As with when-issued securities, these transactions involve certain risks, but they also enable an investor to hedge against anticipated changes in interest rates and prices. Forward commitment transactions are executed for existing obligations, whereas in a when-issued transaction, the obligations have not yet been issued.

Exchange Traded Funds Risk (“ETFs”). McDonnell invests from time to time in ETF’s whose shares may trade above or below their Net Asset Value (“NAV”). The NAV of the ETF will generally fluctuate with changes in the market value of the ETF’s holdings. The market prices of shares, however, will generally fluctuate in accordance with changes in NAV as well as the relative supply of, and demand for, shares on the Exchange. The trading price of shares may deviate significantly from NAV during periods of market volatility.

High Yield Securities. Investments in “high yield” debt and preferred securities which are rated lower than investment grade by the various credit rating agencies (or in comparable non-rated securities) are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be predominantly speculative with respect to the issuer’s capacity to pay interest and repay principal. They are also generally considered to be subject to greater risk than securities with higher ratings in the case of deterioration of general economic conditions. Because investors generally perceive that there are greater risks associated with lower-rated securities, the yields and prices of such securities may tend to fluctuate more than those for higher-rated securities. The market for lower-rated securities is thinner and less active than that for higher-rated securities, which can adversely affect the prices at which these securities can be sold. In addition, adverse publicity and investor perceptions about lower-rated securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of such lower-rated securities.

Securities that are rated BB+ or lower by Standard & Poor’s Ratings Group (“S&P”) or Ba1 or lower by Moody’s Investors Service (“Moody’s”) are often referred to as “junk bonds” and may include securities of issuers in default. “Junk bonds” are considered by the rating agencies to be predominately speculative and may involve major risk exposures such as: (i) vulnerability to economic downturns and changes in interest rates; (ii) sensitivity to adverse economic changes and corporate developments; (iii) redemption or call provisions which may be exercised at inopportune times; and (iv) difficulty in accurately valuing or disposing of such securities.

Mortgage-Related Securities. Mortgage-related securities include mortgage pass-through securities, collateralized mortgage obligations, commercial mortgage-backed securities, mortgage dollar rolls, CMO residuals, stripped mortgage-backed securities and other securities that directly or indirectly represent a participation in, or are secured by and payable from, mortgage loans on real property. The value of some mortgage-related securities may be particularly sensitive to changes in prevailing interest rates. Early repayment of principal on some mortgage-related securities may expose the investor to a lower rate of return upon reinvestment of principal. When interest rates rise, the value of a mortgage-related security generally will decline; however, when interest rates are declining, the value of mortgage-related securities with prepayment features may not increase as much as other fixed income securities. The rate of prepayments on underlying mortgages will affect the price and volatility of a mortgage-related security, and may shorten or extend the effective maturity of the security beyond what was anticipated at the time of purchase. If unanticipated rates of prepayment on underlying mortgages increase the effective maturity of a mortgage-related security, the volatility of the security can be expected to increase. The value of these securities may fluctuate in response to the market’s perception of the creditworthiness of the issuers. Additionally, although mortgages and mortgage-related securities are generally supported by some form of government or private guarantee and/or insurance, there is no assurance that private guarantors or insurers will meet their obligations.

Municipal Securities. Municipal securities include debt obligations issued by governmental entities to obtain funds for various public purposes, such as the construction of a wide range of public facilities, the refunding of outstanding obligations, the payment of general operating expenses, and the extension of loans to other public institutions and facilities. Other types of municipal securities include short-term General Obligation Notes, Tax Anticipation Notes, Bond Anticipation Notes, Revenue Anticipation

Notes, Project Notes, Tax-Exempt Commercial Paper, Construction Loan Notes and other forms of short-term tax-exempt loans. Such instruments are issued with a short-term maturity in anticipation of the receipt of tax funds, the proceeds of bond placements or other revenues. An issuer's obligations under its municipal securities are subject to the provisions of bankruptcy, insolvency, and other laws affecting the rights and remedies of creditors, such as the federal bankruptcy code, and laws, if any, which may be enacted by Congress or state legislatures extending the time for payment of principal or interest, or both, or imposing other constraints upon the enforcement of such obligations or upon the ability of municipalities to levy taxes. The power or ability of an issuer to meet its obligations for the payment of interest on and principal of its municipal securities may be materially adversely affected by litigation or other conditions.

Municipal securities can be significantly affected by political changes as well as uncertainties in the municipal market related to taxation, legislative changes, or the rights of municipal security holders. Because many municipal securities are issued to finance similar projects, especially those relating to education, health care, transportation and utilities, conditions in those sectors can affect the overall municipal market. In addition, changes in the financial condition of an individual municipal insurer can affect the overall municipal market.

Municipal bonds, which generally have maturities of more than one year when issued, are designed to meet longer-term capital needs. Some longer-term municipal bonds allow an investor to "put" or sell the security at a specified time and price to the issuer or other "put provider." If a put provider fails to honor its commitment to purchase the security, the holder of the security may have to treat the security's final maturity as its effective maturity, potentially increasing the volatility.

Municipal leases frequently carry risks distinct from those associated with general obligation or revenue bonds. State constitutions and statutes set requirements that states and municipalities must meet to incur debt. These may include voter referenda, interest rate limits or public sale requirements. Many leases and contracts include non-appropriation clauses, which provide that the governmental issuer has no obligation to make future payments under the lease or contract unless money is appropriated for such purposes by the appropriate legislative body on a yearly or other periodic basis. Municipal lease obligations also may be subject to abatement risk. For example, construction delays as a result of an uninsurable disaster that prevents occupancy could result in all or a portion of a lease payment not being made.

