

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

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This brochure provides information about the qualification and business practices of Amundi Smith Breeden LLC ("Amundi Smith Breeden"). If you have any questions about the contents of this brochure, please contact us at 919-967-7221. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC"), or by any state securities authority.

Additional information about us is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)

We are an investment adviser that is registered with the SEC. However, registration with the SEC does not imply a certain level of skill or training.

## **Item 2 – Material Changes**

The date of the last annual update of our brochure was April 1, 2013. The material changes we have made since this last annual update are: (1) we updated our principal owner information, (2) we updated portfolio manager compensation regarding “phantom equity”, (3) we updated that certain of our employees are now registered representatives of a broker-dealer, Amundi Distributors, (4) we updated the description of our Code of Ethics, and (5) we updated the referrals and solicitation agreements section.

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#### **Item 4 – Advisory Business**

**General Description:** We have been in business since 1982. Our initial activities focused on interest rate risk analysis and investment advisory services for financial institutions and later evolved into fixed income portfolio investment management for institutional investors.

We generally manage assets for institutional clients, including corporate and public pension plans, central and supranational banks, insurance companies, banks, registered investment companies, unregistered investment funds, state government entities, endowments and foundations. Our key business line is investment management for institutional investors.

**Principal Owners:** Amundi Smith Breeden is wholly owned by Amundi USA, Inc. Amundi USA, Inc. is wholly owned by Amundi S.A. which is wholly owned by Amundi Group. Amundi Group is approximately 75% owned by Crédit Agricole S.A., 22% by Societe Generale and 3% by ETG Holding.

**Types of Advisory Services and Areas of Specialization:** We invest our clients' assets primarily in fixed income securities such as mortgage-backed securities, asset-backed securities, corporate bonds, and U.S. and non-U.S. government bonds, as well as futures, options and other derivatives. Currently, we offer investment strategies that invest primarily in fixed income securities. We offer a variety of investment strategies designed to meet the needs of institutional investors. Individual strategies may be managed relative to a broad market benchmark such as the Barclays U.S. Aggregate Bond Index, a sector benchmark such as the Barclays U.S. Mortgage-Backed Securities Index, or a short duration benchmark such as LIBOR. We also manage absolute return strategies. We provide both discretionary and non-discretionary investment advisory services.

In addition, we provide rate risk analysis services to financial institutions, in which we provide a report of interest rate risk in the client's balance sheet. We also provide consulting services for distressed mortgage portfolios, as well as other special consulting projects.

**Tailored Services:** Each separate account client tailors its own investment guidelines to achieve its particular investment goals.

Separate account clients may impose limitations or restrictions, such as limiting or restricting the type of securities to be purchased, the percentage of a particular asset to be held in the portfolio, the amount of leverage to be used, and the brokers to be used. Limiting the brokers we may use may mean that the client will not get the most favorable price available for a particular transaction.

Investors in funds that we manage are not able to tailor fund guidelines or impose restrictions on the fund investing in certain securities or types of securities.

**Wrap Programs: NOT APPLICABLE**

**Assets Under Management:** We manage both discretionary and non-discretionary assets. Our total assets under management as of September 30, 2013 were \$6,398,495,474, which were solely comprised of assets managed on a discretionary basis.

**Item 5 - Fees and Compensation**

**Compensation for Advisory Services:** We are typically compensated for our advisory services through an asset-based fee or a combination of an asset-based fee and performance-based fee. We do not have a set fee schedule. Fees may be negotiated.

**Method of Payment:** We do not deduct fees from clients' assets, nor do we offer clients the option of having us deduct fees from their assets. For the sponsored funds, we have the authority to direct the fund administrator to pay us. For most discretionary separate accounts and funds, we send invoices for fees incurred in arrears, typically on a quarterly basis, although certain clients are invoiced on a monthly basis. Certain discretionary separate account clients calculate their own fees and pay those in arrears on either a quarterly or monthly basis. For non-discretionary separate accounts, we would typically send invoices each month prior to the end of the month, but payment would not be due until after the end of the month. For consulting projects, we typically bill on a fixed-fee basis and fees may be billed in advance or in arrears. For purposes of calculating fees, assets in any form in the client's account are considered, including cash balances and money market assets.

**Other Fees and Expenses:** Each client will incur and is responsible for paying its share of any brokerage or other transaction costs related to the trading of its account. Our brokerage practices are described in Item 12 below. We do not provide custodial services, nor do we charge any client for custodial services. For separate accounts, the client retains its own custodian and pays those custodial fees separately. Funds have their own expenses, such as administration, custody, and legal expenses, that are borne by the fund (and therefore are indirectly borne by each investor in the fund). These expenses are described in each fund's offering document.

**Pre-Payment of Fees:** We do not require that discretionary separate accounts, non-discretionary separate accounts or funds pre-pay fees. For consulting projects, we may require pre-payment of fees. Currently none of our separate accounts or funds pre-pay fees. If an arrangement with a client provides that the

client pre-pay its fees, the client agreement will typically describe how the client may obtain a refund of its pre-paid fee if the contract is terminated before the end of the billing period. It will typically also describe the method for determining the amount of the refund.

**No Compensation for Sale of Securities:** Neither we nor any of our supervised persons accept compensation for the sale of securities or other investment products, such as asset-based sales charges or service fees from the sale of mutual funds.

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

**Performance-Based Fees:** We manage accounts for which we receive performance-based fees as well as accounts for which we receive asset-based fees. For certain services, we may charge line item fees, a fixed-fee or an hourly rate.

**Potential Conflicts of Interest Arising from Side-by-Side Management:** Managing accounts with performance-based fees and asset-based or other types of fees at the same time presents potential conflicts of interest for us and our portfolio managers who manage these accounts. These conflicts include the potential for us or an individual portfolio manager to:

- favor an account that pays a performance-based fee over an account that pays an asset-based or other type of fee when allocating trades and trade opportunities; and
- take more risks for accounts paying a performance-based fee in an attempt to achieve higher returns and therefore increase the performance-based fee paid by the client.

