

#### ITEM 1. COVER PAGE

Insight Pareto  
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This brochure provides information about the qualifications and business practices of Pareto Investment Management Limited. If you have any questions about the contents of this brochure, please contact us at +44 (0) 20 7163 4000. 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.

Pareto Investment Management Limited is registered with the SEC as an investment adviser. Registration of an investment adviser does not imply any level of skill or training.

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

## FORM ADV PART 2

(AS OF MARCH 28, 2014)



## ITEM 2. SUMMARY OF MATERIAL CHANGES

This brochure has been amended to reflect the following changes to Insight Pareto's business since the last Form ADV Part 2 was filed:

Item 4 – This item has been updated to reflect the changes in Insight Pareto's business as Insight Pareto became a subsidiary of Insight Investment Management Limited (IIML), a wholly owned subsidiary of The Bank of New York Mellon Corporation (BNY Mellon) on January 1, 2013. BNY Mellon ultimately owns 100% of IIML which owns 100% of Insight Pareto. The group of companies owned by IIML is referred to as Insight or the Insight Group. Insight Pareto is now marketed in North America and Australasia under the brand name of 'Insight Pareto' and in Europe as 'Insight Investment' or 'Insight'. As a result of the business changes, Insight Pareto will now be offering a number of different strategies in addition to those previously offered by Insight Pareto.

Item 5 – This item has been updated to reflect the new fee schedules charged for the new product offerings as a result of the move into the Insight Group of Companies. Clients should pay particular attention to the expansion of investment strategies now offered through Insight Pareto and the accompanying fee schedules. There have been no changes to the Insight Pareto legacy currency strategies.

Item 8- This item has been updated to reflect the methods of analysis, investment strategies, and risk of loss regarding the new strategies offered by Insight Pareto. In addition to currency management, Insight Pareto's product suite has now expanded to publicly and privately traded equity and fixed income securities, pooled investment vehicles, real estate assets, and bank loans, among others. In addition, the geographies and markets in which Insight Pareto conducts investment activities have been widely expanded to include emerging markets and other less developed markets. Both of these changes will result in increased inherent risk to Insight Pareto clients. Clients should pay particular attention to the expanded investment risks that may be present in the selection of one of the newly offered strategies by Insight Pareto.

Item 10 – This item has been updated to highlight the affiliations with the Insight Group of Companies. While Insight, as part of the BNY Mellon corporate family, was always an affiliate of Insight Pareto, as a result of the change in ownership, Insight Pareto now sustains a material business relationship with the Insight affiliates, which was not previously the case.

Item 12 – This item has been updated to reflect the securities brokerage practices surrounding the management of the new products. Where previously Insight Pareto traded currency instruments, it will now be involved in trading a variety of securities instruments and has adopted procedures governing these activities as appropriate. Clients should pay particular attention to the disclosure regarding the use of commission sharing agreements as well as the trade aggregation and allocation policies and procedures as these may be materially different than previous disclosures.

Item 14 – This item has been updated to reflect Insight Pareto's ability to engage with unaffiliated third parties for the solicitation of its advisory services.

Item 17 – This item has been updated to reflect Insight Pareto's policies with regard to proxy voting within the newly offered strategies.

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#### ITEM 4. ADVISORY BUSINESS

Pareto Investment Management Limited (Insight Pareto or We) is a limited liability company organized under English law and was originally known as Pareto Partners until it became a limited liability company in 2005. Insight Pareto became a subsidiary of Insight Investment Management Limited ('IIML'), a wholly owned subsidiary of The Bank of New York Mellon Corporation ('BNY Mellon') on January 1, 2013. BNY Mellon ultimately owns 100% of IIML which owns 100% of Insight Pareto. The group of companies owned by IIML is referred to as Insight or the Insight Group. Insight Pareto is now marketed in North America and Australasia under the brand name of 'Insight Pareto' and in Europe as 'Insight Investment' or 'Insight'.

Personnel who provide services on behalf of Insight Pareto are primarily employed by IIML. IIML has entered into a dual officer arrangement whereby any strategies, managed for US clients will be managed by IIML personnel as officers of Insight Pareto. US clients enter into contracts with and receive advisory services from Insight Pareto.

Insight Pareto is authorized and regulated in the UK by the Financial Conduct Authority (FCA) and is registered in the United States with the Securities and Exchange Commission (SEC) as an investment adviser and with the Commodity Futures Trading Commission as a Commodity Trading Adviser and a Commodity Pool Operator. In addition, in providing services to non-UK and non-US clients, we are also subject to other foreign registration and regulatory requirements. We have been providing investment advisory services since our establishment in 1991 and have clients in the US, Canada, Europe, Asia and Australia. Our clients include state and corporate pension funds, insurers and financial institutions. Insight Pareto has a branch registered in Tokyo, Japan, that provides client servicing to Japanese clients.

Insight Pareto manages \$44.7bn on a discretionary basis as of December 31, 2013.

Insight Pareto provides discretionary investment advisory services to institutional investors in the form of separate accounts and to pooled funds across fixed income, risk management strategies and currency risk management, absolute return and multi-asset capabilities. Further details of these strategies can be found in Item 8.

Insight Pareto works with clients to create investment guidelines acceptable to both parties and clients may impose investment restrictions when creating investment guidelines for separate accounts. Insight Pareto's strategies may be managed in accordance with a model portfolio for all client accounts employing the same strategy subject to any restrictions imposed by clients. In addition to other external factors that may affect performance, clients who impose investment restrictions might therefore limit Insight Pareto's ability to employ the model strategy, resulting in investment performance that differs from that of the model. The strategies in which we may invest client assets and the fees we may receive for managing such strategies are described within this brochure.

Insight Pareto also offers investment advisory services to pooled investment vehicles. Each pooled investment vehicle has an investment objective and set of investment policies and/or guidelines. Therefore we cannot tailor the investment advisory services or impose individual investment restrictions for underlying investors in these pooled investment vehicles.

#### ITEM 5. FEES AND COMPENSATION

Insight Pareto provides investment advisory services to separate accounts and pooled investment vehicles for a fee. This fee is typically expressed as an annual percentage of specified assets, liabilities, exposures or benchmarks in connection with the portfolio managed by us and vary principally by the type of strategy that the account follows. Fees are typically charged based on the value of specified assets, liabilities, exposures or benchmarks at specified valuation points, typically quarterly, and are payable in arrears. Full details on how fees are charged and collected are included in client agreements. Where permissible and as agreed with clients, we may charge additional fees based on the portfolio's performance, during a designated period of time. Performance fees are negotiated with each client and the terms may vary. Details on the terms and calculation of performance fees for separate accounts will be detailed in the relevant client agreements.

We reserve the right, in our sole discretion, to negotiate or modify (either up or down) the basic fee schedules set forth herein for any client due to a variety of factors, including but not limited to: the location of the client, the level of reporting and administrative operations required to service an account, the investment strategy or style, the number of portfolios or accounts involved, and/or the number and types of services provided to the client. Because our fees are negotiable, the actual fee paid by any client, group of clients or underlying investors of our pooled fund clients may be different from the fees reflected in our basic fee schedules set forth below.

In the course of the relationship with Insight Pareto, clients also may incur other fees such as custody fees, brokerage fees and if invested in pooled investment vehicles, the relevant management fees and other expenses of the pooled vehicles. Brokerage fees are discussed in Item 12.

For certain of our investment strategies there is a minimum fee that applies regardless of the amount invested.

### Fixed Income

#### Global/European Fixed Income

Separate account

Management fee of 0.35% pa on first \$100m, 0.25% pa on next \$150m and 0.2%pa thereafter

Minimum account size \$50m

#### Currency Risk Management (CRM)

Separate account

Management fee of 0.20% pa on first \$300m, 0.16% pa on next \$200m and 0.08%pa thereafter

Minimum account size \$100m

#### Develop Market Long Short Volatility (DMLSV)

Separate account

Management fee of 0.10% per 1% unit of risk

Minimum account size \$20m

#### Emerging Market Corporate Debt

Separate account

Management fee of 0.70% pa on first \$100m, 0.60% pa thereafter

Minimum account size \$50m

Performance fee option may be available on request.

#### Global Absolute Return Bond

Separate account

Management fee of 0.75% pa on first \$100m, 0.65% pa thereafter

Minimum account size \$100m

Performance fee option may be available on request.

#### Currency Absolute Return

Separate account

Management fee of 0.75% pa, plus performance fee of 10% of outperformance over the cash benchmark plus the base fee, subject to high watermark and measured on a calendar year basis

Minimum account size \$50m

Credit Absolute Return

Separate account

Management fee of 0.85% pa, plus performance fee of 20% of outperformance over the cash benchmark plus the base fee, subject to high watermark and measured on a calendar year basis

Minimum account size \$50m

Emerging Market Debt Absolute Return

Separate account

Management fee of 0.75% pa, plus performance fee of 10% of outperformance over the cash benchmark plus the base fee, subject to high watermark and measured on a calendar year basis

Minimum account size \$50m

Senior European Commercial Real Estate Debt

Separate account

Management fee of 0.5%p.a. on invested capital

Minimum account size \$70m

**Multi-Asset**

Broad Opportunities Strategy

Separate account

Management fee of 0.70% pa on first \$100m, 0.60% pa thereafter

Minimum account size \$50m

Performance fee option may be available on request.

Multi-Strategy Absolute Return

Separate account

Management fee of 0.75% pa, plus Performance fee of 10% of outperformance over the cash benchmark plus the base fee, subject to high watermark and measured on a calendar year basis

Minimum account size \$75m

Equity Market Neutral Absolute Return

Separate account

Management fee of 0.75% pa, plus performance fee of 10% of outperformance over the cash benchmark plus the base fee, subject to high watermark and measured on a calendar year basis

Minimum account size \$50m

**Farmland**

Management Fee of 1.5%p.a. on committed capital during investment period and invested capital thereafter plus performance fee of 15% of the increase in Net Asset Value, subject to a preferred return of 8%

Minimum investment: \$10m

Fees are paid annually

## ITEM 6. PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

‘Side-by-side management’ refers to our simultaneous management of multiple types of client accounts or investment products with both performance and non-performance based fee structures. Side-by-side management gives rise to a variety of potential and actual conflicts of interest for Insight Pareto, its employees and supervised persons.