The amount of public information available about the municipal bonds is generally less than that for corporate equities or bonds, and the investment performance may therefore be more dependent on the analytical abilities of McDonnell. The secondary market for municipal bonds, particularly the lower-rated bonds, also tends to be less well developed or liquid than many other securities markets, which may adversely affect McDonnell's ability to sell bonds at attractive prices. The ability of municipal issuers to make timely payments of interest and principal may be diminished during general economic downturns and as governmental cost burdens are reallocated among federal, state and local governments. In addition, laws enacted in the future by Congress or state legislatures or referenda could extend the time for payment of principal and/or interest, or impose other constraints on enforcement of such obligations, or on the ability of municipal issuers to levy taxes. Issuers of municipal securities might seek protection under the bankruptcy laws. In the event of bankruptcy of such an issuer, an investor could experience delays in collecting principal and interest and the investor may not, in all circumstances, be able to collect all principal and interest to which it is entitled.

Non-Investment Grade Securities. Below investment-grade securities are more likely to pose a credit risk, as the issuers of these securities are more likely to have problems making interest and principal payments than issuers of higher-rated securities. Lower-rated securities may be more susceptible to real or perceived adverse economic and competitive industry conditions than higher-grade securities, and

prices of these securities may be more sensitive to adverse economic downturns or individual corporate developments. If the issuer of the securities defaults, investors may incur additional expenses to seek recovery. The secondary market in which below investment-grade securities are traded may be less liquid than the market for higher grade securities.

Non-U.S. Investments. Investments outside of the United States or denominated in non-U.S. currencies pose currency exchange risks (including blockage, devaluation and non-exchangeability) as well as a range of other potential risks which could include, depending on the country involved, expropriation, confiscatory taxation, political or social instability, illiquidity, price volatility and/or market manipulation. In addition, less information may be available regarding non-U.S. issuers, and non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to, as stringent as or as uniform as those of U.S. companies. Further, non-U.S. securities markets may not be as liquid as U.S. markets. Transaction costs of investing outside of the United States are generally higher than in the United States. Higher costs result because of the cost of converting a non-U.S. currency to U.S. dollars, the payment of fixed brokerage commissions on some non-U.S. exchanges and the imposition of transfer taxes or transaction charges by non-U.S. exchanges. There is generally less government supervision and regulation of non-U.S. exchanges, brokers and issuers than there is in the U.S. and there is greater difficulty in taking appropriate legal action in non-U.S. courts. Non-U.S. markets also have different clearance and settlement procedures which in some markets have at times failed to keep pace with the volume of transactions, thereby creating substantial delays and settlement failures that could adversely affect performance.

Option Transactions. The purchase or sale of an option involves the payment or receipt of a premium payment by the investor and the corresponding right or obligation, as the case may be, either to purchase or sell the underlying security or other instrument for a specific price at a certain time or during a certain period. Purchasing options involves the risk that the underlying instrument does not change price in the manner expected, so that the option expires worthless and the purchaser of the option loses its premium. Selling options, on the other hand, involves potentially greater risk because the seller of the option is exposed to the extent of either a change in the volatility of the underlying security or instrument or the actual price movement in the underlying security or instrument in excess of the premium payment received. The ability to close out a position as purchaser of an exchange-listed option would be dependent upon the existence of a liquid secondary market on an exchange. Among the possible reasons for the absence of a liquid secondary market on an exchange are (i) insufficient trading interest in certain options; (ii) restrictions on transactions imposed by an exchange; (iii) trading halts, suspensions or other restrictions; (iv) interruption of the normal operations on an exchange; (v) inadequacy of the facilities of an exchange or similar facility to handle current trading volume or (vi) a decision by one or more exchanges to discontinue the trading of options.

Preferred Stock. Preferred stock has a preference over common stock in liquidation (and generally dividends as well) but is subordinated to the liabilities of the issuers in all respects. As a general rule, the market value of preferred stock with a fixed dividend rate and no conversion element varies inversely with interest rates and perceived credit risk, while the market price of convertible preferred generally also reflects some element of conversion value. Because preferred stock is junior to debt securities and other obligations of the issuer, deterioration in the credit quality of the issuer will cause greater changes in the value of a preferred stock than in a more senior debt security with similar stated yield characteristics. Unlike interest payments on debt securities, preferred stock dividends are payable only if declared by the issuer's board of directors. Preferred stock also may be subject to optional or mandatory redemption provisions.

Private Placements. In addition to the risks that exist with respect to privately-placed securities due to the nature of such securities (i.e., risks associated with common stock), privately-placed securities are often illiquid. Illiquid securities include most securities the disposition of which is subject to substantial legal or contractual restrictions. McDonnell may experience significant delays in disposing of illiquid securities and may not be able to sell them for the price that was paid or the price at which McDonnell has valued them. Transactions in illiquid securities may entail registration expenses and other transaction costs that are higher than those for transactions in liquid securities.

Small Companies. McDonnell may invest in small and/or less well-established companies. While smaller companies generally have potential for rapid growth, they often involve higher risk because they lack the management experience, financial resources, product diversification and/or competitive strength of larger corporations. In addition, in many instances, the frequency and volume of their trading is substantially less than is typical of larger companies. As a result, the securities or loans of smaller companies may be subject to wider price fluctuations. In addition, due to thin trading in some of those stocks, bonds or loans, an investment in those stocks, bonds or loans may be considered less liquid than an investment in many large-capitalization stocks, bonds or loans. When making large sales, McDonnell may have to sell portfolio holdings at discounts from quoted prices or may have to make a series of small sales over an extended period of time due to the trading volume of smaller company securities.

To Be Announced Securities (“TBAs”). As with other delayed delivery transactions, a seller agrees to issue a TBA security at a future date. However, the seller does not specify the particular securities to be delivered. Instead, McDonnell agrees to accept any security that meets specified terms. For example, in a TBA mortgage-backed transaction, McDonnell and the seller would agree upon the issuer, interest rate and terms of the underlying mortgages. The seller would not identify the specific underlying mortgages until it issues the security. TBA mortgage-backed securities increase market risks because the underlying mortgages may be less favorable than anticipated.