**Addressing Potential Conflicts of Interest Arising from Side-by-Side Management:** To help mitigate the risk that we or a portfolio manager will favor a performance-based fee account over an account with an asset-based or other type of fee, we have adopted a Trade Allocation Policy.

The Trade Allocation policy establishes guidelines for allocating investment opportunities in a manner so as not to consciously or consistently favor or disfavor a client or class of clients over time and for allocating investment opportunities on a fair and equitable basis over time, to the extent practical.

Trading opportunities are allocated considering various factors, including:

- the relative investment objectives of, and investment limitations imposed upon, the particular accounts;
- the availability of funds for investment in the particular accounts;



- the investment composition of each of the accounts and the composition of the accounts' benchmarks;
- the relationship between the size of the block to be allocated and the cost of trading or restriction against trading such block size;
- the portfolio manager's tactics for achieving the investment objectives of the particular accounts; and
- in the case of a sale, the relative holdings of the asset to be sold and the amount of the sale order filled.

Generally speaking, these considerations being equal, trading opportunities are allocated based on the relative gross assets of the accounts.

Orders for the same security entered on behalf of more than one account will generally be aggregated subject to the aggregation being in the best interests of all participating accounts.

For futures and options, if we receive fewer contracts than requested, all at the same price, the contracts will be allocated to eligible accounts on a proportional basis based on the total number of contracts Amundi Smith Breeden wants to trade for each account. If different prices are received, an average price may be determined and Amundi Smith Breeden may allocate the order to each account based on the average price.

For other instruments, if we are not able to receive one price for an order large enough to satisfy all participants at the same price, additional prices may be sought until all eligible accounts are able to participate in the transaction. The final orders will be allocated to each account pro-rata to adhere as closely as possible to an average price determined from the weighted average of all orders. Under normal market conditions the time period to fill all accounts will not span longer than one trading day.

We may also use allocation credits. The need for allocation credits may arise when demand for a security outstrips the purchase size. When the amount of the security to be purchased is relatively small, precise pro-rata allocations often result in accounts receiving allocation amounts smaller than the DTCC minimum trade amount or minimum trade amount preferred by the portfolio manager. An account that would have received a pro-rata allocation below the targeted trade size may receive an allocation credit instead of the amount it would have received in a pro-rata allocation. At the discretion of the portfolio manager, accounts that accumulate credits may receive an allocation of the next similar purchase if the next similar purchase is in line with portfolio guidelines and portfolio strategy.

We test compliance with our Trade Allocation Policy on a quarterly basis. Our Compliance Department reviews a random sample of allocated trades to confirm that allocations are consistent with this policy. In addition, our Compliance

Department reviews the dispersion of returns by investment strategy to help identify patterns that might suggest that a client or class of clients is being consciously or consistently favored or disfavored over time. Our Composite Committee also reviews performance dispersion in its regular meetings. Our Director of the Investment Management Group reviews the account performance and daily trade activity for all accounts. Our Chief Investment Officer reviews the performance for all accounts and the daily trade activity of the Director of the Investment Management Group.

The reviews of performance dispersion also serve to test whether accounts with similar objectives are managed with similar risks. In addition, our Chief Risk Officer sets risk budgets for each account and monitors compliance with those risk limits and reviews daily performance. The daily reviews of account performance and trade activity by our Chief Investment Officer and Director of the Investment Management Group also serve to monitor the level of risk taken in accounts with similar objectives.

Portfolio manager compensation practices present another potential conflict of interest with side-by-side management. The factors we use in evaluating a portfolio manager's compensation include:

- risk-adjusted investment performance for all accounts managed by the portfolio manager relative to benchmarks and peers;
- overall contributions to investment ideas;
- proportion of total firm assets managed by the portfolio manager and revenue attributable to these accounts;
- client service;
- contribution to marketing efforts; and
- operational efficiency.

In general, a portfolio manager's compensation will be higher when the specific accounts managed by that portfolio manager do well. However, while we do consider portfolio returns and metrics we do not use formulas to set compensation. In evaluating portfolio manager compensation we try to treat all types of client accounts and all types of products similarly. We consider the totality of the portfolio manager's performance in awarding compensation, and we base compensation on both short-term and long-term successes. We also compensate senior employees with equity-like grants, which have multi-year vesting periods. This "phantom equity", whose value is a function of the company's revenues and profits, will generally be worth more when the firm is successful and is providing superior results to its clients. We believe that this equity provides appropriate incentives to act in the long term interests of the firm and its clients.

Our approach is intended to help align the interests of our clients with our employees. We are, however, aware of potential conflicts of interest associated

with portfolio manager compensation, and therefore monitor compliance with our Trade Allocation Policy as described above.

An additional conflict of interest presented by both performance-based fee arrangements and asset-based fee arrangements involves the pricing of securities held in client accounts and funds. Higher values for securities held in client accounts and funds will result in larger performance-based fees and asset-based fees paid by clients.

Our fees, however, are typically based on the client's third party custodian or administrator's pricing of securities held in the account, not on our pricing. Each of our sponsored funds hires a fund administrator and the fund administrator prices the securities held by the fund based on a price source matrix that we provide.

We address the potential conflict regarding valuation through our Securities Pricing Policy, which sets forth the overall guidelines and procedures used to price securities held in client accounts. We use pricing information from qualified third-party pricing vendors to price the securities in client accounts. We subscribe to multiple third-party pricing vendors. The list of vendor sources used for each security type and the hierarchy of rules governing their use are outlined in our Price Source Rules Matrix. Vendors are chosen based on factors such as the overall quality and reliability of the vendor's pricing data, the level of overall coverage provided for the given security type, and the level of usage by client custodians and fund administrators.