Insight Pareto has some strategies that may charge a performance fee. We may have a financial incentive to favor accounts with performance-based fees because we (and our employees and supervised persons) may have an opportunity to earn greater fees on such accounts as compared to client accounts without performance-based fees. Thus, we may have an incentive to direct our best investment ideas to client accounts that pay performance-based fees, and to allocate, aggregate or sequence trades in favor of such accounts. We may also have an incentive to give accounts with performance-based fees better execution.

We manage our accounts consistent with applicable law, and we follow procedures that are designed to treat all of our clients fairly and to prevent any client or group of clients from being systematically favored or disadvantaged. For example, we have trading policies and procedures which are designed and implemented to ensure that all clients are treated fairly and equally, and to prevent different fee arrangements from influencing the allocation of investment opportunities among clients or the trading we undertake. Please see Item 12 for a description of our trading policies and procedures.

Insight Pareto maintains a record of, and periodically monitors, conflicts and potential conflicts in our Conflicts of Interest Register.

## ITEM 7. TYPES OF CLIENTS

Insight Pareto offers and provides advisory services to institutions including corporate pension and profit sharing plans, Taft-Hartley plans, Voluntary Employee Beneficiary Associations (‘VEBAs’), public plans, trusts, estates, charitable institutions, foundations, endowments, municipalities, U.S. and ‘offshore’ (non-U.S.) private investment funds, other non-U.S. regulated funds, sovereign funds, separate accounts, and other U.S. and international institutions. Insight Pareto may also act as sub-adviser to registered investment companies, UCITS funds, private funds, and other commingled vehicles.

### Separate Account Requirements

We require clients to execute a written agreement with us granting us authority to manage their assets or exposures. There is also a minimum account size for separate accounts which varies depending on the strategy of the account and accounts may also be subject to minimum account fee. We may consider accepting smaller accounts depending on the nature of the client and prospective incremental funding rates or when a relationship currently exists with the client. We may also elect to waive the minimum and negotiate fee rates at our sole discretion.

### Pooled Vehicle Investments

Investors in pooled investment vehicles that are managed by Insight Pareto will be subject to differing minimum investment and other requirements dependent upon the particular vehicle in which they are invested. Investors should consult the relevant offering documents for the pooled vehicle for a full discussion of the requirements of that vehicle.

## ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

### i) Methods of analysis and investment strategies

Insight Pareto offers a variety of investment strategies to clients through both separate accounts and pooled vehicles. Below is a description of our strategies and the risks inherent in the strategies.

Clients should also be aware that we and our affiliates perform investment advisory services for various clients. We may give advice and take action in the performance of our duties with respect to any of our other clients which may differ from the advice given, or the timing or nature of action taken, with respect to another client. We have no obligation to purchase or sell for a client any

security or other property which we purchase or sell for our own account or for the account of any other client, if it is undesirable or impractical to take such action. We may give advice or take action in the performance of our duties with respect to any of our clients which may differ from the advice given, or the timing or nature of action taken by our affiliates on behalf of their clients.

## **FIXED INCOME AND CURRENCY**

Insight Pareto offers management of a wide range of fixed income and money market strategies across the full range of bond markets including corporate, government and inflation linked bonds globally, emerging market debt, currency strategies and a broad range of derivatives including interest rate swaps, inflation swaps, credit default swaps, currency swaps, futures, options and foreign exchange contracts. We also offer multi-strategy bond solutions which can take advantage of the full range of fixed income investments. All of our strategies can be managed on an absolute return basis or versus a comparative index. Our absolute return strategies have no specific restrictions with regards to strategic allocation ranges and the fund managers take both long and short positions so investors can aim to profit in falling markets and experience lower volatility than by investing in long only equities.

Fixed income strategies may be available through a pooled investment vehicle or on a separate account basis.

There are five broad investment areas which we identify as the main sources of risk and potentially of added value within all fixed income portfolios; market allocation, duration and yield curve, credit strategy, security selection and currency selection. We believe that all these areas are equally important and can have an equally significant impact on portfolio performance. However, emphasis on each of the sources can vary at different points in time according to our views of prevailing market conditions.

Insight's fixed income investment philosophy focuses on two key areas:

- In assessing investment opportunities, we seek to include only those elements of market risk that we consider attractive and we aim to eliminate unintended risks of which we are aware.
- We seek to add value through active management of risk and return across a broad range of investment opportunities using proprietary management techniques.

There are four main components to our investment process:

### **1. Specialist teams:**

Our investment group are specialists, not generalists. Each has its own focused area of market expertise.

### **2. Units of risk: managing the level and dispersion of risk**

Understanding and managing the allocation of risk within a portfolio is a further key factor in managing portfolios. We use the concept of units of risk. This allows us to apply uniform amounts of risk in the portfolio via different investment decisions with the size of positions being appropriate to each client's risk appetite as specified in the investment guidelines.

### **3. Strategy: duration and yield curve, credit and sector allocation views**

- 3.a) Duration and yield curve: When managing portfolio duration, we are taking a view on the direction of bond yields and interest rates. To achieve a level of consistency across markets in this area we focus upon three key factors: strategic forecast for bond yields over the next twelve months, tactical view of markets over a much shorter period, and the output of our proprietary momentum model.
- 3.b) Credit strategy: credit market and sector allocation: Our overall credit strategy is based on a view taken on both market allocation and sector allocation. Our approach is to form a view on market allocation which is based on two key factors: strategic forecast for the market over the next twelve months and a tactical view of markets over a much shorter period, typically up to three months.
- 3.c) Sector allocation within credit: Our sector allocation recommendations are based on the collective views of the analysis



team on fundamentals, technical score and valuations for each of our predefined sectors. These views are then each assigned a rating of under/over/neutral-weight.

#### 4. Security selection

The selection of individual securities is based on an evaluation of proprietary measures of yield and price movements for securities relative to others of similar maturity.

Within government bonds we are making an assessment of global opportunities between and within different countries' government bond markets.

Within corporate bonds, each analyst is assigned a sector and within that a list of issuers based on our pre-defined coverage universe. The analysts assess a narrowed list of investable credits for credit fundamentals and other risks that could give rise to a sharp deterioration in credit quality and assign an independent internal credit rating to each issuer. As part of this process the analysts identify, score and document specific factors that could negatively impact a company's credit profile in our 'landmine checklist.' Additionally, and after undertaking relative value analysis with a defined sector universe, for a subset of liquid tradeable names the analyst will assign a performance rating ranging from 1 to 4.

Within emerging market debt analysts filter the investible emerging market countries, with the aim of identifying country/company risks and investment opportunities. As our top-down views and bottom-up credit assessments are formulated, we express these views, (our 'best ideas') through asset allocations on an active and dynamic basis.

The team takes into account further detailed analysis focusing on both quantitative and qualitative factors which help to identify country risks and investment opportunities including:

- Quantitative factors: balance of payment positions, relative currency strength, growth prospects, market technicals, political cycles and structural reforms.
- Qualitative views are formulated as we plan different scenario models. In our scenarios, we consider a broad range of factors including local and international behaviour to policy decisions and changing market conditions, liquidity, credit quality and the potential changes to investor behaviour.

Having considered the factors, views are then transformed into the construction of the overall shape of the portfolio. Our investment team has developed a framework which allows them to compare valuations across countries, market sectors and investment instruments, enabling them to target the most attractive risk/return investment opportunities. As trades are selected, they are assessed for their specific volatility characteristics so that position concentration is appropriate for the portfolio. A risk/reward assessment is completed prior to investment execution, on a position basis and on a portfolio level.

#### CURRENCY RISK MANAGEMENT (CRM)

CRM is Insight Pareto's primary currency hedging strategy and its objective is to focus on estimating and managing the currency risk embedded in the client's international investment portfolio. CRM is provided as a separate account, tailored to meet currency risk management goals expressed in our agreement with the client. The strategy uses an overlay structure, employing forward foreign exchange contracts and currency options to manage each client portfolio's underlying currency exposure.

Insight Pareto's CRM strategy is a quantitative model-driven and highly automated; hence the decision-making process is not dependent on individual portfolio managers. The positions are adjusted when and as often as required by the risk based models. All CRM models are run at least daily. The team may adjust trade parameters involved in light of their view of particular market conditions, or decide against the trade if, in their view, market elements not covered by the models dictate against the trade.

### **DEVELOPED MARKET LONG SHORT VOLATILITY (DMLSV)**

DMLSV is Insight Pareto's quantitative currency alpha investment strategy and its objective is to generate gains from developed market foreign currency exposures of a notional portfolio. It is a model-based approach that seeks to deliver consistent returns by identifying and exploiting specific features in the structure of currency risk. The investment framework is designed to profit from exchange rate movements between developed market currencies, using both short volatility and long volatility components. DMLSV is provided as a separate account, tailored to meet return and risk specifications expressed in our agreement with the client. The strategy uses an overlay structure, employing forward foreign exchange contracts to take long and short positioning in developed market currency exposures.

Insight Pareto's DMLSV strategy is quantitative model-driven and highly automated; hence the decision-making process is not dependent on individual portfolio managers. The positions are adjusted when and as often as required by our models. All models supporting the DMLSV strategy are run at least daily. The Research Team may adjust trade parameters involved in light of their view of particular market conditions, or decide against the trade if, in their view, market elements not covered by the models dictate such action.

### **MULTI STRATEGY APPROACHES**

#### **BROAD OPPORTUNITIES STRATEGY**

Insight Pareto's multi-asset, multi-strategy capability aims to deliver attractive, positive, long-term returns using the broadest possible opportunity set including equity, fixed income, real assets and total return strategies. Our capability is managed on an absolute return basis with an investment objective to deliver returns in excess of cash.

The portfolio managers have an outcome-orientated focus. We combine both quantitative models and fundamental analysis in a macroeconomic-driven strategy which uses a wide investment universe that goes beyond simple asset class holdings.

By making use of the full asset range available we look to acquire performance from multiple sources while also diversifying risk. We also do not rely on market directional exposures to always be the prime driver of our returns. In addition, our dynamic approach to asset allocation and risk management mean that we seek to capture most of the upside when markets are rising but seek to avoid most of the downside when they are falling.