U.S. Government Securities and Foreign Government Securities. U.S. government securities include securities issued or guaranteed by the U.S. government or its authorities, agencies, or instrumentalities. Foreign government securities include securities issued or guaranteed by foreign governments or their authorities, agencies, or instrumentalities or by supra-national agencies. Different kinds of U.S. government securities and foreign government securities have different kinds of government support. For example, some U.S. government securities (e.g., U.S. Treasury bonds) are supported by the full faith and credit of the U.S. Other U.S. government securities are issued or guaranteed by federal agencies or government-chartered or -sponsored enterprises but are neither guaranteed nor insured by the U.S. government (e.g., debt securities issued by the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, and Federal Home Loan Banks). Similarly, some foreign government securities are supported by the full faith and credit of a foreign national government or political subdivision and some are not. Foreign government securities of some countries may involve varying degrees of credit risk as a result of financial or political instability in those countries or the possible inability to enforce its rights against the foreign government. As with issuers of other fixed income securities, sovereign issuers may be unable or unwilling to make timely principal or interest payments. It is possible that the availability and the marketability of the securities discussed in this section could be adversely affected by actions of the U.S. and foreign governments to tighten the availability of credit. As with other fixed income securities, U.S. government securities and foreign government securities expose their holders to market risk because their values typically change as interest rates fluctuate. For example, the value of U.S. government securities or foreign government securities may fall during times of rising interest rates.

Zero Coupon Securities. Zero coupon securities may be issued by a wide variety of corporate and governmental issuers. Zero coupon securities tend to be subject to greater market risk than interest-

paying securities of similar maturities. When an investor purchases a traditional coupon-bearing bond, it is paid periodic interest at a predetermined rate. Zero coupon securities tend to be subject to greater price fluctuations in response to changes in interest rates than are ordinary interest-paying debt securities with similar maturities. The value of zero coupon securities appreciates more during periods of declining interest rates and depreciates more during periods of rising interest rates than ordinary interest-paying debt securities with similar maturities.

Item 9 – Disciplinary Information

McDonnell is required to disclose all material facts regarding any legal, financial or disciplinary events that would be material to your evaluation of our firm or our management. McDonnell has determined to notify clients of the following pending civil class action lawsuits against the current Chief Operating Officer of McDonnell for alleged conduct involving a prior employer.

Prior to joining McDonnell in August 2010, Edward C. Wood III held several senior management positions at Van Kampen Investments and served as officer and trustee of the Van Kampen Closed-End Funds. Mr. Wood and certain other current and former trustees and executive officers of the funds and Morgan Stanley were named in August 2010 in private class action suits with respect to matters unrelated to McDonnell's business. The complaints allege breaches of fiduciary duties to common shareholders by causing the funds to redeem Auction Rate Preferred Securities ("ARPS") at their liquidation value when the secondary market valued the ARPS at a significant discount from their liquidation value, and that the redemption of ARPS occurred at the expense of the funds and their common shareholders. The suits are pending and there is no trial date set.

Item 10 – Other Financial Industry Activities and Affiliations

Certain senior executives of McDonnell have a controlling interest in Merritt Research, which is a provider of credit information related to municipal bonds. In formulating investment strategy, McDonnell utilizes many sources of information including official statements and financial and demographic statistical data provided by Merritt Research.

Dennis McDonnell, Chairman and Executive Managing Director of McDonnell, serves on the board of directors of Centru Financial Corporation and Trans Pacific Bancorp, which are banking institutions. McDonnell has procedures in place to address conflicts which may arise from Mr. McDonnell's board positions. For example, these banks may not serve as a custodian for any of McDonnell's clients, and it does not recommend their securities to clients.

McDonnell provides credit information services, which entails providing credit research support services and research reports ("credit research") to third parties, including other investment advisors. McDonnell receives fees for this credit research that vary according to the level of credit research provided and are dependent upon the level of research reports delivered. McDonnell shares all or a portion of such credit research with other persons or clients, including but not limited to, McDonnell's internal investment management personnel. McDonnell may use or provide our credit research to clients contemporaneously, or McDonnell may provide such credit research to certain clients or internal investment management personnel before or after other clients. As a result, one client may have already received credit research

before another client, which could result in that client having the opportunity to evaluate or act on such credit research before another client has received or had the opportunity to act on such information.

McDonnell is the managing member of the McDonnell International Fixed Income Fund, LLC. As such, it has the ability to control the management and operation of the fund.

McDonnell is an indirect subsidiary of NGAM, which owns, in addition to McDonnell, or is affiliated with a number of broker-dealers, banks and other asset management and distribution and service entities (each, a “related person”). As noted under Item 4, NGAM is owned by Natixis, which is principally owned by BPCE, France’s second largest banking group. BPCE is owned by banks comprising two autonomous and complementary retail banking networks consisting of the Caisse d’Epargne regional savings banks and the Banque Populaire regional cooperative banks. There are several intermediate holding companies and general partnership entities in the ownership chain between BPCE and McDonnell. In addition, NGAM’s parent companies Natixis and BPCE each own, directly or indirectly, other investment advisers and securities and financial services firms which also engage in securities transactions.

As part of a larger financial organization, McDonnell occasionally may engage in business activities with some of these related persons, subject to McDonnell’s policies and procedures governing conflicts of interest. These activities are generally limited to sub-advisory services, marketing or referral arrangements. For example, McDonnell is the sub-adviser to NGAM Advisors in regards to the portfolio management of the McDonnell Intermediate Municipal Bond Fund, a series of the Natixis Funds Trust II, a registered investment company. Moreover, McDonnell may in the future use related persons to provide certain services to clients to the extent this is permitted under applicable law and under McDonnell’s applicable policies and procedures. Given that related persons are equipped to provide a number of services and investment products to McDonnell’s clients, subject to applicable law, clients of McDonnell may engage a related person of McDonnell to provide any number of such services, including advisory, custodial or banking services, or may invest in the investment products provided or sponsored by a related person of McDonnell. The relationships described herein could give rise to potential conflicts of interest or otherwise may have an adverse effect on McDonnell’s clients. For example, when acting in a commercial capacity, related persons of McDonnell may take commercial steps in their own interests, which may be adverse to those of McDonnell’s clients.