In the rare case when a third party price indication is not available for a security or if we determine that available third party price indications are materially incorrect, the security may be valued at fair value using methods determined by us in good faith.

While we perform reconciliations at least monthly with each client's custodian or fund administrator, their prices will not always match our internal price for the same security. For our own internal pricing, we use the same price for a given security across all portfolios in which the security is held.

There are a number of possible reasons for discrepancies between our security prices and the prices used by fund administrators or client custodians. Clients and fund investors should not expect our internal prices to always match those of the fund administrator or custodian.

We act as investment manager for numerous client accounts and funds. We may give advice and take action with respect to certain of our client accounts or funds that differs from advice or action taken on behalf of other client accounts or funds.

## **Item 7 - Types of Clients**

**Types of Clients:** We generally manage assets for institutional investors, including corporate and public pension plans, central and supranational banks, insurance companies, banks, registered investment companies, unregistered investment funds, state government entities, endowments and foundations.

**Account Minimums:** With respect to discretionary separate accounts, \$20 million is the typical account minimum for most investment strategies. If we sponsor a fund that employs a strategy similar to the strategy a client is seeking, we typically require \$50 million as the separate account minimum. However, in discussions with a client, we may raise or lower our account minimums depending on the total current or potential relationship with a client, available resources within the firm, the type of strategy, market conditions or other factors which may affect our decision to manage the account.

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

**Investing in any security or investment strategy involves the risk of loss and each client should be prepared to bear that loss. There can be no assurance that the investment objective of a separate account or fund that we manage will be achieved or that our strategies will be successful. Investors must be prepared to lose all or substantially all of their investment.**

**Description of the Methods of Analysis and Investment Strategies We Use in Formulating Investment Advice or Managing Assets:** Our portfolio strategists formulate the top-down portfolio strategy, considering internal and external analyses of economics, yield curve, and sector allocation, as well as analysis of investment opportunities within market sectors, such as mortgage and consumer securitized credit, corporate credit, and U.S. and non-U.S. sovereigns. When appropriate, we use a portfolio optimization model that examines sector risk and return net of macro-factor exposures to inform certain asset allocation decisions. Our portfolio strategists communicate the broad positioning and characteristics to the portfolio management team for each respective strategy. Individual portfolio managers are responsible for the actual portfolio construction of each client's portfolio, striving to ensure that, given the individual client's return and risk parameters and guideline constraints, the portfolio appropriately reflects the market valuation and investment themes recommended by the firm's strategists.

Our investment strategies emphasize bottom-up security selection. Our research group produces a daily report, the Daily Market Analysis ("DMA"), which serves as a proprietary resource for our portfolio managers in the selection of individual securities. The DMA is a detailed relative value analysis of the most actively traded fixed income securities based on closing levels from the previous day. This analysis highlights the market sectors offering the most attractive returns

based on the firm's research and proprietary models. During the trading day, the portfolio managers access our pricing models for detailed analyses based on current market prices of individual investment opportunities. The primary determinant of relative value is the risk-adjusted spread to Treasury or LIBOR. The portfolio manager's goal is to select securities offering attractive risk-adjusted yield spreads and to build a portfolio that incorporates the themes developed by the investment strategists.

In general, our investment strategies seek to generate a consistent return over the client's preferred benchmark. Most of our investment strategies emphasize:

- Security selection: Portfolio managers employ the firm's analytical tools to compute risk-adjusted yields for potential portfolio investments. Using this quantitative analysis and a host of qualitative insights, portfolio managers strive to construct portfolios with securities that offer attractive risk-adjusted yields.
- Sector rotation: Portfolios typically overweight the "spread sectors" (corporate, commercial mortgage-backed securities, agency mortgage-backed securities, and asset-backed securities). We believe that over the course of an interest rate cycle these sectors offer superior risk-adjusted returns. Portfolio managers generally hold larger portfolio positions in the sectors with the highest risk-adjusted yields, and seek to add value by actively changing the portfolio holdings to take advantage of differences in sector relative performance.
- Macro Factor Management: We do not typically make significant "bets" on the direction of interest rates. Instead, we seek to closely match each portfolio's duration to the benchmark at all times. We will typically add modest exposures to other macro risk factors such as volatility, slope of the yield curve and mortgage prepayment exposure when we believe that such exposure will enhance the return of the portfolio.
- Tracking Risk: Portfolio composition is designed to produce an expected return volatility that is consistent with the client guidelines.
- Performance Attribution: The portfolio management teams regularly review the performance attribution of each strategy to determine the source of outperformance or underperformance for a portfolio. This continual "after action review" feeds back into the investment process to monitor performance and improve investment decision-making.

### **Certain Material Risks Regarding Investment Strategies:**

**The following are certain of the material risks inherent in all strategies that we manage:**

**Market Risk.** The market price of securities held by our accounts may fall, sometimes rapidly or unpredictably, due to changing economic, regulatory, political or market conditions, or due to the financial condition of issuers. The value of a security may decline due to general market conditions that are not specifically related to a company or industry, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates, or adverse investor sentiment generally.

**Management Risk.** Management risk is the chance that poor investment selection will cause the accounts we manage to underperform other investments with similar objectives. We use a fundamental, research-intensive approach. The risk of such fundamental analysis is that it may not result in profitable trading because, among other things, we may not have knowledge of all factors affecting a particular investment or hedging instrument. Another risk is that our analytical models used to measure fundamental relative value may be inaccurate. We apply our investment techniques and risk analyses in making investment decisions, but there can be no guarantee that these will produce the desired result.

**Interest Rate and Maturity Risk.** The market prices of fixed income investments may decline due to an increase in market interest rates. Generally, the longer the maturity or duration of a fixed income investment, the more sensitive it is to changes in interest rates. Sufficiently large and sudden movements in interest rates could result in substantial losses.