Once our asset allocation process has given us a bias to what our asset mix should look like, we focus on investment selection. Implementation depends on our rationale and how we gain exposure to different investments depends on our understanding of the opportunities and risks involved. The investment options include:

- direct investments
- derivative positions
- active or passive exposures

Where we seek to capture the returns from market direction ('beta'); we will typically invest in low-cost index replication or derivative-based instruments. Where our investment process suggests that there are tactical considerations concerning, for example, market timing issues or idiosyncratic risks, we may consider derivative implementation to provide downside protection or alter our expected pay-off profile.

Insight Pareto's broad opportunities strategy may be available through a pooled investment vehicle or on a separate account basis.

#### **ABSOLUTE RETURN MULTI-STRATEGY**

Our absolute return multi strategy invests across a range of other absolute return strategies. Each of the component strategies is actively managed.

This strategy attempts to optimise our ‘best ideas’ through the implementation of a diversified portfolio of investments in other single strategy absolute return portfolios managed by Insight Pareto.

The individual absolute return strategies may invest in a broad range of instruments including: equity instruments, fixed income securities, index-linked government and non-government securities, liquid/near cash assets, collective investment schemes, high yield securities, emerging market debt, and currencies. The strategies may also use a broad range of derivatives including interest rate swaps, inflation swaps, credit default swaps, currency swaps, futures, options and foreign exchange contracts.

Each of the strategies, and therefore the multi-asset approach, have an investment objective to deliver returns in excess of cash, investment flexibility across a wide range of instruments and asset classes, and use a range of investment techniques to capture positive returns from both rising and falling markets, including having zero or even negative (short) allocations to asset classes or sectors that are deemed unattractive.

Our approach for determining the allocation to each of the strategies is based on our aim of generating a diversified source of absolute returns, independent of the market cycle. The absolute return strategy aims to achieve this by combining different absolute return strategies, asset types and management styles into one portfolio.

The strategic target allocations are determined based on spreading risk broadly equally across the different strategies, by taking consideration of each strategy’s attributes. The strategy’s weightings are allowed to drift around the target allocations, with periodic rebalancing to ensure that it stays within tolerance levels. The strategy has a multi-dimensional risk framework, aimed at preserving capital and mitigating downside risk.

#### **EQUITY MARKET NEUTRAL ABSOLUTE RETURN**

The equity market neutral absolute return strategies target alpha through bottom-up stock picking, through investing in market-neutral, relative value equity trades.

The investment team generates ideas through reviewing research, daily interaction with companies, industry specialists and the wider investment team and also stocks which our team believe warrant detailed research. As a supplementary source of ideas, our investment team use a range of quantitative screening tools, some of which are provided by external sources. The factors of interest, and their relative importance, will vary through the investment cycle. Interesting stock ideas are subject to detailed analysis by our portfolio managers and analysts. Once an idea (long or short) has been accepted, our managers select an appropriate hedging position which serves to isolate the risk they want to take (and profit from) while seeking to reduce recognised unwanted risks. Hedges can be against a market index, a sector index, other stocks – or a combination of those. Hedge composition is often dynamically managed as a result of price action and as the managers’ views on risks around the position change. When assessing the hedge, the managers assess historic volatility and correlation with the position, but more important is how the managers expect the positions to correlate in the prevailing market. The managers seek to ensure that the portfolio as a whole is exposed to a spread of underlying investment risks which should demonstrate low correlation with each other.

Insight Pareto’s equity market neutral strategies may be available through a pooled investment vehicle or on a separate account basis.

#### **COMMERCIAL REAL ESTATE (CRE) LOANS**

The strategy invests in commercial real estate loans which have been made to borrowers who own commercial real estate property. The loans are secured over the physical buildings and other assets of the borrower and returns are obtained from fees and interest margin paid by the borrower. The strategy aims to provide investors with steady income yield and consistent cash flows.

The investment process has five key stages:

- **Filtering/origination:** The first step in the investment process is the sourcing of the loans. There are a number of ways we find loans to invest. In including speaking to primary syndicate investment banks, brokers and directly to property owners, and, in some cases, lenders and borrowers.

- **Underwriting:** Once we have identified a potential investment that meets our selection criteria, we undertake a detailed analysis of the collateral underlying the loan. We examine qualitative factors such as the location of the property, the tenant leases, the asset quality and the track record of the property owner. A qualitative examination of the loan is also undertaken including seniority, loan-to-value ratio, covenant package and reserves. Detailed quantitative analysis is then undertaken, including stress testing to see how the loan should perform under several scenarios. Finally, each loan is assigned a credit rating.
- **Legal documentation:** The syndicated CRE loans we have invested in settle using market standard Loan Market Association property documentation. We have a dedicated, in-house, Loan Settlement Team who examine all documents and undertake closing the loan. We have both in-house and external legal counsel who conduct a thorough review of all agreements. A report is made on each loan for ease of reference. This rigorous process is designed to ensure that the documentation meets all of our requirements.
- **Settlement:** Once we receive the transfer certificate from the counterparty, our specialist Loans Team ensures that details match the loan agreement before we execute the loan.
- **Risk control and portfolio management:** We use a number of systems to help understand and control the risk in all portfolios. Our front office systems seek to ensure full mandate and compliance checking. We also use a bespoke portfolio monitoring system, the Leverage Portfolio Overview System. All strategies are managed and monitored by team leaders and where appropriate, investment committees.

Generally, Insight Pareto's portfolios will target the most senior and secure parts of the loan capital structure.

The loan reports are appraised in a timely fashion seeking to ensure trends in net operating income are stable or positive and seeking to confirm compliance of all loan covenants.

Insight Pareto's commercial real estate strategies may be available through a pooled investment vehicle or on a separate account basis.

## **FARMLAND**

The focus is on the purchase of real property interests for agricultural purposes which are then operated or leased by Insight Pareto. We seek to invest in those markets that we believe have a comparative advantage in production of target commodities and where value can be created through development. These markets currently include but are not limited to New Zealand, Chile, Romania, Poland, and Australia.

The investment team defines the desired asset allocation with a focus on geographical and commodity diversification. Opportunities are then identified by the investment team. These are researched and discussed with further analysis undertaken before the approval is sought from the Farmland Investment Committee and funds are invested.

The Farmland strategy aims to invest directly in farmland, farmland businesses and agricultural commodities. The investment will include land, underlying assets which may comprise infrastructure (buildings, sheds, tractors, graders), livestock and other associated assets.

Derivatives may be used as part of the risk management strategy (for example, commodity, currency, weather) including exchange traded or over the counter instruments. For commodity derivatives, long or short positions may be taken.

### **ii) Risk Analysis**

Our strategies are implemented through transactions in physical securities and in derivative instruments in the currency, credit and interest rate markets. Although these markets are highly liquid, transaction costs do have an impact on performance and there is a risk that volatile market conditions will require a higher level of activity than normal. This would negatively impact performance through higher transaction costs.

Each investment strategy we offer invests in a variety of securities and other assets and employs a number of investment techniques that involve certain risks.

The risks set forth below represent a general summary of the material risks involved in the investment strategies we offer.

#### **GENERAL RISKS THAT APPLY TO ALL STRATEGIES OFFERED**

Investing in securities and other assets involves a risk of loss that the investor should be prepared to bear. Insight Pareto does not guarantee or represent that our investment program will be successful. Our past results are not indicative of future performance. We cannot assure that the investments made on behalf of our clients will be profitable, and in fact substantial losses could be incurred. Investments with us are not a bank deposit and are not insured or guaranteed by the FDIC or any other government agency.

#### **CONFLICTS OF INTEREST RELATING TO ACCOUNTS WITH DIFFERENT STRATEGIES**

We and our affiliates manage numerous accounts with a variety of strategies, which may present conflicts of interest. For example, it is possible for one strategy to take a long position in an instrument at the same time that another strategy takes a short position. Taking concurrent conflicting positions can cause a loss to one client and a gain to another. Likewise, a long/short position in two client accounts simultaneously could potentially result in a loss to one client based on a decision to take a gain in the other. Each opposing position is taken independently of any other client's position and is based on the requirements of the relevant client mandate. In addition, accounts running different strategies are traded separately.

#### **DEPENDENCE ON INSIGHT PARETO**

The success of the strategies depends in large part upon the skill and expertise of Insight Pareto to develop and effectively implement the strategies' investment objectives. Investors will be relying entirely on Insight Pareto to manage the strategies. Subjective decisions made by Insight Pareto may cause client accounts to incur losses or to miss profit opportunities on which they would otherwise have capitalized.

#### **RETENTION AND MOTIVATION OF KEY EMPLOYEES**

The performance of the strategies is largely dependent on the talents and efforts of Insight Pareto personnel. The success of the strategies depends on Insight Pareto's ability to identify and willingness to provide acceptable compensation to attract, retain and motivate talented investment professionals and other personnel. There can be no assurance that Insight Pareto's investment professionals will continue to be associated with Insight Pareto throughout the life of the strategy, and the failure to attract or retain such investment professionals could have a material adverse effect on the strategies including, for example, by limiting Insight Pareto's ability to pursue particular investment strategies discussed herein. Competition in the financial services industry for qualified personnel is intense and there is no guarantee that the talents of Insight Pareto's investment professionals could be replaced.

#### **INCREASED REGULATION**

The financial services industry generally, and the activities of hedge funds and their managers in particular, have been subject to increasing regulation. Such regulation may increase Insight Pareto's legal, compliance, operational and related costs. Increased regulation also increases administrative requirements on Insight Pareto, including, without limitation, responding to investigations and implementing new policies and procedures.

Due to the increase in regulation and because the impact or content of forthcoming regulations is not known, it is possible that the increased costs as a result of such regulation render some strategies more costly or difficult to implement, and some strategies may not be feasible to implement in the future.

## **GENERAL ECONOMIC CONDITIONS AND MARKET CONDITIONS**

The success of the strategies will be affected by general economic and market conditions, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in laws, trade barriers, currency exchange controls and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of financial instrument prices and the liquidity of the positions. Volatility or illiquidity could impair profitability or result in losses. Strategies may maintain substantial trading positions that can be adversely affected by the level of volatility in the financial markets – the larger the positions, the greater the potential for loss.