Given the interrelationships among McDonnell and its related persons and the changing nature of McDonnell’s related persons’ businesses and affiliations, there may be other or different potential conflicts of interest that arise in the future or that are not covered by this discussion. Additional information regarding potential conflicts of interest arising from McDonnell’s relationships and activities with its related persons is provided under Item 11.

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

In connection with providing investment management and advisory services to its clients McDonnell acts independently of other affiliated investment advisers and manages the assets of each of its clients in accordance with the investment mandate selected by such clients.

Related persons of McDonnell are engaged in securities transactions. McDonnell or its related persons may invest in the same securities that McDonnell recommends for its clients. McDonnell and its related

persons (to the extent they have independent relationships with the client) may give advice to and take action with their own accounts or with other client accounts that may compete or conflict with the advice McDonnell may give to, or an investment action McDonnell may take on behalf of, the client or may involve different timing than with respect to the client. Since the trading activities of NGAM firms are not coordinated, each firm may trade the same security at about the same time, on the same or opposite side of the market, thereby possibly affecting the price, amount or other terms of the trade execution, adversely affecting some or all clients. Similarly, one or more clients of McDonnell's related persons may dilute or otherwise disadvantage the price or investment strategies of another client through their own transactions in investments. McDonnell's management on behalf of its clients may benefit McDonnell or its related persons. For example, clients may, to the extent permitted by applicable law, invest directly or indirectly in the securities of companies in which McDonnell or a related person, for itself or its clients, has an economic interest, and clients, or McDonnell or a related person on behalf of client, may engage in investment transactions which could result in other clients being relieved of obligations, or which may cause other clients to divest certain investments. The results of the investment activities of a client of McDonnell may differ significantly from the results achieved by McDonnell for other current or future clients.

Potential conflicts may be inherent in McDonnell's and its related persons' use of multiple strategies. For instance, conflicts could arise where McDonnell and its related persons invest in distinct parts of an issuer's capital structure. Moreover, one or more of McDonnell's clients may own private securities or obligations of an issuer while a client of a related person may own public securities of that same issuer. For example, McDonnell or a related person may invest in an issuer's senior debt obligations for one client and in the same issuer's junior debt obligations for another client. In certain situations, such as where the issuer is financially distressed, these interests may be adverse. McDonnell or a related person may also cause a client to purchase from, or sell assets to, an entity in which other clients may have an interest, potentially in a manner that will adversely affect such other clients. In other cases, McDonnell on behalf of its clients may receive material non-public information ("MNPI") on behalf of some of its clients, which may prevent McDonnell from buying or selling securities on behalf of other of its clients even when it would be beneficial to do so. Conversely, McDonnell may refrain from receiving MNPI on behalf of clients, even when such receipt would benefit those clients, to prevent McDonnell from being restricted from trading on behalf of its other clients. In all of these situations, McDonnell or its related persons, on behalf of itself or its clients, may take actions that are adverse to some or all of McDonnell's clients. McDonnell will seek to resolve conflicts of interest described herein on a case-by-case basis, taking into consideration the interests of the relevant clients, the circumstances that gave rise to the conflict and applicable laws. There can be no assurance that conflicts of interest will be resolved in favor of a particular client's interests. Moreover, McDonnell typically will not have the ability to influence the actions of its related persons.

In addition, certain related persons of McDonnell may engage in banking or other financial services, and in the course of conducting such business, such persons may take actions that adversely affect McDonnell's clients. For example, a related person engaged in lending may foreclose on an issuer or security in which McDonnell's clients have an interest. As noted above, McDonnell typically will not have the ability to influence the actions of its related persons.

McDonnell does not presently enter into transactions with related persons on behalf of clients.

Code of Ethics

McDonnell has policies that are designed to avoid conflicts of interest when its employees own, buy or sell securities, including non-public securities. Personal securities transactions by employees raise conflicts of interest when they trade in a security that is owned or being considered for purchase or sale by a client. McDonnell has adopted a Code of Ethics (“Code”) in accordance with Rule 204A-1 under the Advisers Act and Rule 17j-1 under the Investment Company Act, as amended (“Company Act”) which includes employee trading rules designed to detect and prevent such conflicts of interest. Employee trades which are deemed to pose a conflict with McDonnell clients must be approved in advance by McDonnell’s Compliance department. Employee trades are subject to minimum holding periods and investments in initial public offerings are prohibited. Employees must report all trades (except those trades deemed as exempt from reporting) to Compliance quarterly, and all securities holdings (except exempted securities) are certified annually to Compliance. The Code also includes provisions relating to the confidentiality of client information, a prohibition on insider trading, and reporting of gift and business entertainment. A complete copy of McDonnell’s current Code may be obtained by sending a written request to: McDonnell Investment Management, Attention: Compliance Officer, 1515 W. 22nd Street, 11th Floor, Oak Brook, IL, 60523.

McDonnell may buy or sell securities or other instruments for its own account that it has recommended to clients. McDonnell or its employees also maintain investments in pooled and structured vehicles it manages. Moreover, consistent with clients’ investment objectives, McDonnell may recommend to clients the purchase or sale of securities in which it, or its employees have a financial interest. These transactions are subject to the Code’s procedures regarding personal securities trading described above. The Code is designed to assure that the personal securities transactions, activities and interests of the employees of McDonnell will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing client trading while, at the same time, allowing employees to invest for their own accounts. Under the Code, certain classes of securities have been designated as exempt transactions, based upon a determination that these would not materially interfere with the best interest of McDonnell’s clients. U.S. Government securities, bank certificates of deposit, and open-end mutual funds (not managed by McDonnell) are examples of exempted securities. Transactions in exchange traded funds, closed-end funds, and unit investment trusts are not required to be precleared. Trades in equity securities with a market capitalization of greater than \$5 billion also are not required to be approved in advance. In addition, the Code contains a “black-out period” that restricts trading in close proximity to client trading activity. Nonetheless, because the Code in some circumstances would permit employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is continually monitored using a web based employee personal trading application through automated and manual preclearance processes, employee certifications and exception reporting. This software application assists McDonnell to reasonably prevent conflicts of interest between McDonnell and its clients.