**Credit Risk.** An issuer of securities may be unable to pay principal and interest when due, or the value of the security may suffer because investors believe the issuer is less able to pay. Lower-rated securities, while usually offering higher yields, generally have more risk and volatility because of reduced creditworthiness and greater chance of default.

**Liquidity Risk.** Liquidity risk exists when particular investments are difficult to sell. Illiquid securities are likely to trade at lower prices than liquid securities. Derivatives, securities having small market capitalization, and securities having substantial market and/or credit risk tend to involve greater liquidity risk. For example, in 2007 and 2008, adverse developments in the market for residential mortgage-backed securities and commercial mortgage-backed securities substantially reduced—and in some cases virtually eliminated—liquidity in those markets.

**Basis Risk.** Basis risk is the risk that changes in the value of a hedge instrument will not completely offset changes in the value of the assets and liabilities being hedged. Basis risk can manifest itself in other ways; when a small change in interest rates occurs, for example, both the hedge transaction and the hedged assets could decline in value.

**Dependence on Key Personnel.** We are dependent on the services of certain employees. If the services of all or a substantial number of such persons were to become unavailable, such a loss of key personnel could adversely affect a client's portfolio.

**Market Disruptions.** Accounts that we manage may incur material losses in the event of disrupted markets or other extraordinary events in which historical pricing relationships become materially distorted. The risk of loss from pricing distortions is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions.

**Exchange Disruptions.** A financial exchange may from time to time suspend or limit trading. Such a suspension could make it impossible to liquidate positions and may result in losses.

**Governmental Intervention.** Governmental intervention in financial markets may result in confusion and uncertainty, which in itself may be materially detrimental to the efficient functioning of the markets. In 2007 and 2008, for instance, disruptions in the global financial markets led to extensive and unprecedented governmental intervention.

**Counterparty Risk.** Accounts are subject to the risk that the other party to a transaction will not fulfill its contractual obligations. In addition, in the event of the bankruptcy of a broker, our accounts could be subject to significant losses with respect to both their open positions and their assets on deposit with such broker as margin.

**Reliance on Corporate Management and Financial Reporting.** Some of our strategies rely on the financial information made available by the issuers of securities. We have no ability to independently verify the financial information disseminated by these issuers, and we depend upon the integrity of both the management of these issuers and the financial reporting process in general.

**Credit Ratings.** Rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value, so they may not fully reflect the true risks of an investment. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an issuer's current financial condition may be better or worse than a rating indicates.

**Portfolio Investment Statistical Default Rates.** Reliable sources of statistical information do not exist with respect to the default rates for many of the types of debt securities that we may purchase. In addition, historical economic performance of a particular type of debt security is not necessarily indicative of its future performance.

**Certain Material Risks Regarding Particular Securities:**

**The following are material risks involved in the types of securities in which we typically invest:**

**Mortgage-Backed Securities (“MBS”)**. MBS may lose value if the value of the underlying real estate to which a pool of mortgages relates declines. Other risks presented by MBS include adverse interest rate changes and the effects of changing prepayments on mortgage cash flows. Like other interest-bearing securities, the values of MBS generally fall when interest rates rise, but when interest rates fall, their potential for capital appreciation is limited due to the existence of the prepayment option.

**Residential MBS**. Residential MBS are subject to the general risks of MBS. Residential MBS that have loans concentrated in one geographic area are more susceptible to geographic risks, such as adverse economic conditions, adverse events affecting industries located in such areas, and natural hazards affecting such areas, than pools of mortgage loans having more diverse property locations.

The Government National Mortgage Association (“GNMA”), a wholly owned U.S. Government corporation, is authorized to guarantee, with the full faith and credit of the U.S. Government, the timely payment of principal and interest on securities issued by institutions approved by GNMA and backed by pools of mortgages insured by the Federal Housing Administration or the Department of Veterans Affairs. Government-sponsored entities include the Federal National Mortgage Association (“FNMA”) and the Federal Home Loan Mortgage Corporation (“FHLMC”). Pass-through securities issued by FNMA are guaranteed as to timely payment of principal and interest by FNMA but are not backed by the full faith and credit of the U.S. Government. FHLMC guarantees the timely payment of interest and ultimate collection or scheduled payment of principal, but its participation certificates are not backed by the full faith and credit of the U.S. Government.

Privately-issued MBS and the mortgage loans underlying them generally are not insured or guaranteed by any governmental entity, private insurer or any other person. The mortgage loans underlying private mortgage-related securities may, and frequently do, have less favorable collateral, credit risk or other underwriting characteristics than government-sponsored mortgage-related securities. Privately issued pools more frequently include second mortgages, high loan-to-value mortgages and manufactured housing loans. Therefore, privately-issued MBS are subject to greater credit risk. In addition, mortgage loans underlying such securities are typically non-recourse loans to which recourse in the case of default will be limited primarily to the related mortgaged property. Privately-issued MBS are also subject to liquidity risk.

**Commercial Mortgage-Backed Securities (“CMBS”)**. CMBS are subject to the general risks of MBS. Additional risks affecting commercial real estate



investments include general economic conditions, the condition of financial markets, political events, developments or trends in any particular industry, and changes in prevailing interest rates. The repayment of loans secured by income-producing properties is typically dependent upon the successful operation of the related real estate project rather than upon the liquidation value of the underlying real estate or the existence of independent income or assets of the borrower.

**Financial Difficulties of Residential MBS Servicers.** Residential MBS may provide that the servicer is required to make advances in respect of delinquent mortgage loans. The servicer may also be obligated to take certain actions to protect investors in the event of borrower delinquency or default. However, servicers experiencing financial difficulties may not be able to perform these obligations.