The economies of non-US countries may differ favorably or unfavorably from the US economy in such respects as growth of gross domestic product, rate of inflation, currency depreciation, asset reinvestment, resource self-sufficiency and balance of payments position. Further, certain non-US economies are heavily dependent upon international trade and, accordingly, have been and may continue to be adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. The economies of certain non-US countries may be based, predominantly, on only a few industries and may be vulnerable to changes affecting those industries and may have higher levels of debt or inflation.

## **CURRENT MARKET CONDITIONS AND GOVERNMENTAL ACTIONS**

Beginning in the fourth quarter of 2008, world financial markets experienced extraordinary market conditions, including, among other things, extreme losses and volatility in securities markets and the failure of credit markets to function. These events have largely been attributed to the combination of a real estate bubble in the US and the securitization and deregulation of real estate mortgages in a way that made the risks of mortgage-backed securities difficult to assess. In reaction to these events, regulators in the US and several other countries undertook unprecedented regulatory actions. Today, such regulators continue to consider and implement additional measures to stabilize and encourage growth in US and global financial markets including the Eurozone which is experiencing a period of instability and reduced liquidity.

It is uncertain whether the regulatory actions taken by regulators will be able to prevent further losses and volatility in securities markets, or stimulate the credit markets.

Insight Pareto's strategies may be materially adversely affected by the foregoing events, or by similar or other events in the future. In the long term, there may be significant new regulations that could limit Insight Pareto's, activities and investment opportunities or change the functioning of capital markets, and there is the possibility that the severe worldwide economic downturn could continue for a period of years. Consequently, Insight Pareto may not be capable of, or successful at, preserving the value of assets, generating positive investment returns or effectively managing risks.

Legal, tax and regulatory developments that may adversely affect clients' accounts could occur. Securities and futures markets are subject to comprehensive statutes, regulations and margin requirements enforced by the SEC, other regulators and self-regulatory organizations and exchanges. These authorities are authorized to take extraordinary actions in the event of market emergencies. The regulation of derivatives transactions is an evolving area of law and is subject to change by government and judicial actions. There has been an increase in governmental, as well as self-regulatory, scrutiny of the alternative investment industry in general. It's impossible to predict the effect of the changes in law and regulation.

## **COUNTERPARTY AND SETTLEMENT RISK.**

There is a risk that the counterparty may default on its obligations to perform under the relevant contract. In the event of a bankruptcy or insolvency of a counterparty, there may be delays in liquidating the position and significant losses may be incurred. If a counterparty was unable to meet its contractual obligations under certain derivative contracts, the client account in relation to which Insight Pareto had entered into that derivative could incur a loss and this would have an adverse effect on the value of the client account. A client account may concentrate any or all of its derivatives with one counterparty. The fact that the derivatives may be entered into over-the-counter, rather than on a regulated market may increase the risk. This risk may be mitigated by receiving collateral.

### **MARKET RISK.**

The market value of a security may decline due to general market conditions that are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. A security's market value also may decline because of factors that affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry.

### **HIGHLY VOLATILE MARKETS**

The positions held by the strategies can be highly volatile. Price movements of forwards, futures and other derivative contracts in which the client assets may be invested can be highly volatile and are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in government bonds, currencies, financial instruments, futures and options. Such intervention often is intended directly to influence prices and may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. The effect of such intervention is often heightened by a group of governments acting in concert. The strategies may make certain speculative investments in currencies which Insight Pareto believes to be undervalued; however, there are no assurances that the currencies purchased will in fact be undervalued. In addition, the client account may be required to hold such currencies for a substantial period of time before realizing their anticipated value

### **OPERATIONAL RISK**

The strategies depend on Insight Pareto to develop appropriate systems and procedures to control operational risk. These systems and procedures may not account for every actual or potential disruption of the strategies' operations. Insight Pareto's business is dynamic and complex. As a result, certain operational risks are intrinsic to the strategies' operations, especially given the volume, diversity and complexity of transactions that the strategies are expected to enter into daily. Insight Pareto's business is highly dependent on its ability to process, on a daily basis, transactions across numerous and diverse markets. Consequently, Insight Pareto relies heavily on its financial, accounting and other data processing systems. The ability of its systems to accommodate an increasing volume, diversity and complexity of transactions could also constrain the ability of Insight Pareto to properly manage its strategies. Systemic failures in the systems employed by Insight Pareto and/or counterparties, exchanges and similar clearance and settlement facilities and other parties could result in mistakes made in the confirmation or settlement of transactions, or in transactions not being properly booked, evaluated or accounted for. These and other similar disruptions in Insight Pareto's operations may cause clients' accounts to suffer, among other things, financial loss, the disruption of its businesses, liability to third parties, regulatory intervention or reputation damage.

### **FOREIGN CURRENCY RISK**

Changes in exchange rates between currencies or the conversion from one currency to another may also cause the value of investments to diminish or increase. Performance may be strongly influenced by movements in FX rates because currency positions held by the client account may not correspond with the securities positions held. Foreign currency exchange rates are determined by forces of supply and demand in foreign exchange markets. These forces are, in turn, affected by international balance of payments and other economic and financial conditions, government intervention, speculation and other factors. Foreign currency exchange rates may also be affected by government policies or intervention in the foreign exchange markets, and certain currencies may be affirmatively supported generally or relative to specific currencies (such as US dollar) by their or other governments. Changes in government policy, including a cessation of currency support intervention, may result in abrupt changes in the valuation of such currencies.

#### **FOREIGN INVESTMENT RISK.**

The strategy's performance will be influenced by political, social and economic factors affecting investments in foreign companies. Special risks associated with investments in foreign issuers include exposure to currency fluctuations, less liquidity, less developed or less efficient trading markets, lack of comprehensive company information, political and economic instability and differing auditing and legal standards. Investments denominated in foreign currencies are subject to the risk that such currencies will decline in value relative to the U.S. dollar and affect the value of these investments. The ability of a foreign sovereign obligor to make timely payments on its external debt obligations will be strongly influenced by the obligor's balance of payments, including export performance, its access to international credits and investments, fluctuations in interest rates and the extent of its foreign reserves. A governmental obligor may default on its obligations. The securities of issuers located in emerging markets can be more volatile and less liquid than those of issuers in more mature economies.

#### **ISSUER RISK.**

The value of a security may decline for a number of reasons which directly relate to the issuer, such as management performance, financial leverage and reduced demand for the issuer's products or services.

#### **STRATEGY RISKS**

The table below and section that follows sets forth information concerning the material risks involved with each strategy. An 'X' in the table indicates that the strategy involves the corresponding risk. An empty box indicates that the strategy does not involve the corresponding risk in a material way. However, an empty box does not guarantee that the strategy will not be subject to the corresponding risk.

The risks set forth below represent a general summary of the material risks involved in the investment strategies we offer. If applicable, please refer to the 'Risk Factors' section in the offering documents for a more detailed discussion of the risks involved in an investment in a fund.



	Currency Risk Management	Developed Market Long Short Volatility	Farmland	Commercial Real Estate Loans	Insight Broad Opportunities	Global / European Fixed Income	Emerging Market Corporate Debt	Global Absolute Return Bonds	Absolute Return Multi -Strategy	Absolute Return Emerging Market Debt Strategy	Absolute Return Currency Strategy	Absolute Return Credit Strategy	Absolute Return Equity Market Neutral Strategy
Asset-backed and mortgage-backed securities risks						X		X				X	
Commodity sector risk			X		X				X				
Credit risk				X	X	X	X	X	X	X	X	X	X
Derivatives risk	X	X	X		X	X	X	X	X	X	X	X	X
Emerging market risk	X		X		X	X	X	X	X	X	X		
Exchange traded fund (etf) risk					X				X				X
Forward contracts risk	X	X	X		X	X	X	X	X	X	X	X	X
Government securities risk						X		X		X	X		
High yield bond risk				X	X	X	X	X	X	X	X	X	
Inflation indexed security risk		X				X		X			X		
Interest rate risk				X	X	X	X	X	X	X	X	X	
Leverage risk	X	X			X	X		X	X	X	X	X	X
Liquidity risk			X	X	X	X	X	X	X	X	X	X	X
Options risk	X	X			X		X	X	X	X	X	X	
Non deliverable forwards	X	X			X	X	X	X	X	X	X	X	
Real estate sector risk			X	X	X				X				
Quantitative model risk	X	X			X				X				
Sales and repurchase agreements						X		X		X		X	
Swap agreements risk		X			X	X	X	X	X	X	X	X	X

**Asset-backed and mortgage-backed securities risks.** Traditional debt securities typically pay a fixed rate of interest until maturity, when the entire principal amount is due. By contrast, payments on mortgage-backed securities (MBS) typically include both interest and partial payment of principal. Principal may also be prepaid voluntarily, or as a result of refinancing or foreclosure. The strategy may have to invest the proceeds from prepaid investments under less attractive terms and yields. Compared to other debt, MBS are less likely to increase in value during periods of declining interest rates and have a higher risk of decline in value during periods of rising interest rates. They can increase the volatility of the strategy. Some MBS receive only portions of payments of either interest or principal of the underlying mortgages. The yields and values of these investments are extremely sensitive to changes in interest rates and in the rate of principal payments on the underlying mortgages. The market for these investments may be volatile and limited, which may make it difficult to buy or sell them. Asset-backed securities (ABS) are structured like MBS, but instead of mortgage loans or interests in mortgage loans, the underlying assets may include such items as motor vehicle installment sales or installment loan contracts, leases of various types of real estate and personal property and receivables from credit card agreements. Because ABS generally do not have the benefit of a security interest in the underlying assets that is comparable to a mortgage, ABS present certain additional risks that are not present with MBS. For example, the ability of an issuer of ABS to enforce its security interest in the underlying assets may be limited. MBS and ABS are generally issued in multiple classes, each having different maturities, interest rates and payment schedules, and with the principal and interest on the underlying mortgages or other assets allocated among the several classes in various ways. Payment of interest or principal on some classes may be subject to contingencies or some classes or series may bear some or all of the risk of default on the underlying mortgages or other assets. In some cases, the complexity of the payment, credit quality and other terms of such securities may create a risk that terms of the security are not fully transparent. In addition, the complexity of MBS and ABS may make valuation of such securities at an appropriate price more difficult, particularly where the security is customised. In determining the average maturity or duration of an MBS or ABS, Insight Pareto must apply certain assumptions and projections about the maturity and prepayment of such security; actual prepayment rates may differ. If the life of a security is inaccurately predicted, the strategy may not be able to realise the expected rate of return. In addition, many MBS and ABS are subject to heightened liquidity risk. The number of investors that are willing and able to buy such instruments in the secondary market may be smaller than that for more traditional debt securities.