Participation or Interest in Client Transactions

It is McDonnell’s policy that the firm will not effect any principal or agency cross securities transactions for client accounts. McDonnell also will not cross trades between client accounts. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. An agency cross transaction is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side

of the transaction. Agency cross transactions may arise where an adviser is dually registered as a broker-dealer or has an affiliated broker-dealer

All of the transactions described above involve the potential for conflict of interest between McDonnell (or its employees) and its clients. The Advisers Act and the Company Act impose certain requirements designed to mitigate the possibility of conflicts of interest between an investment adviser and its clients. In some cases, transactions may be permitted subject to fulfillment of certain conditions. Certain other transactions may be prohibited. McDonnell has instituted policies and procedures designed to prevent conflicts of interest from arising and, when they do arise, to ensure that it effects transactions for clients in a manner that is consistent with McDonnell's fiduciary duty to its clients and in accordance with applicable law. McDonnell seeks to ensure that potential or actual conflicts of interest are appropriately resolved taking into consideration the overriding best interest of the client.

McDonnell has organized or advised, and may organize or advise in the future, investment vehicles that invest in similar or different investments. As noted in Item 10, clients may be solicited to invest in McDonnell's private funds for which McDonnell serves or may serve as the general partner or managing member or employees of McDonnell may hold positions of influence such as serving on the board of directors.

Item 12 – Brokerage Practices

General Considerations – Selecting / Recommending Dealers for Client Transactions

In selecting dealers for client transactions, McDonnell's policy, consistent with investment considerations, is to seek the most favorable price and execution (or "best execution") for brokerage orders. Best execution is generally understood to be a combination of most favorable net price under the circumstances and prompt, reliable execution. When selecting a brokerage firm, McDonnell may consider a number of factors, including but not limited to: the nature of the security being traded; the size and type of the transaction; the nature and character of the market for the security; the desired timing of the trade; the activity existing and expected in the market for the particular security; confidentiality, including trade anonymity; the quality of the execution, clearance and settlement services; financial stability of the broker-dealer, and the broker-dealer's execution capabilities, including block positioning, and ability to obtain best price and execution. Spread or commission equivalents on all brokerage transactions are subject to negotiation, except in markets which have fixed commission rates or in the case of fixed price offerings. Negotiated markups and markdowns take into account the difficulty involved in execution, the time taken to conclude the transaction, the extent of the broker-dealer's commitment, if any, of its own capital and the amount involved in the transaction. On relatively small trades, spreads can be a major factor in achieving most favorable price and execution. McDonnell compares the spreads which an executing broker-dealer is offering to the spreads offered by the other brokerage firms which could provide similar services. Broker-dealers may be paid an above-average commission equivalent for superior or difficult execution or for relatively small trades. For relatively large trades, commission rates or markups and markdowns (or "commission equivalents") are not usually a major factor in achieving most favorable price and execution.

Research and Other Soft Dollar Benefits

McDonnell considers the research capabilities of various brokerage firms through which it may invest consistent with the policy of seeking the most favorable net price and execution. These may include the

reputation and standing of their analysts and their investment strategies, timing and accuracy of statistical information and idea generation. These supplemental research and statistical services generally consist of research reports or oral advice regarding particular companies, industries or general economic conditions.

McDonnell primarily transacts in fixed income securities and does not typically transact in equities to generate commissions or commission equivalents. If McDonnell generates commissions or commission equivalents for equity transactions it would be done in accordance with Section 28(e) of the Securities Exchange Act of 1934 and McDonnell may pay higher commissions or commission equivalents to brokerage firms that provide it with investment and research information than to firms that do not provide such services if McDonnell determines in good faith that such commissions are reasonable in relation to the overall services provided in terms of the particular transaction or in terms of McDonnell's overall responsibilities with respect to the accounts for which it exercises investment discretion. To the extent McDonnell uses client brokerage commissions or commission equivalents to obtain investment and research information without having to pay for it, McDonnell has an incentive to use brokers who agree to provide such investment and research services.

As stated above, McDonnell primarily transacts in fixed income securities on a principal basis. If McDonnell were to effect transactions with broker-dealers which pay for research services provided by third parties in accordance with Section 28(e) of the Exchange Act, such transactions would only include equity and fixed-income transactions effected on an agency or riskless principal basis. Section 28(e) permits an investment adviser, under certain circumstances, to cause an account to pay a commission to a broker-dealer who supplies brokerage and research services in excess of the amount of commission another broker-dealer would have charged for effecting the transaction. Brokerage and research services include: (a) furnishing advice as to the value of the securities, the advisability of investing, purchasing or selling securities, and the availability of securities or purchasers or sellers of securities, (b) furnishing analyses and reports concerning issues, industries, securities, economic factors and trends, portfolio strategy, and the performance of accounts not used for marketing purposes, and (c) effecting securities transactions and performing functions incidental thereto (such as clearance, settlement and custody).

McDonnell does obtain brokerage and research services that include computer software for an Electronic Communications Network ("ECN") that permits McDonnell to utilize an internet based multi-dealer trading platform and proprietary portfolio and benchmark analytical software from one or more of the dealers with whom it executes trades. McDonnell pays fees for this service to the ECN but may receive rebates or reduction in fees based upon the volume transacted through the ECN. These rebates or fee reductions represent a benefit to McDonnell and create a conflict of interest because there may be an incentive to utilize the ECN based on McDonnell's interest in receiving the research services rather than on receiving most favorable trade execution for its clients.