**Asset-Backed Securities Backed by Consumer Receivables Such as Credit Card and Auto Loans.** Like other interest-bearing securities, the values of Asset-Backed Securities (“ABS”) generally fall when interest rates rise, but when interest rates fall, their potential for capital appreciation may be limited due to the existence of a prepayment option. ABS are structured to withstand a pre-determined maximum level of credit losses, and future credit losses may be greater than this level, leading to a loss for investors.

**U.S. Government Securities.** Securities issued by the United States government and its agencies are subject to market and interest rate risk, and may be subject to varying degrees of credit risk. While U.S. Treasury obligations are backed by the full faith and credit of the U.S. Government, securities issued by U.S. Government agencies or government-sponsored entities may not be backed by the full faith and credit of the U.S. Government and, among other things, may be subject to credit risk.

**Municipal Bonds.** Municipal Bonds are subject to credit, interest rate and market risk.

**Non-U.S. Government Securities.** Debt instruments issued by non-U.S. governments are subject to the risk that a governmental entity may delay or refuse to pay interest or repay principal on its debt, due, for example, to cash flow problems, insufficient foreign currency reserves, political considerations, or the relative size of the governmental entity’s debt position in relation to its economy.

**Derivatives Risk.** Derivatives include futures, options and swap agreements. The use of derivatives presents risks different from, and possibly greater than, the risks associated with investing directly in traditional securities. The use of derivatives can lead to losses because of adverse movements in the price or value of the underlying asset, index or rate, which may be magnified by certain features of the derivatives. These risks are heightened when derivatives are used to enhance return or as a substitute for a position or security, rather than solely to

hedge the risk of a position or security held by an account. The success of our derivatives strategies will also be affected by our ability to assess and predict the impact of market or economic developments on the underlying asset, index or rate and the derivative itself, without the benefit of observing the performance of the derivative under all possible market conditions. Certain derivative positions may become illiquid, making it difficult to close the position. Certain derivative positions are subject to counterparty risk.

**Leverage Risk.** If permitted by client guidelines, certain strategies and certain transactions may give rise to a form of economic leverage. Such transactions may include, among others, the use of when-issued, delayed delivery or forward commitment transactions. Using leverage to finance the purchase of securities involves greater risk than a purchase using cash resources only. The use of leverage may magnify losses. The use of leverage may also cause an account to liquidate portfolio positions when it may not be advantageous to do so. Leveraging typically causes an account to be more volatile than if the account had not been leveraged, as leverage tends to increase the account's exposure to market risk, interest rate risk or other risks.

**Forward Trading.** Forward positions that produce economic leverage may increase overall investment exposure and involve a risk of loss if the value of the securities declines prior to the settlement date. Forward contracts are not traded on exchanges; rather, banks and dealers act as principals in these markets. Accordingly, our accounts are subject to the credit risk of the counterparty.

**Investment Grade Corporate Debt Securities.** Risks of investment grade corporate debt securities include: (i) marketplace volatility resulting from changes in prevailing interest rates, (ii) the absence, in many instances, of collateral backing the security, and (iii) the declining creditworthiness and the greater potential for insolvency of the issuer of such investment grade debt securities during periods characterized by widening credit spreads, rising interest rates, or a weakening economy.

**High-Yield Corporate Debt Securities.** The risk of loss due to default by an issuer is significantly greater for holders of high-yield debt because such securities may be unsecured and may be subordinated to other creditors of the issuer. The prices of high-yield debt securities with lower ratings or which are unrated tend to be more volatile than higher-rated fixed income debt securities.

**Mezzanine Debt Securities.** Mezzanine debt securities are generally unrated or below investment grade rated investments that have greater credit and liquidity risk than more highly rated debt obligations. Issuers of mezzanine debt securities may be highly leveraged, and their relatively high debt-to-equity ratios create increased risks that their operations might not generate sufficient cash flow to service their debt obligations.

**Investing in Distressed Companies.** Investment in securities of distressed companies involves significant risks, and may be subject to greater volatility and less liquidity, as compared to other types of investments.

**Syndicated Loans.** Syndicated loans are not registered with U.S. or other governmental authorities and are not subject to the rules of any self-regulatory organization. As with other types of debt instruments, loans involve the risk of loss in case of default or insolvency of the borrower. In addition, a syndicated loan participant is subject to the credit risk of the lender as well as the borrower.

**Repurchase Agreements.** If the seller of securities under a repurchase agreement defaults (i.e., fails to buy back the underlying securities), an account that bought those securities could realize a loss if the re-sale price of those securities is less than what the defaulting seller was obligated to pay under the repurchase agreement. If the buyer of securities under a repurchase agreement defaults (i.e., fails to sell back the underlying securities), an account that sold those securities could realize a loss if those securities were worth more than the cash the account received in exchange for selling the securities to the defaulting buyer under the repurchase agreement. Selling securities to a buyer under a repurchase agreement also involves leverage risk.

**Dollar Roll Agreements.** Dollar rolls are subject to counterparty risk. Other risks involved in entering into dollar rolls include the risk that the value of the security may change adversely over the term of the dollar roll and that the security an account is required to repurchase may be worth less than the security that the account originally held.

**Repackaged Securities.** Investing in repackaged securities (such as re-remics) may entail a variety of unique risks. Among other risks, repackaged securities may be subject to prepayment risks, credit risk, liquidity risk, structural risk, and interest rate risk.

**Residuals and Related Investments.** The investment in residual interests will expose an account to the highly leveraged investments in the collateral securing the other obligations of, and securities issued by, the structured finance vehicle. Due to the leverage inherent in structured finance vehicle structures, changes in the value of the residual interests could be greater than the changes in the values of the assets constituting the underlying collateral, which are subject to, among other things, credit and liquidity risk.

The list and description of risks discussed in this Item 8 are only a summary. For a more complete explanation of these risks, and to learn about other risks that may be presented by our investment strategies, please contact us at (919) 967-7221.