**Commodity sector risk.** Exposure to the commodities markets may subject the client to greater volatility than investments in traditional securities. The values of commodities and commodity-linked investments are affected by events that might have less impact on the values of stocks and bonds. Investments linked to the prices of commodities are considered speculative. Prices of commodities and related contracts may fluctuate significantly over short periods for a variety of factors, including: changes in supply and demand relationships, weather, agriculture, trade, fiscal, monetary and exchange control programs, disease, pestilence, acts of terrorism, embargoes, tariffs and international economic, political, military and regulatory developments. The commodity markets are subject to temporary distortions or other disruptions due to a variety of factors, including the lack of liquidity in the markets, the participation of speculators and government regulation and intervention. U.S. futures exchanges and some foreign exchanges have regulations that limit the amount of fluctuation in futures contract prices, which may occur during a single business day. These limits are generally referred to as 'daily price fluctuation limits' and the maximum or minimum price of a contract on any given day as a result of these limits is referred to as a 'limit price.' Once the limit price has been reached in a particular contract, no trades may be made at a different price. Limit prices have the effect of precluding trading in a particular contract or forcing the liquidation of contracts at disadvantageous times or prices. These circumstances could adversely affect the value of the commodity-linked investments.

**Credit risk.** Failure of an issuer to make timely interest or principal payments, or a decline or perception of a decline in the credit quality of a bond, can cause a bond's price to fall, potentially lowering the value of the client account. The lower a bond's credit rating, the greater the chance – in the rating agency's opinion – that the bond issuer will default or fail to meet its payment obligations. High yield ('junk') bonds involve greater credit risk, including the risk of default, than investment grade bonds, and are considered predominantly speculative with respect to the issuer's ability to make principal and interest payments. The prices of high yield bonds can fall dramatically in response to bad news about the issuer or its industry, or the economy in general.

**Derivatives risk.** Derivatives (such as swaps) are highly specialised instruments that require investment techniques and risk analysis different from those associated with equities and debt securities. The use of a derivative requires an understanding not only of the underlying instrument but also of the derivative itself. In particular, the use and complexity of derivatives require the maintenance of adequate controls to monitor the transactions entered into and the ability to assess the risk that a derivative transaction adds to a portfolio. There can be no guarantee or assurance that the use of derivatives will meet or assist in meeting the investment objectives of the strategy. There is also a possibility that ongoing derivative transactions will be terminated unexpectedly as a result of events outside the control of Insight Pareto, for instance, bankruptcy, supervening illegality or a change in the tax or accounting laws relative to those transactions at the time the agreement was originated. There can be no assurance that a liquid secondary market will exist at any specified time for any particular swap. Derivatives do not always perfectly or even highly correlate or track the value of the securities, rates or indices they are designed to track. The use of derivative techniques may not always be an effective means of, and sometimes could be counter-productive to, the relevant investment objective. Both exchange-traded and over-the-counter derivatives may be used, including, but not limited to, futures, forwards, swaps, options and contracts for differences. These instruments can be highly volatile and expose investors to a high risk of loss. The low initial margin deposits normally required to establish a position in such instruments permit a high degree of leverage. As a result, depending on the type of instrument, a relatively small movement in the price of a contract may result in a profit or a loss which is high in proportion to the amount actually placed as initial margin and may result in unquantifiable further loss exceeding any margin deposited. In addition, daily limits on price fluctuations and speculative position limits on exchanges may prevent prompt liquidation of positions resulting in potentially greater losses. Transactions in over-the-counter contracts may involve additional risk as there is no exchange market on which to close out an open position. It may be impossible to liquidate an existing position, to assess the value of a position or to assess the exposure to risk. There is also the possibility that derivatives do not completely correlate with their underlying assets, interest rates or indices. Inappropriate valuations can result in higher demands for cash by counterparties or in a loss in value. There is not always a direct or parallel relationship between a derivative and the value of the assets, interest rates or indices from which it is derived. For these reasons, the use of derivatives by a strategy is not always an effective means of attaining the strategy's investment objective and can at times even have the opposite effect.

**Emerging market risk.** Emerging markets tend to be more volatile and less liquid than the markets of more mature economies, and generally have less diverse and less mature economic structures and less stable political systems than those of developed countries. The securities of issuers located or doing substantial business in emerging markets are often subject to rapid and large changes in price. In particular, emerging markets may have relatively unstable governments, present the risk of sudden adverse government or regulatory action and even nationalization of businesses, restrictions on foreign ownership or prohibitions of repatriation of assets, and may have less protection of property rights than more developed countries. The economies of emerging market countries may be based predominantly on only a few industries and may be highly vulnerable to changes in local or global trade conditions, and may suffer from extreme debt burdens or volatile inflation rates. Local securities markets may trade a small number of securities and may be unable to respond effectively to increases in trading volume, potentially making prompt liquidation of substantial holdings difficult. Transaction settlement and dividend collection procedures also may be less reliable in emerging markets than in developed markets.

**Exchange-traded fund (ETF) risk.** ETFs in which the strategy may invest involve certain inherent risks generally associated with investments in a portfolio of common stocks, including the risk that the general level of stock prices may decline, thereby adversely affecting the value of each unit of the ETF. Moreover, an ETF may not fully replicate the performance of its benchmark index because of the temporary unavailability of certain index securities in the secondary market or discrepancies between the ETF and the index with respect to the weighting of securities or the number of stocks held. Investing in ETFs, which are investment companies, may involve duplication of advisory fees and certain other expenses.

**Forward contracts risk.** Client accounts may enter into forward contracts that are not traded on exchanges and are generally not regulated. There are no limitations on daily price moves of forward contracts. Banks may require clients to deposit margin with

respect to such trading, although margin requirements are often minimal or non-existent. Counterparties are not required to continue to make markets in such contracts. There have been periods during which certain counterparties have refused to continue to quote prices for forward contracts or have quoted prices with an unusually wide spread (the price at which the counterparty is prepared to buy and that at which it is prepared to sell). Arrangements to trade forward contracts may be made with only one or a few counterparties, and liquidity problems therefore might be greater than if such arrangements were made with numerous counterparties. The imposition of credit controls by governmental authorities might limit such forward trading to less than the amount that Insight Pareto would otherwise recommend, to the possible detriment of the client account.

**Government securities risk.** Not all government and governmental agency obligations are backed by the full faith and credit of the relevant government. Some obligations are backed only by the credit of the issuing agency, and in some cases there may be some risk of default by the issuer. Any guarantee by the relevant government or its agencies of a security held by the strategy does not apply to the market value of such security. A security backed by the full faith and credit of the relevant government is guaranteed only as to the timely payment of interest and principal when held to maturity. In addition, because many types of government securities trade actively outside the relevant country, their prices may rise and fall as changes in global economic conditions affect the demand for these securities.

**High yield bond risk.** The strategy may invest in high yield bonds. High yield ('junk') bonds involve greater credit risk, including the risk of default, than investment grade bonds, and are considered predominantly speculative with respect to the issuer's ability to make principal and interest payments. The prices of high yield bonds can fall dramatically in response to bad news about the issuer or its industry, or the economy in general.

**Inflation-indexed security risk.** Interest payments on inflation-indexed securities can be unpredictable and will vary as the principal and/or interest is periodically adjusted based on the rate of inflation. If the index measuring inflation falls, the interest payable on these securities will be reduced. Inflation-indexed securities issued by corporations generally do not guarantee repayment of principal. Any increase in the principal amount of an inflation-indexed security will be considered taxable ordinary income, even though investors do not receive their principal until maturity. As a result, the strategy may be required to make annual distributions that exceed the cash the strategy received, which may cause the strategy to liquidate certain investments when it is not advantageous to do so. Also, if the principal value of an inflation-indexed security is adjusted downward due to deflation, amounts previously distributed may be characterized in some circumstances as a return of capital.

**Interest rate risk.** Any investment in fixed-income securities will be subject to interest rate credit risk. Prices of fixed income securities tend to move inversely with changes in interest rates. Typically, a rise in rates will adversely affect bond prices and, to the extent the client account invests in bonds, the value of the client account. The longer the effective maturity and duration of these investments, the more likely value of the client account will react to interest rates.

**Leverage risk.** The use of leverage, such as engaging in reverse repurchase agreements, lending portfolio securities, entering into futures contracts or forward currency contracts, investing in inverse floaters and engaging in forward commitment transactions, may magnify the client accounts' adviser's gains or losses. Because many derivatives have a leverage component, adverse changes in the value or level of the underlying asset, reference rate or index can result in a loss substantially greater than the amount invested in the derivative itself. Certain derivatives have the potential for unlimited loss, regardless of the size of the initial investment.

**Liquidity risk.** When there is little or no active trading market for specific types of securities, it can become more difficult to sell the securities at or near their perceived value. In such a market, the value of such securities may fall dramatically. Liquidity risk also exists when a particular derivative instrument is difficult to purchase or sell. If a derivative transaction is particularly large or if the relevant market is illiquid (as is the case with many privately negotiated derivatives), it may not be possible to initiate a transaction or liquidate a position at an advantageous time or price.

**Options risks.** Like the writing of other kinds of options, the writing of an option on a currency constitutes only a partial hedge, up to the amount of the premium received; the client could also be required, with respect to any option it has written, to purchase or sell securities or other assets at disadvantageous prices, thereby incurring unlimited losses. The purchase of an option may constitute an effective hedge, although in the event of movements adverse to the client's position, the client could forfeit the entire amount of the premium plus related transaction costs. The client's account may incur risks associated with the sale and purchase of call options. The seller (writer) of a call option which is covered (i.e., the writer holds the underlying currency) assumes the risk of a decline in the market price of the underlying currency below the purchase price of the underlying currency less the premium received, and gives up the opportunity for gain on the underlying currency above the exercise price of the option. The seller of an uncovered call option assumes the risk of a theoretically unlimited increase in the market price of the underlying currency above the exercise price of the option. The buyer of a call option assumes the risk of losing its entire premium investment in the call option. The client's account may incur risks associated with the sale and purchase of put options. The seller (writer) of a put option which is covered (i.e., the writer has a short position in the underlying currency) assumes the risk of an increase in the market price of the underlying security above the sales price (in establishing the short position) of the underlying asset plus the premium received, and gives up the opportunity for gain on the underlying asset if the market price falls below the exercise price of the option. The seller of an uncovered put option assumes the risk of a decline in the market price of the underlying asset below the exercise price of the option. The buyer of a put option assumes the risk of losing its entire investment in the put option.