McDonnell executes securities transactions with multiple executing dealers who provide the firm with access to proprietary research reports (such as standard investment research). To the best of our knowledge, these and other products and services are generally made available to all institutional investors doing business with such dealers. These bundled services are made available to McDonnell on an unsolicited basis and without regard to the rates of commissions charged or paid, or the volume of business McDonnell directs to such dealers. McDonnell does not separately compensate such dealers for the provision of such services.

It is possible that McDonnell could receive products or services which are used for both research and other purposes, such as for administration or marketing. In such cases McDonnell will make a good faith effort to determine the relative proportions of such products or services which may be attributed to

research. The portion attributable to research may be paid through client brokerage commissions and the non-research portion will be paid in cash by McDonnell.

Research services provided by broker-dealers through whom McDonnell effects transactions for a particular account may be used by McDonnell in servicing its other accounts and not all such services may be used for the benefit of the client who pays the brokerage commission which results in the receipt of such research services. Commission or commission equivalents paid to broker-dealers providing research services may be higher than those charged by brokers not providing such services. McDonnell has established a Trade Management Committee which consists of one or more representatives from each of the following areas: Executive Management, Portfolio Management and Trading, Research and Legal/Compliance. The Trade Management Committee meets periodically to review brokerage allocation activity of the firm among dealers and across product sectors, approve new broker-dealers, review best execution reports and to approve any new arrangements for soft dollar research and brokerage service provided by brokers. This committee serves as the focal point in managing McDonnell's brokerage allocation practices so as to ensure that those practices comply with applicable law and McDonnell's policies and procedures.

Client Directed Brokerage

Clients for whom McDonnell manages separate accounts occasionally direct a portion of commissions/spreads from their accounts for research and services pertaining specifically to their accounts. As with all directed brokerage transactions, McDonnell may not be able to freely negotiate spreads or select brokers on the basis of best price and execution for such transactions. In addition, transactions directed in this manner may result in clients foregoing any benefit from savings on execution costs McDonnell may obtain for its other clients through, for example, negotiating volume discounts on batched orders. As a result, such clients may have to pay higher spreads or receive less favorable prices than would be the case if McDonnell were authorized to choose the broker through which to execute transactions for the client's account.

A client who designates the use of a particular broker/dealer should consider whether, under that designation, spreads or commission equivalents, execution, clearance and settlement capabilities will be comparable to those otherwise obtainable by McDonnell. A client who designates use of a particular broker-dealer should understand that it may lose the possible advantage which non-designating clients derive from aggregation of orders for several clients as a single transaction for the purchase or sale of a particular security. Client-designated orders may be executed either before or after other non-designated orders. When trades are executed based on the needs of an individual client, block trading is not possible. For example, terminating accounts or liquidations due to timing issues for clients who have an immediate need for cash or reallocation, may result in less beneficial "odd lot" levels of price execution in liquidating positions.

Unsupervised Assets

Under certain circumstances clients may request that their client account include assets as to which the client has limited McDonnell's discretionary authority even though McDonnell has discretion over other portions of the account. Such assets are commonly referred to as "Unsupervised Assets." Clients agree that McDonnell will have no fiduciary obligation as to, or discretion over, Unsupervised Assets. McDonnell will agree to include Unsupervised Assets together with supervised assets only as an accommodation to the client, but McDonnell has the right to reject doing so. In particular, clients should expect that McDonnell will not provide investment advice as to those assets, vote proxies solicited with respect to those assets, process class actions, or advise as to, or effect, corporate action decisions with

regard to such assets. Unsupervised Assets may, or may not, be included in an account's market value used for calculating management fees depending on the fee arrangement in the governing contract.

Trade Rotation

McDonnell does not employ a formal trade rotation process. Instead it utilizes its proprietary PORTS system for implementing trades which is designed to integrate risk management, analytics and compliance with an efficient allocation process so that multiple objectives can be achieved for clients. Risk analysis is performed across accounts categorized by investment objective and risk profile. Risk analysis includes an assessment of the following measures: duration target, sector weightings, yield curve posture and security selection. These risk measures are assessed relative to the portfolio targets and the client's guidelines and objectives.

Trade Aggregation and Allocation

Investment decisions for each client account generally are completed independently. However, McDonnell may purchase or sell the same securities for a number of client accounts simultaneously. When deemed to be in the best interests of clients, orders for the same security are combined or "batched" to facilitate best execution and reduce brokerage commissions or other trading costs. Each client that participates in a batched transaction will participate at the average price for those securities purchased for that batched order. For securities that trade in liquid markets (e.g., U.S. Government or Agency securities), orders may not be batched in situations where speed of execution is important and sufficient quantities exist such that execution quality is not likely to be impacted.

When effecting batched transactions, McDonnell follows procedures that are designed to ensure that trades are allocated to eligible client accounts in a fair and equitable manner designed to ensure that, over time, no participating client is favored over any other client. To ensure consistency among similar portfolios, client portfolios which are different from strategy or benchmark targets are given priority in receiving allocations. Allocation priority may vary by type of transaction, however portfolio managers considerations may include, but are not limited to: duration, cash, sector, curve position, state and credit rating. Considerations may include block size relative to portfolio size, impact of the purchase relative to achieving the desired portfolio characteristics, and client specific guidelines and objectives. If McDonnell is unable to fully execute a batched transaction, partial fills are typically allocated according to the priority indicated prior to the order being filled. Otherwise, the order shall be allocated proportionately, or pro-rata, to the participating client accounts in proportion to the size of the order placed for each account. McDonnell may, however, depending on the underlying investments, increase or decrease the amount of securities allocated to each account, by applying various de minimis standards in order to avoid holding odd-lot or small numbers of securities for particular clients. Other considerations may include but not limited to:

- the assets of such accounts
- the respective size of such accounts
- the amount of securities proposed to be purchased or sold in the accounts
- diversification within the respective accounts
- the investment objectives of the accounts (including portfolio duration targets, sector allocation and structure relevant to client benchmarks)
- liquidity and cash available for investment in each account, and
- the availability of alternative securities which otherwise accomplish the investment objectives of the accounts

In situations where purchases of securities in an underwritten public offering (“fixed income new issues”) are considered at the same time for two or more clients, the transactions in such securities will be allocated among the clients in the manner described above that is deemed to be fair and equitable by McDonnell. The exact allocation procedures utilized may vary depending on the type and nature of the securities being allocated and the accounts involved in such allocations.