## **Item 9 - Disciplinary Information**

Amundi Smith Breeden is not the subject of any legal or disciplinary events required to be disclosed.

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

**Broker-Dealer or Registered Representative of a Broker-Dealer:** Certain of our management persons and employees are registered representatives of a broker-dealer, Amundi Distributors.

**Commodity Pool Operator and Commodity Trading Advisor:** We are registered as a commodity pool operator and a commodity trading advisor. Many of our supervised persons are registered as our associated persons as a result of our registration as a commodity pool operator and commodity trading advisor.

**Material Relationships with Related Persons:** Amundi Smith Breeden has an investment in Amundi Smith Breeden Securitized Credit Opportunities LLC, a private fund for which we serve as managing member. Our employees or directors may also invest in this or other of our funds. The investment by us or our employees in a fund that we manage presents the risk that we or a portfolio manager may favor that fund over other accounts. We believe that our Trade Allocation Policy and practices mitigate this risk. Our Trade Allocation Policy is described in detail in response to Item 6 above.

We are affiliated with certain broker-dealers. We have adopted a practice of not engaging our affiliates as counterparties for our clients.

**Manager of Managers: NOT APPLICABLE**

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

**Code of Ethics:** Our Code of Ethics is intended to create safeguards to help ensure that we are fulfilling our duties to our clients and to address potential conflicts of interest that may arise when employees trade for their personal accounts. Our Code of Ethics requires that our employees deal with clients fairly and equitably, maintain a standard of business conduct consistent with our fiduciary obligations to our clients, and comply with all applicable federal securities laws. Our Code of Ethics contains personal trading restrictions, reporting requirements, and other requirements, which are described in more detail below.

**Process for Addressing Conflicts if Our Employees Buy or Sell the Same Security Recommended to Client Accounts:** If an employee buys or sells a security that is held in a client account, it presents the potential for a conflict of interest between the employee and our clients. This may cause the employee to

favor his personal account over a client account. For instance, the employee may wish to trade for his personal account prior to trading for a client. This may allow the employee to transact at a better price than the client receives.

Our Code of Ethics contains personal trading restrictions and requirements designed to mitigate the conflicts presented by an employee trading a security held in a client account.

We do not allow employees to transact in securities held in our client accounts, except for futures, options on futures and direct obligations of the U.S. Government, or under very limited circumstances (e.g., if the employee inherited the security and wishes to sell it). Employees may not buy or sell securities that are on our Restricted List. Employees must also receive permission from the Compliance Department before they may buy or sell any bond (except for direct obligations of the U.S. Government).

In addition, employees may not buy or sell any financial instrument if they have executed the opposite trade in that financial instrument within the prior 30 days. For example, if an employee buys a company's stock, she may not sell it until at least 30 days have passed since she bought it.

Our employees are permitted to personally invest in futures, options on futures and direct obligations of the U.S. Government that are held in our client accounts. The market for such securities is so large and liquid that we do not believe that this presents a conflict of interest between our employees and our clients. Before an employee may buy or sell a futures contract or an option on a futures contract that is also held in a client account, the contract must pass our volume test. Our volume test helps ensure that the number of contracts traded by the employee would not be sufficient to impact the market.

Our Compliance Department performs certain checks to help ensure that employees are complying with our Code of Ethics. All employees are required to submit their personal account statements to the Compliance Department for review at least quarterly. On an annual basis, all employees are also required to certify that the list of their holdings on file with the Compliance Department is complete. We review the personal trading of our employees for compliance with our Code of Ethics, and we monitor how frequently employees trade in their personal accounts.

We do not subject non-employee board members to our Code of Ethics' personal trading restrictions. Non-employee board members do not trade for our client accounts, do not generally receive information regarding the specific securities held by our clients, and do not generally receive information regarding our specific investment strategies. Non-employee board members typically only have access to generalized information regarding our trading strategies and client holdings. Given this, we believe that the conflicts of interest that may arise

between client accounts and personal trading accounts are not present with our non-employee board members. We, therefore, made the determination that the personal trading restrictions in our Code of Ethics would not apply to our non-employee board members. Board members that are also Amundi Smith Breeden employees are required to comply with our Code of Ethics.

Except as described in this paragraph, Amundi Smith Breeden does not invest for its own account in securities that we recommend to clients. We have an investment in Amundi Smith Breeden Securitized Credit Opportunities LLC, a private fund for which we serve as managing member. Our employees or directors may also invest in this fund or other funds managed by us. The investment by us or our employees in a fund that we manage presents the risk that we or a portfolio manager may favor that fund over other accounts. We believe that our Trade Allocation Policy and practices mitigate this risk. Our Trade Allocation Policy is described in detail in response to Item 6 above.

**Other Provisions of the Code of Ethics:** Employees are prohibited from engaging in transactions, either in their personal accounts or on behalf of our clients, in a financial instrument while in possession of any material, non-public information regarding that instrument. Employees must immediately contact the Chief Compliance Officer if they believe they may have material, non-public information.

In addition, employees must comply with the following requirements regarding material, non-public information:

- employees must not discuss the information with anyone outside of Amundi Smith Breeden, unless they are explicitly authorized to do so by the Chief Compliance Officer.
- within Amundi Smith Breeden, the information may only be disseminated on a “need to know” basis and only to appropriate personnel. The Chief Compliance Officer must be consulted should a question arise as to who should be privy to material, non-public information.
- If an employee knows that others have received this information, they must inform the Chief Compliance Officer. The Chief Compliance Officer will take steps to help prevent inappropriate dissemination of the information.

Employees are strictly prohibited from providing access to material, non-public information about our securities recommendations and our clients’ securities holdings and transactions to persons who do not work for us, unless that disclosure is necessary to carry out our duties to our clients.