**Non-Deliverable Forwards risk.** Non-deliverable forwards are used for currencies of countries that may impose certain currency market restrictions. Non-deliverable forwards are similar to traditional forward contracts, in that an agreement is made to buy and sell a specific amount of one currency in exchange for another currency for settlement on a predetermined future date and at a pre-agreed rate, except that there is no physical delivery of the referenced currencies. The contracts are cash-settled at expiration in a deliverable currency, such as US dollars.

**Real estate sector risk.** The securities of issuers that are principally engaged in the real estate sector may be subject to risks similar to those associated with the direct ownership of real estate. These include: declines in real estate values, defaults by mortgagors or other borrowers and tenants, increases in property taxes and operating expenses, overbuilding, fluctuations in rental income, changes in interest rates, possible lack of availability of mortgage advisers or financing, extended vacancies of properties, changes in tax and regulatory requirements (including zoning laws and environmental restrictions), losses due to costs resulting from the clean-up of environmental problems, liability to third parties for damages resulting from environmental problems, and casualty or condemnation losses. In addition, the performance of the economy in each of the regions and countries in which the real estate owned by a portfolio company is located affects occupancy, market rental rates and expenses and, consequently, has an impact on the income from such properties and their underlying values.

**Quantitative model risk.** For certain strategies, the Firm relies on quantitative models that utilize mathematical and statistical formulas designed to select a combination of positions that reflect forward-looking estimates of return and risk. There can be no assurance that a particular quantitative model has been designed to appropriately account for all variables that may affect the performance of a particular investment strategy. Any errors in the design, input or implementation of the quantitative models used by us could have a material adverse effect on the performance of a particular investment strategy. Due to the foregoing risks and the inherent complexities in quantitative models, it may be very difficult or impossible to detect the source of any weakness or failing in a quantitative model, before any losses are incurred.

**Sale and repurchase agreements (repos) risk.** The use of repos may give rise to residual credit risks. Though it is essentially a collateralized transaction, the seller may fail to repurchase the securities sold at the maturity date. In other words, the repo seller defaults on his obligation. Consequently, the buyer may keep the security, and liquidate the security in order to recover the cash lent. The security, however, may have lost value since the outset of the transaction as the security is subject to market movements. Credit risk associated with repos is subject to many factors including term of repo, liquidity of security and the strength of the counterparties involved.

**Swap agreements risk.** Insight Pareto, on behalf of its clients, may enter into swap agreements and options on swap agreements ('swaptions'). These agreements can be individually negotiated and structured to include exposure to a variety of different types of investments, asset classes or market factors. The strategies, for instance, may enter into swap agreements with respect to interest rates, credit defaults, currencies, securities, indexes of securities and other assets or other measures of risk or return. Depending on their structure, swap agreements may increase or decrease the client account's exposure to, for example, long-term or short-term interest rates, foreign currency values, credit spreads or other factors. Swap agreements can take many different forms and are known by a variety of names. Whether the strategies' use of swap agreements or swaptions will be successful will depend on Insight Pareto's ability to select appropriate transactions for the client account. Swap transactions may be highly illiquid and may increase or decrease the volatility of the client's portfolio. Moreover, the client account bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its counterparty.

## ITEM 9. DISCIPLINARY INFORMATION

BNY Mellon, including its affiliates, is a large financial services group and from time to time will be subject to legal proceedings. There are no current proceedings that are material to Insight Pareto's business.

The New York State Attorney General's Offices, the U.S. Attorney's Office for the Southern District of New York and certain other plaintiffs have filed civil complaints against The Bank of New York Mellon (the 'Bank') and/or BNY Mellon. BNY Mellon is the parent company of the Bank and Insight Pareto. These actions allege that the Bank and/or BNY Mellon improperly charged and reported prices for standing instruction foreign exchange ('FX') transactions executed in connection with custody services provided by the Bank. BNY Mellon believes that the claims asserted in the actions are without merit, and reflect a fundamental misunderstanding of the role of custodian banks and the operation of institutional FX markets. BNY Mellon plans to defend itself vigorously on behalf of its shareholders. Insight Pareto is not a defendant to any of these actions.

## ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

As a part of the BNY Mellon group, Insight Pareto is affiliated with a number of entities that are subsidiaries of BNY Mellon.

Where permissible by applicable law and in accordance with client guidelines, Insight Pareto may use its discretionary authority to invest client accounts in affiliated pooled funds. This may give rise to a conflict of interest, Insight Pareto has policies in place to address such conflicts of interest.

Insight Pareto has relationships with the following affiliates which are material to its advisory business:

### INSIGHT INVESTMENT MANAGEMENT LIMITED (IIML) AND OTHER MEMBERS OF THE INSIGHT GROUP (INSIGHT)

Insight Pareto is part of the Insight Group which comprises those companies wholly owned by IIML, which in turn is a wholly owned subsidiary of BNY Mellon. Services offered by the Insight Group in the US and Canada are offered by Insight Pareto under the Insight Pareto brand.

Insight is one of the UK's largest active managers. It is responsible for assets across fixed income, equities and currencies and a range of risk management and risk mitigation solutions. These capabilities include: liability-driven investment; absolute return and dynamic multi asset class strategies; and currency risk management.

Personnel who provide services on behalf of Insight Pareto are primarily employed by IIML. IIML has entered into a dual officer arrangement whereby any strategies, managed for US clients will be managed by IIML personnel as officers of Insight Pareto. US clients enter into contracts with and receive advisory services from Insight Pareto.

### PARETO NEW YORK LLC (PNY)

PNY markets Insight Pareto's strategies and provides client servicing for Insight Pareto's North American clients. PNY does not

recommend any investment or provide advice in the course of marketing Insight Pareto strategies. PNY is not independent of Insight Pareto and PNY's interests are generally aligned with those of Insight Pareto.

PNY provides advice only in the course of providing services to clients of Insight Pareto and uses information provided by Insight Pareto for this purpose. PNY does not provide guidance or advice which is independent of Insight Pareto.

With the exception of some existing sales commission payments that are in a run off period, Insight Pareto does not remunerate any officer or employee of PNY by way of commission for the introduction of clients. Insight Pareto has entered into an agreement with PNY and remunerates PNY as specified in Item 14.

PNY is a registered investment adviser with the SEC and is registered as a Commodity Trading Adviser with the CFTC.

## Other Material Affiliations

### THE BNY MELLON GROUP

The BNY Mellon group is a global financial services group providing a comprehensive array of financial services (including asset management, wealth management, asset servicing, clearing and execution services, issuer services and treasury services) through a world-wide client focused team that enables institutions and individuals to manage and service their financial assets. BNY Mellon Asset Management is the umbrella designation for BNY Mellon's affiliated investment management firms and global distribution companies and is responsible, through various subsidiaries, for US and non-US retail, intermediary and institutional distribution of investment management and related services.

Insight Pareto may enter into transactions with unaffiliated counterparties or third party service providers who then use affiliates of Insight Pareto to execute such transactions. These services may include, for example, clearance of trades, purchases or sales of ADRs, or other transactions not contemplated by us. Although one of our affiliates may receive compensation for engaging in these transactions, the decision to use or not use an affiliate of ours is made by the unaffiliated counterparty or third party service provider. Further, we will likely be unaware that the affiliate is being used to enter into such transaction.

BNY Mellon and/or its other affiliates may gather data from us about our investment activities, including information about holdings within client portfolios, which is required for regulatory filings to be made by us or BNY Mellon or other affiliates (e.g., reporting beneficial ownership of equity securities) or for other compliance, legal or risk management purposes, pursuant to policies and procedures of Insight Pareto, BNY Mellon or other affiliates. Procedures are followed to ensure that any information is utilized solely for the purposes intended and that otherwise confidentiality is maintained.

To the extent permissible under applicable law, we may decide to invest in money market accounts advised or managed by a BNY Mellon affiliate. In addition, we may invest client accounts in affiliated pooled vehicles. Such affiliated pooled vehicles are further described in their offering documents such as the prospectus or offering memorandum and, in the case of collective investment trusts, Schedule A(s) of the applicable collective investment trust documents, which are available on request. We have an incentive to allocate investments to these types of affiliated accounts in order to generate additional fees for us or our affiliates.

Insight Pareto has agreements with BNY Mellon Asset Management who may also solicit clients for Insight Pareto.

### BNY MELLON'S STATUS AS A BANK HOLDING COMPANY

BNY Mellon and its direct and indirect subsidiaries, including Insight Pareto, are subject to certain U.S. banking laws, including the Bank Holding Company Act of 1956, as amended (the 'BHCA'), and to regulation and supervision by the Board of Governors of the Federal Reserve System (the 'Federal Reserve'). The BHCA (and other applicable banking laws, and their interpretation and administration by the appropriate regulatory agencies, including but not limited to the Federal Reserve) may restrict the transactions and relationships among BNY Mellon, its affiliates (including us) and our clients, and may restrict our investments,



transactions and operations. For example, the BHCA regulations applicable to BNY Mellon and us may, among other things, restrict our ability to make certain investments or the size of certain investments, impose a maximum holding period on some or all of our investments, and restrict our ability to participate in the management and operations of the companies in which we invest. In addition, certain BHCA regulations may require aggregation of the positions owned, held or controlled by related entities. Thus, in certain circumstances, positions held by BNY Mellon and its affiliates (including us) for client and proprietary accounts may need to be aggregated and may be subject to a limitation on the amount of a position that may be held. The foregoing limits may have an adverse effect on our ability to manage client investment portfolios. For example, depending on the percentage of a company we and our affiliates (in the aggregate) control at any given time, the limits may (1) restrict our ability to invest in that company for certain clients and/or (2) require us to sell certain client holdings of that company at a time when it may be undesirable to take such action. Additionally, BNY Mellon may in the future, in its sole discretion and without notice, engage in activities impacting us in order to comply with the BHCA or other legal requirements applicable to (or reduce or eliminate the impact or applicability of any bank regulatory or other restrictions on) us and accounts managed by us and our affiliates.