Cross Transactions

McDonnell does not effect "cross" transactions between client accounts in which one client will purchase securities held by another client.

Investment of New Accounts

For new institutional or SMA accounts, McDonnell generally allows up to eight weeks for full implementation of a taxable or national municipal portfolio, and up to twelve weeks for a state specific portfolio, depending upon the size, investment guidelines and restrictions of the account. Primary factors in determining how to allocate securities to new accounts includes their cash balance, absolute and relative portfolio risk profile including duration and sector weight targets. Therefore, new accounts may receive a higher priority during allocations of new issue securities (depending on new issues activity) due to their cash balance, duration and sector targets.

Trade Errors

McDonnell has adopted a trade error policy designed to ensure that any errors caused by the firm are resolved in the best interests of the client in a timely manner. Also, in its role as manager in certain SMA programs or sub-adviser to mutual funds, McDonnell may also be subject to trade error policies implemented by the various sponsors of such programs or fund advisers, respectively.

Delegation and Use of Agents

McDonnell may, at its own discretion, employ agents to perform any administrative or ancillary services required to enable it to perform its services hereunder without further notification to or consent of client, provided that any such delegation shall be revocable by McDonnell. We will act in good faith and with due diligence in the selection, use and monitoring of such agents. McDonnell shall remain responsible for its obligations hereunder and for all actions of any such agents to the same extent as McDonnell is liable for its own actions hereunder.

Execution Practices for Legacy Securities

McDonnell reserves the right to establish policies that limit acceptance of a client's previously acquired securities (“legacy” positions or securities) for account funding or contribution purposes. Where accepted, McDonnell generally evaluates legacy positions and may sell all or a portion of such securities to the extent that such securities would not be included in McDonnell's normal portfolio holdings for such account (unless such securities are subject to another express arrangement). Depending on the size and characteristics of the legacy position and the then-prevailing markets and other factors, the client may receive a sale price that is less favorable than if the transaction involved a more marketable or liquid position.

For SMA Accounts, McDonnell may determine the timing and manner of disposition of legacy securities used to fund new SMA Accounts, or contributed to existing SMA Accounts, that are incompatible with McDonnell's long-term investment view. McDonnell may sell all or a portion of such securities

immediately, or may sell certain such legacy securities immediately (e.g., that are below certain quality thresholds or maturity requirements) and sell other such legacy securities more gradually and/or opportunistically over the invest-up or other period. McDonnell may, subject to program limitations, direct the execution of sale transactions through the relevant broker-dealer/custodian designated by the client's managed account program as a matter of course in the interest of speed and efficiency, or utilize McDonnell's own trading desk. As a result of the specific security characteristics and legacy nature of the securities and lot sizes that may be applicable to these types of sale transactions, and the general unavailability of the full range of trading techniques including aggregation, the prices received in these transactions may be less favorable than the prices that could be attained for sales of securities selected by McDonnell as part of ongoing management.

Execution Practices for the Termination of Accounts / Raise Cash Requests

Clients who terminate their accounts may retain the securities in their account or instruct McDonnell to sell the portfolio securities. When following termination and liquidation instructions, McDonnell may, subject to program limitations, direct the execution of sale transactions through the relevant broker-dealer/custodian designated by the client's managed account program as a matter of course in the interest of speed and efficiency, or utilize its trading desk. The same practices apply to client requests to sell securities to raise cash. As a result of time constraints and lot sizes that may be applicable to these types of sale transactions, and the general unavailability of the full range of trading techniques including aggregation, the prices received in these transactions may be less favorable than the prices that could be attained for sales of securities by McDonnell as part of ongoing management.

Item 13 – Review of Accounts

Client accounts and strategies are reviewed by the portfolio management team as frequently as daily. The portfolio management team utilizes a risk based review process to ensure that all client accounts are in line with their respective strategy. The process entails identifying key absolute and relative risk elements. Tolerable ranges are established around those elements. Client accounts that fall outside of those tolerances are reviewed and properly re-balanced. In addition, regular reviews of compliance with investment guidelines are conducted. McDonnell employs numerous electronic systems including PORTS, BondEdge, Perform, Creditscope, and Bloomberg to monitor portfolio risk characteristics, guidelines, and performance. Key risk characteristics include but are not limited to cash, duration, sector and state weightings, maturity distribution, and credit quality. In addition, the credit research team is actively engaged in the credit analysis surveillance process to monitor asset holdings of clients.

Clients typically receive (unless the client is a mutual fund, private fund, SMA client or otherwise decline the reporting service) a quarterly written statement showing all investments of the account (other than cash balances and cash equivalents held by the Custodian) and their market values as of the close of business on the last business day of each quarter together with a written statement of the transactions in the account during the quarter. Depending on the information requested by the client, these reports may also contain the following information: realized and unrealized gains or losses, interest income, and market overview.

Clients have the option to decline reporting or direct that reports are delivered to their financial advisor or consultant. SMA clients are provided with reports from the SMA program sponsor in lieu of reports from McDonnell.

Private fund investors will receive a quarterly statement from McDonnell. Private fund investors will also receive audited financial statements within 120 days of the fund's fiscal year-end.

Item 14 – Client Referrals and Other Compensation

From time to time, McDonnell enters into written agreements with affiliated parties (including NGAM or its related persons) or unaffiliated parties for their assistance in referring business to McDonnell. McDonnell may pay cash compensation to these solicitors based on a retainer and/or a percentage of the management fee associated with any new business secured by the solicitor.