A copy of our Compliance Manual, including the Code of Ethics, is available upon request. To obtain a copy, please contact our Chief Compliance Officer at (919) 967-7221.

## **Item 12 - Brokerage Practices**

**Broker Selection and Compensation:** Traders may request the Compliance Department and the Chief Risk Officer (“CRO”) to review a Broker for addition to our Approved Broker List. The CRO will review the Broker’s financial information and the Compliance Department will review public sources of information regarding the Broker, such as its FINRA BrokerCheck Report or its Form B-D. As appropriate, the CRO and/or the Compliance Department will discuss with traders certain items regarding the broker such as the types of trades the traders would like to execute with the Broker and any other relevant information. If the review is satisfactory to the Compliance Department and the CRO, the Broker will be underwritten for a specified market value trade size limit. The underwriting metrics utilized include but are not limited to public financial information, market prices, and market color. Traders must ensure that trades with a broker are less than or equal to the limit or request CRO approval prior to a trade to request an exception.

The CRO monitors the Approved Brokers List and can further restrict this list based on additional risk measurement criteria. In the event that the CRO determines that broker risk measurements have deteriorated below an acceptable level, the CRO will investigate further to determine what types of trades and trade limits are appropriate, if any, given the new information. If necessary the CRO will remove the broker from the Approved Brokers List for a given trade type or remove the broker completely. The CRO and/or Compliance Department will notify the Portfolio Managers of said changes.

We primarily trade in securities that are executed on a principal basis. This means that no broker commissions are charged. The broker’s “fee” is included in the price of these securities. The fee is not broken out from the price of the security. When trading these securities, under our Best Execution Policy, traders are required to document all competing bids and offers (as applicable). If the trader receives fewer than three total bids or offers (i.e., the winning bid/offer plus two competing bids/offers), the trader must document on the trade ticket why no additional competing bids/offers are available or appropriate.

Brokers do charge separate fees (or commissions) for exchange-traded futures and options. Our Best Execution Policy helps to ensure that fees paid are reasonable. Traders will conduct an annual poll of brokers and will document the different commission rates among at least three different brokers. In addition, traders may also consider other factors when evaluating whether commissions are reasonable, such as the quality of execution, fail risk of the broker, ability to minimize total trading costs, level of trading expertise in these markets or securities, reputation for diligence, fairness and integrity, infrastructure and

technology, ability to accommodate special transaction needs, speed of execution, and the accuracy and reliability of clearing.

Under our Best Execution Policy, we seek to maximize the value of a client's portfolio under the particular circumstances existing at the time of a transaction and within each client's stated investment objectives and constraints. Our Compliance Department conducts periodic written reviews of trade execution quality, as described further in our Best Execution Policy.

**Gifts and Entertainment:** Brokers with whom we trade for clients may, from time to time, invite our employees to social events such as to play golf, attend a sporting event or have dinner. These brokers may also give gifts to our employees. Our employees are required to report gifts and entertainment as stated in our Gift and Entertainment Policy. Our Compliance Department monitors these gifts and entertainment to help mitigate potential conflicts of interest.

**Research and Other Soft Dollar Benefits:** We receive research from brokers. However, we do not generate soft dollars and we do not direct client transactions to particular brokers in return for research or other benefits, other than execution. We do not cause our clients to pay higher commissions (or markups or mark downs) than those charged by other brokers in return for research. We receive research from brokers by virtue of generally trading in the market. Our access to research is not contingent upon committing any amount of business to these brokers. We use this research for the benefit of all clients.

**Brokerage for Client Referrals:** In selecting brokers, we do not consider whether we receive client referrals from the broker.

**Directed Brokerage:** We do not recommend, request or require that a client direct us to execute transactions through a specified broker. We do not have any directed brokerage arrangements in place with clients. A client may restrict the brokers that we may use in executing transactions for the client. If a client does this, we may not be able to achieve most favorable execution for the client because the broker that is restricted by the client may offer the most favorable execution for a particular trade. The client may therefore pay more money (or receive less money) than it otherwise would if there were no restrictions on the brokers that we could use.

**Trade Order Aggregation:** Orders for the same security entered on behalf of more than one client account will generally be aggregated if the aggregation is in the best interests of all participating client accounts.

**Cross Trading Among Our Clients:** Certain accounts we manage may purchase securities that have been sold by other accounts we manage. Generally, in these situations, the purchase and sale of the securities are two



separate good faith transactions. We follow one of two processes in these situations.

In the first process, the security is sold to a broker by the selling client, and we try to repurchase that security for the buying client from the broker the day after the sale. Once the decision to sell is made for the selling account, the trader solicits bids to achieve the maximum bid price for the benefit of the selling client. During the selling process the trader does not express any intention to repurchase the security for a different client. The trader waits until the security is sold to the broker before asking for the price to buy the securities for another client. The trader makes this request since he knows that the broker likely has the security to sell. When the broker provides a sell price, the trader then makes an independent assessment of whether buying the security from that broker would be in the best interests of the client.

In the second process, an account we manage may buy a security that is owned by another account we manage. The traders involved do not communicate with each other about the security during this process. The selling trader submits a bid list to brokers and our purchasing trader to buy the security. The purchasing trader bids on the security through a broker. He must submit the highest bid in order to buy the security. Prior to the trade, our Compliance Department is informed that the traders would like to potentially do this type of cross trade. The Compliance Department monitors and documents the process help ensure that the transactions are arm's length transactions and that best execution is achieved.

Each account involved in a cross trade will pay transaction costs, as applicable.

**Error Policy:** We have an Error Policy that outlines how we will identify, investigate and address potential trade errors. A trade error occurs when a trader executes the wrong trade or executes an unintended trade for one or more client portfolios, regardless of economic impact to a client portfolio or whether or not the trade has settled. A trade error also occurs when, due to a mistake on the part of the trader, a trade is allocated to the wrong or unintended account and results in an economic impact to one or more client portfolios. These allocation trade errors will be considered trade errors whether or not the trade has settled. Trade errors are documented in our trade error log.