We may be prohibited or limited from effecting transactions because of rules in the marketplace, foreign laws or our own policies and procedures. In certain cases, we may face further limitations because of aggregation issues due to our relationship with affiliated investment management firms. Please also refer to Item 12, below, for a discussion of trade aggregation issues.

#### **BNY MELLON INCENTIVE REFERRAL COMPENSATION PROGRAM**

Insight Pareto follows the principles of BNY Mellon's incentive compensation program ('Program'). The Program is designed to (i) reward internal referrals of business and opportunities; (ii) help clients understand and gain access to the full range of products and services offered by BNY Mellon and its subsidiaries; and (iii) expand and develop client relationships.

The program promotes BNY Mellon's corporate values of Client Focus, Trust, Teamwork and Outperformance by encouraging the cross-selling of BNY Mellon's broad array of services and products throughout the organization to better meet a current or prospective client's full range of needs for financial products and services, and to expand customer relationships. The Program seeks to financially reward (via bonus or referral fee) eligible employees who offer a business lead that results in a sale of certain affiliated products or services to existing clients and prospects. These bonuses and referral fees may be paid to us and our employees for referring business (services or products) to our affiliates, and our affiliates and their employees may receive bonuses and referral fees for referring business to us. Insight Pareto employees may participate in the program which may create a conflict of interest when marketing investment strategies to existing or potential clients of Insight Pareto. Employees participating in the program are financially compensated for successful introductions which may mean that advice on such strategies is not independent.

#### **AFFILIATED PLACEMENT AGENTS**

Insight Pareto has affiliated 'placement agents,' including MBSC Securities Corporation (MBSC) which solicit persons to invest in various strategies, including pooled funds and separate account products. Insight Pareto and certain pooled funds have entered into agreements with these placement agents to pay commissions or fees for such solicitations. Insight Pareto or our affiliates are solely responsible for the payment of these commissions and fees, they will not be borne by the pooled funds, their investors or the segregated account client. We or our affiliates pay these commissions and fees out of our profits, and these payments do not increase the fees paid by the pooled fund's investors. These incentives may cause the placement agents and their employees and/or salespersons to steer investors toward those pooled funds and products that may generate higher commissions and fees. Please see Item 14 for more information on the compensation arrangements related to client referrals.

Certain of our sales and client service employees are registered representatives of our affiliate MBSC a registered broker-dealer under the Securities Exchange Act of 1934, as amended, and a member of FINRA. In their capacity as registered representatives of MBSC, these employees sell and provide services regarding securities managed by Insight Pareto.



#### **AFFILIATED SERVICE PROVIDERS**

In addition, to the extent permitted by law, placement agents and their respective affiliates may provide brokerage and certain other financial and securities services to us, our affiliates or related pooled funds and segregated accounts under our management. Such services, if any, will be provided at competitive rates and would be executed consistent with our duty to obtain best execution. BNY Mellon is also affiliated with service providers, distributors and consultants that may provide services and may receive fees from BNY Mellon in connection with such services, which may incentivize such persons to distribute interests in a pooled fund or other BNY Mellon products.

#### **OTHER RELATIONSHIPS**

In addition, BNY Mellon personnel, including certain of our employees, may have board, advisory, or other relationships with issuers, distributors, consultants and others that may have investments in a pooled fund and/or related pooled funds or that may recommend investments in a pooled fund or distribute interests in a pooled fund. To the extent permitted by applicable law, BNY Mellon and its affiliates, may make charitable contributions to institutions, including those that have relationships with investors or personnel of investors. To the extent permitted by applicable law our personnel may make political and/or charitable contributions to institutions, including those that have relationships with investors or personnel of investors. As a result of the relationships and arrangements described in this paragraph, placement agents, consultants, distributors and other parties may have conflicts associated with their promotion of a pooled fund or product, or other dealings with a pooled fund, that create incentives for them to promote a pooled fund or product.

#### **AFFILIATED BROKER-DEALERS AND INVESTMENT ADVISERS**

Insight Pareto is affiliated with a significant number of advisers and broker/dealers. Please see Form ADV, Part I - Schedule D, Section 7.A for a list of our affiliated advisers and broker-dealers. Where we select the broker to effect purchases or sales of securities for client accounts, we may use either an affiliated or unaffiliated broker (unless otherwise restricted by an agreement, law or regulation). We may have an incentive to enter into transactions with an affiliated broker-dealer, in an effort to direct more commission dollars to its affiliate.

We have broker selection policies in place that require our selection of a broker-dealer to be consistent with its duties of best execution, and subject to any client and regulatory proscriptions. Please see Item 12 for more information on our broker selection process.

#### **Commodity Futures Trading Commission (CFTC)**

Insight Pareto is registered as a Commodity Pool Operator and Commodity Trading Advisor with the CFTC. Some of Insight Pareto's officers and employees are registered as Principals and Associated Persons as required.

### **ITEM 11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS, PERSONAL TRADING**

Insight Pareto has adopted a Code of Ethics that is made up of two parts:

BNY Mellon Code of Conduct and Interpretive Guidance (the 'BNY Mellon Code'); and

BNY Mellon Personal Securities Trading Policy (the 'PSTP').

The BNY Mellon Code provides to employees the framework and sets the expectations for business conduct. In addition, it clarifies our responsibilities to clients, suppliers, government officials, competitors and the communities we serve and outlines important legal and ethical issues:

Conflicts of Interest: gifts, entertainment and other payments; personal conflicts of interest; fiduciary appointments and bequests; outside affiliations, outside employment and certain outside compensation issues; and disclosure of relationships and transactions;

Proper Use and Care of Information and Proper Recordkeeping: proprietary information and intellectual property; data integrity and corporate information; use of e-mail and internet; accurate accounting and internal controls; use of non-public or 'inside' information; talking to the media; and document retention;

Dealing with Customers, Prospects, Suppliers, and Competitors: business relationships with customers, prospects, suppliers, and competitors; business decisions; exploitation of relationships and use of the company's name, letterhead or facilities; knowing your customer; and recognizing and reporting illegal, suspicious, or unusual activities;

Doing Business With the Government: complying with government contracts, government contracting laws and regulations; integrity in the sales and marketing process; truthful, accurate statements and recordkeeping; safeguarding government information and property; cooperating with government audits and investigations; and meeting employment and labor obligations;

Personal Finances: personal investments; personal brokerage accounts; political campaign contributions; contributions to not-for-profit entities; and individual employees' regulatory requirements; and

Compliance with the Law: among other matters illegal or criminal activities; investigations; and protection of company assets.

The PSTP is designed to reinforce our reputation for integrity by avoiding even the appearance of impropriety and to ensure compliance with applicable laws in the conduct of our business. The PSTP sets procedures and limitations that govern the personal securities transactions of our employees in accounts held in their own names as well as accounts in which they have indirect ownership. We, and our related persons and employees, may, under certain circumstances and consistent with the PSTP, purchase or sell for their own accounts securities that we also recommend to clients and may, from time to time, invest in products managed by us or our related persons.

The PSTP imposes different requirements and limitations on employees based on the nature of their business activities for Insight Pareto. Each of our employees is classified as one of the following:

1. Investment Employee ('IE'): IEs are employees who, as part of their responsibilities, have access to non-public information regarding any advisory client's purchase or sale of securities or non-public information regarding the portfolio holdings of any Proprietary Account, or are involved in making securities recommendations to advisory clients or have access to such recommendations before they are public.
2. Access Decision Maker ('ADM'): ADMs (generally portfolio managers and research analysts who make recommendations or decisions regarding the purchase or sale of equity, convertible debt and non-investment grade debt securities for mutual funds and other managed accounts) are subject to the most extensive procedures under the PSTP.
3. Other Employee ('OE'): Our employees are considered OEs if they are not an IE or ADM.

PSTP Overview:

1. IEs and ADMs are subject to preclearance and personal securities reporting requirements, with respect to discretionary accounts in which they have direct or indirect ownership;
2. Transaction reporting is not required for non-discretionary accounts, transactions in exempt securities or certain other transactions that are not deemed to present any potential conflicts of interest;
3. Preclearance is not required for transactions involving certain exempt securities (such as open-end investment company securities that are not Proprietary Funds or money market funds and short-term instruments, non-financial commodities; transactions in non-discretionary accounts (approved accounts over which the employee has no direct or indirect influence or control over the investment decision-making process); transactions done pursuant to automatic investment plans; and certain other transactions detailed in the PSTP which are either involuntary or deemed not to present any potential conflict of interest;

4. We have a 'Preliminary Compliance Officer' who maintains a 'restricted list' of companies whose securities are subject to trading restrictions. This list is used by the Preliminary Compliance Officer to determine whether or not to grant trading authorization;
5. The acquisition of any securities in a private placement requires prior written approvals;
6. With respect to transactions involving BNYMC securities, all employees are also prohibited from engaging in short sales, purchases on margin, option transactions (other than employee option plans), and short-term trading (i.e., purchasing and selling, or selling and purchasing BNYMC securities within any 60 calendar day period);
7. With respect to non-BNYMC securities purchasing and selling, or selling and purchasing the same or equivalent security within 60 calendar days is discouraged, and any profits must be disgorged; and
8. No covered employee should knowingly participate in or facilitate late trading, market timing or any other activity with respect to any fund in violation of applicable law or the provisions of such fund's disclosure documents.
9. A copy of our Code of Ethics will be provided upon request to any client or prospective client.

The PTSP also includes a general restriction on 'spread betting' and considers that such transactions constitute transactions in securities for the purposes of the Policy and are subject to all of the provisions applicable to other non-exempted transactions

#### **INTEREST IN CLIENT TRANSACTIONS**

Note that while each of the following types of transactions present conflicts of interest for us, as described below, we manage our accounts in a manner consistent with applicable law, and we follow procedures that are reasonably designed to treat our clients fairly and to prevent any client or group of clients from being systematically favored or disadvantaged.