Payment of referral fees for prospective client referrals creates a potential conflict of interest to the extent that such a referral is not unbiased and the solicitor is motivated by financial gain and therefore, such a referral could potentially be made even if McDonnell's advisory services are not suitable to a particular client's needs. As these situations represent a conflict of interest, McDonnell has established the following restrictions in order to ensure its fiduciary responsibilities:

- all such referral fees are paid in accordance with the requirements of Rule 206(4)-3 of the Advisers Act, and any corresponding state securities law requirements;
- any such referral fee will be paid solely from McDonnell's investment management fee, and will not result in any additional charge to the client;
- if the client is introduced to McDonnell by an unaffiliated solicitor, the solicitor will provide each prospective client with a copy of McDonnell's Form ADV Part 2 brochure, together with a written disclosure statement disclosing the terms of the solicitation arrangement between McDonnell and the solicitor, including the compensation to be received by the solicitor from McDonnell; and
- all referred clients will be carefully screened to ensure that McDonnell's fees, services, and investment strategies are suitable to their investment needs and objectives.

Item 15 – Custody

Separate Accounts and SMA Clients

Although McDonnell may be deemed to have custody of client assets solely because it invoices custodians directly for advisory fees related to some client accounts, McDonnell does not act as custodian or maintain physical possession of client funds and securities. Instead the client selects a custodian for its account and provides McDonnell the identity of the custodian and other information necessary to facilitate operation of the account. All client funds and securities are held by a qualified custodian, as defined under Rule 206(4)-2 under the Advisers Act. A formal custody agreement governs the relationship between each client and the custodian. The custodian is responsible for the safekeeping of all assets of the client.

Separate account clients may receive a statement from the custodian as well as from McDonnell. Clients are urged to compare the statements for accuracy. McDonnell's statements may vary from custodial

statements because of differences in accounting procedures, reporting dates, or valuation methodologies of certain securities.

Private Fund

McDonnell may be deemed to have custody of McDonnell International Fixed Income Fund, LLC's (the "Fund") assets, due to its control, as managing member, of disbursement authority over the Fund's accounts. McDonnell, however, does not have actual custody of the Fund's assets. All assets of the Fund are held by a qualified custodian, as defined under Rule 206(4)-2 under the Advisers Act, designated by McDonnell. In addition, the Fund is subject to an annual audit that is provided to investors within 120 days after the Fund's fiscal year end.

Item 16 – Investment Discretion

McDonnell accepts discretionary authority to supervise and direct investments for and on behalf of its client accounts. McDonnell assumes this authority through the execution of an investment advisory agreement with the client which explains the nature of McDonnell's authority to buy and sell investments in the account subject to the terms of written investment policies and guidelines established by the client.

McDonnell has discretion to establish, maintain and deal through accounts with one or more brokerage firms that it selects unless a client limits this authority by requiring that all or a portion of the client's transactions be executed through a broker/dealer. This type of limitation, called *Directed Brokerage*, is discussed further in Item 12 – "Brokerage Practices."

Other limitations on McDonnell's authority vary depending upon an individual client's investment policies and guidelines. For example, a client may limit McDonnell's authority by prohibiting or limiting the purchase of certain security types or industry sectors. In some cases, the client may direct McDonnell to hold securities transferred by the client upon the commencement of the account relationship even though they may not be in compliance with the client's investment policy.

For new institutional or SMA accounts, McDonnell generally allows up to eight weeks for full implementation of a taxable or national municipal portfolio, and up to twelve weeks for a state specific portfolio, depending upon the size, investment guidelines and restrictions of the account.

Item 17 – Voting Client Securities

McDonnell, as a matter of policy and as a fiduciary to its clients, recognizes that it is responsible for voting proxies for all client securities for which it has been granted authority in a manner that is consistent with the client's best economic interests and without regard to any benefit to the McDonnell.

McDonnell is primarily a fixed income manager and, accordingly, does not as a practical matter exercise discretion over proxy voting for fixed income securities as proxy solicitations do not occur. For those separate accounts that McDonnell manages that include securities for which proxy voting is applicable, McDonnell seeks to delegate the responsibility for proxy voting to the client and, with respect to accounts subject to ERISA, to ensure that the responsibility for proxy voting has been delegated by the client to another qualified plan fiduciary. However, while McDonnell does not typically vote proxies for its clients, it has adopted this proxy voting policy in advance of possibly finding itself in such a position in the future.

Examples of ways that McDonnell could become responsible for voting securities include: receiving equity securities as part of a workout of an issuer whose bonds are owned by a client; inheriting *legacy* securities from a client; purposely buying the equity securities of a distressed bond issuer in order to salvage value for clients who hold the bonds. For clients for whom McDonnell does not vote proxies, the relevant custodian banks or brokers are instructed to mail proxy material directly to clients. As mentioned previously, McDonnell declines to take responsibility for voting client proxies except where it is specifically authorized and agrees to do so in its advisory contracts or comparable documents with clients.

McDonnell has adopted proxy voting guidelines that are designed to provide guidance with respect to certain types of voting proposals that may arise. The guidelines have been developed in part on the belief that the quality of management is critical to the investment success of any portfolio company. Hence, McDonnell tends to vote most routine matters in accordance with management recommendations, provided there is no conflict with shareholder value. At the same time, when McDonnell believes that the position of the management of a portfolio company is not in the best interests of shareholders, it will vote against management's recommendation.

In instances where a potential conflict of interest exists, McDonnell will provide the client with sufficient information regarding the shareholder vote and the potential conflict so that the client can make an informed decision regarding whether or not to consent.

A complete copy of the current Proxy Voting Policies, Procedures and Guidelines may be obtained by sending a written request to McDonnell Investment Management, Attention: Proxy Administration, 1515 W. 22nd Street, 11th Floor, Oak Brook, IL 60523.

Item 18 – Financial Information

There are no financial conditions that are likely to impair McDonnell's ability to meet its contractual commitments to clients. McDonnell is not otherwise required to provide financial information about its financial position.