Our Compliance Department also investigates and tracks other situations that result in modifications to trade details entered into our accounting system due to broker or other error.

### **Item 13 - Review of Accounts**

**Periodic Reviews and Review Triggers:** Portfolio Managers review their accounts' returns, trading activity, risk positions and market risk profile on a daily

basis. In addition, the Chief Risk Officer runs an independent series of tests on portfolio risks on a daily basis.

Our Compliance Department performs automated post-trade compliance tests on a daily basis to test account holdings and transactions against the guideline restrictions applicable to each client account.

Typically, on a quarterly basis, the Director of Client Service meets with all account relationship managers to review account performance. Typically, each account's Portfolio Manager, Relationship Manager, and/or a senior professional hold an in-person account review meeting with the client on at least an annual basis or as directed in the investment management agreement with the client. We often hold more frequent account review meetings, either in-person or by telephone, as needed.

**Regular Reports:** We are not the custodian of any client's account. Each client hires its own independent custodian. Our sponsored funds retain their own custodians. Custodians are responsible for providing regular reports to each client.

As a courtesy, we typically provide clients with written monthly reports that include portfolio holdings and transaction statements. The reports also include performance information and a detailed commentary from the firm strategists who cover the macro-economy and the yield curve, as well as the MBS, ABS, CMBS, and corporate credit sectors. In addition, the monthly report includes risk management information. Clients may request more information or a different schedule for reporting.

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

##### **Economic Benefits from Non-Clients: NOT APPLICABLE**

**Referrals or Solicitation Agreements:** We currently have three arrangements under which we pay third-parties for client referrals. In one arrangement, the third-party structures insurance products in which we serve as investment manager. Under the agreement with this third-party, we pay the third-party up to 20% of all investment management and incentive fees we receive as investment manager in such insurance products. Under the other two arrangements, we pay periodic flat fees for certain services, which include marketing and client referrals.

In the future, we may, pursuant to a written agreement, pay cash compensation for client referrals to other third parties. We will compensate such third parties in compliance with SEC rules governing payments for client referrals.

**Consultant Databases and Conferences:** From time to time, we may pay third parties for the ability to be included in databases used by consultants and

potential clients to evaluate investment managers and their products. We may also pay third parties for the ability to submit responses to requests for proposals submitted by consultants or potential clients. In addition, we may pay third parties for the ability to participate in conferences or similar events attended by potential investors.

### **Item 15 - Custody**

We do not have custody of assets held in separate accounts for which we perform investment management services. As a courtesy, we provide separate account clients with written monthly reports. You should compare any account statements you receive from your custodian to the reports we provide to you.

Because we serve as managing member or investment manager of certain Amundi Smith Breeden sponsored private funds, and because our officers serve as directors of certain of these private funds, we are deemed to have “custody” over these private funds within the meaning of Rule 206(4)-2 under the Investment Advisers Act. To comply with this rule, each investor in the private fund receives audited financial statements within 120 days following the private fund’s fiscal year end. If you have invested in one of our sponsored private funds, you should review these audited financial statements carefully. If you have not received audited financial statements timely, please contact us. At least monthly, the fund administrator provides the official net asset value statements to investors in Amundi Smith Breeden sponsored private funds. As a courtesy, we provide investors in Amundi Smith Breeden sponsored private funds with written monthly reports.

### **Item 16 - Investment Discretion**

**Authority for Trading in Discretionary Accounts:** We accept discretionary authority to manage securities accounts on behalf of our clients. This authority includes, for example, the authority to determine, without obtaining client permission or pre-approval, the securities to be bought or sold, the amount of such securities to be bought or sold, generally the broker to be used, and the commission rates paid, if applicable. This authority is subject to compliance with the client’s investment guidelines and investment management agreement.

Clients may, and typically do, place limitations on our discretionary authority. Examples of these limitations include placing concentration limits on the types of securities their account may hold, setting credit rating thresholds for securities that may be purchased, and restricting us from buying certain securities for their account.

**Authority for Trading in Non-Discretionary Accounts:** We may transact for a non-discretionary account only with the client’s pre-approval.

**Procedure for Establishing Investment Discretion:** The investment management agreement between us and a client establishes the authority we may exercise over the client's account.

### **Item 17 - Voting Client Securities**

**Proxy Votes:** We have agreed to vote proxies for certain of our clients. We vote proxies in accordance with our Proxy Voting Policy and Procedures. Our Proxy Voting Policy and Procedures are designed to help ensure that we vote proxies on behalf of our clients in the best interest of our clients.

If a client has given us specific written instructions regarding proxies, we will follow those instructions. If a client has not provided specific written instructions regarding proxies, we will vote the proxy in accordance with the recommendation of a third-party proxy voting service provider we have retained.

We believe that voting proxies consistent with the recommendations of the third party proxy voting service provider help remove the potential for conflicts of interest between us and our clients.

If a client has given us discretion to vote proxies, we will work with the client and its custodian so that we receive proxy solicitations and voting materials from issuers.

Copies of our Proxy Voting Policy and Procedures and a report documenting how we voted any proxies received on behalf of a client are available to that client upon request. To obtain a copy, or if you have a question about a particular proxy solicitation, please contact our Chief Compliance Officer at (919) 967-7221.

### **Item 18 – Financial Information**

**Prepayments: NOT APPLICABLE**

**Discretionary Authority or Custody of Client Funds:** We have discretionary authority over most of our client accounts and have custody of investor assets in our sponsored funds. We are unaware of any financial condition that is reasonably likely to impair our ability to meet our contractual commitment to clients.

**Bankruptcy: NOT APPLICABLE**