'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 any security from or sells any security to any client, we do not effect such principal transactions. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated fund and another client account.

When an investment adviser engages in a principal transaction, it may have an incentive to favor its own interests over the interests of its client.

It is our policy that neither we nor any of our officers or directors shall, as principal, buy securities for itself from or sell securities it owns to any client. However, we are part of a large diversified financial organization, which includes banks and broker-dealers. As a result, it is possible that a related person other than our officers and directors, may, as principal, purchase securities from, or sell securities to our clients. Insight Pareto does not engage in principal transactions.

From time to time securities to be sold on behalf of a client may be suitable for purchase by another client. In such instances, if we determine in good faith that the transaction is in the best interest of each client, then we may arrange for the securities to be transferred between the client accounts at an independently determined fair market value (a 'cross trade'). Cross trades present conflicts of interest, as there may be an incentive for us to favor one client to the cross trade over the other. For example, if one client account pays performance fees to the Firm, while the other client account pays only asset-based fees, we would have a financial incentive to favor the performance fee paying account in the cross-trade. We do not receive fees or commissions when making these trades. All crosses identified are executed through a third party broker or dealer, on an arm's length basis. However, note that cross trades are subject to Advisers Act restrictions, certain other regulatory requirements, certain client specific restrictions and will only be undertaken by us as permitted under applicable law and regulation.

We or our affiliates may invest in the same securities that we or our affiliates recommend to clients. When we or an affiliate currently holds for our own benefit the same securities as a client, we could be viewed as having a potential conflict of interest. For example, we or our affiliate could be seen as harming the performance of the client's account for our own benefit if we short-sell the securities in our own account while holding the same securities long in the client account, causing the market value of the securities to move lower.

We or our affiliates may recommend securities to clients, or buy or sell securities for client accounts, at or about the same time that we or one of our affiliates buys or sells the same securities for the our (or the affiliate's) own account. This practice may give rise to a variety of potential conflicts of interest, particularly with respect to aggregating, allocating and sequencing securities being purchased on both our (or its affiliate's) behalf and our clients' behalf. For example, we could have an incentive to cause a client or clients to participate in an offering because we desire to participate in the offering on our own behalf, and would otherwise be unable to meet the minimum purchase requirements. Likewise, we could have an incentive to cause our clients to participate in an offering to increase our overall allocation of securities in that offering, or to increase our ability to participate in future offerings by the same underwriter or issuer. On the other hand, we could have an incentive to cause our clients to minimize their participation in an offering that has limited availability so that we do not have to share a proportionately greater amount of the offering to the client. Allocations of aggregated trades might likewise raise a potential conflict of interest as we may have an incentive to allocate securities that are expected to increase in value to ourself. See Item 12 for a discussion of our brokerage and allocations practices and policies.

Insight Pareto has a fiduciary duty to manage all client accounts in a fair and equitable manner. We strive to provide the best execution of all securities transactions and aggregate and then allocate securities to client accounts in a fair and timely manner. To accomplish this, we have developed policies and procedures designed to mitigate and manage the potential conflicts or interest that may arise. Please see Item 6 for further information on conflicts specifically relating to side by side management.

#### Conflicts of Interest Relating to 'Proprietary Accounts'

We, our affiliates, and our employees may from time to time manage and/or invest in, may manage, invest in and establish propriety accounts or pooled investment vehicles for our own benefit, including 'seeded' funds or accounts for the purpose of developing new investment strategies and products (collectively 'Proprietary Accounts'). Investment by Insight Pareto, our affiliates, or our employees in Proprietary Accounts may create conflicts of interest. We may have an incentive to favor these Proprietary Accounts by, for example, directing our best investment ideas to these accounts or allocating, aggregating or sequencing trades in favor of such accounts, to the disadvantage of other accounts. We also have an incentive to dedicate more time and attention to our Proprietary Accounts and to give them better execution than our other client accounts. Insight Pareto does not have a proprietary trading account but may trade instruments for hedging fx and other exposures relating to its own revenue and expenses and does not engage in speculative trading for its own account. When Insight Pareto executes these hedging trades for its account, compliance controls are in place to mitigate any conflict of interest that may arise.

## ITEM 12. BROKERAGE PRACTICES

### BROKER SELECTION

In most cases we have the authority to direct transactions on behalf of a client to broker-dealers we select from an Approved Broker List which is reviewed regularly by the Counterparty Credit Committee. In doing so, we seek best execution of such transactions. When seeking best execution, we consider the full range and quality of a broker-dealer's services including, among other things, commission rates, a broker's trading expertise, reputation and integrity, facilities, financial services offered, reliability both in executing trades and keeping records, fairness in resolving disputes, value provided, execution capability, financial responsibility and responsiveness to Insight Pareto.

## **SOFT DOLLARS**

Insight Pareto currently operates under Commission Sharing Agreements (CSAs). Investment managers may enter into CSAs in order to re-allocate their research commission to research providers other than the executing broker. Under these arrangements the client commissions must be split into execution and research commission. Insight Pareto allows investment managers and analysts to vote for research service and product providers that add the greatest value to the Insight Pareto's investment process. Depending on the outcome of the vote, all brokers with which Insight Pareto has entered into CSAs may pay commission away to, or receive research commission, from other brokers. Insight Pareto may have an incentive to select or recommend a broker dealer based on its interest in receiving the research or other products or services rather than on its clients' interest in receiving best execution. Insight Pareto's independent dealing function is focused entirely upon obtaining best execution and is not involved in evaluating research services.

All use of CSAs undertaken for US clients will be in compliance with s28(e) of the US Securities Exchange Act of 1934.

The use of client commissions to obtain research services and products is cost-effective for us because we do not have to produce or pay for the research itself. Certain client assets of affiliates are managed by the Insight Pareto's investment managers acting in a 'dual officer' or sub-advisory capacity. Because those clients may benefit from the services and products we receive from brokers, commissions generated by those clients may be used to pay for those research services and products. For example, we may receive invitations to conferences and seminars, market, company and industry written research and customized reports and surveys.

All clients may benefit from the research paid for under CSAs, not merely the clients whose transactions in securities generated the research. We may cause clients to pay commissions higher (paying up) than charged by other brokers to receive soft commission benefits which benefit all clients because we do not have to produce or pay for the research, products or services. However, we may have an incentive to select or recommend a broker-dealer based on our interest in receiving the research or other products or services, rather than on our clients' interest in receiving most favorable execution.

## **OTHER BROKERAGE PRACTICES CONFLICTS OF INTEREST**

The following brokerage practices may lead to an actual or potential conflict of interest when selecting broker-dealers to execute client trades:

1. Receiving client referrals from a broker-dealer;
2. Acting on a client's direction to use a particular broker-dealer; and
3. Using an affiliated broker-dealer.

## **COMPENSATION FOR CLIENT REFERRALS - BROKERAGE FOR CLIENT REFERRALS**

We do not direct securities transactions to any broker-dealer in exchange for referral of investment management clients.

## **DIRECTED BROKERAGE**

We may accept direction from a client to place trades for a client's account with a particular broker-dealer. At times, a client will instruct us to execute certain trades in their portfolio with a specified broker-dealer. In the event that such direction occurs, we may have limited capability to negotiate prices or obtain volume discounts. In addition, in meeting the client's brokerage directive, we may not be able to aggregate these transactions with transactions we effect for other accounts we manage and we may delay placing the orders for directed accounts until our orders for other accounts have been completed. As a result, the net price paid or received by the directed account may be different from the price paid or received by our other accounts, as we may be unable to achieve the most favorable execution. Directing brokerage may cost clients more money.

## **TRADE AGGREGATION**

Insight Pareto may execute transactions on an aggregated basis, subject to best execution, and only to the extent that it believes aggregation will result, overall, in more favourable execution.

Generally all executions of aggregated orders will be pre-allocated in accordance with the original intended allocation at the time of the trade. In the event of an order being scaled back, the executed order will generally be allocated on a pro-rata basis. However, there may be circumstances where a pro-rata allocation may be inappropriate, for instance, where the total allocation is significantly scaled back, which could leave certain clients with holdings that are either uneconomic or below the normal market size for subsequent trading.

Where the initial application is significantly scaled back resulting in the circumstances described above, the order will be reverted back to the Fund Manager who will then re-allocate and re-approve the order based on the scaled back allocation. This will constitute a new investment management decision and as a result it may not include all of the clients who were included in the initial allocation.

The aggregations may include orders for funds in which Insight Pareto may invest and we may aggregate client trades with trades for our affiliates.

## **ITEM 13. REVIEW OF ACCOUNTS**

The investment teams are responsible for implementing the strategy, portfolio construction and on-going management and monitoring of the portfolio. As part of this function, the investment teams review each client account frequently. In course of review the performance of an account is compared with the mandate objectives and stated risk tolerances.

Responsibility for the portfolio ultimately lies with the investment teams at all times, and is monitored by other areas of Insight Pareto on a regular basis. Investment teams review all positions formally on a regularly, seeking to ensure that all portfolios comply with group investment policy and individual client guidelines. Client specific guideline compliance is verified as required on an exception basis.

Insight Pareto would typically expect to meet with clients formally on a semi-annual basis and informally on an ad-hoc basis, as required. We provide written investment reports on either a monthly or quarterly basis as required by our clients. These reports are highly tailored and typically include strategy ideas as well as regular progress reports on performance and risk analysis.

## **ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION**

### **UNAFFILIATED SOLICITORS AND PLACEMENT AGENTS**

Insight Pareto may hire third parties to solicit new investment advisory clients. The commissions or fees, if any, payable to such solicitors (also referred to as placement agents) with respect to solicitation of investments with us will be paid solely by Insight Pareto. Clients will not pay fees for these solicitations. These solicitors have an incentive for the client to hire us because we will pay the solicitor for the referral. The prospect of receiving solicitation/placement fees may provide such placement agents and/or their salespersons with an incentive to favor these sales over the sale of interests of other investments with respect to which the placement agent does not receive such compensation, or receives lower levels of compensation. In addition, to the extent permitted by law, certain placement agents and their respective affiliates may provide brokerage and certain other financial and securities services to us or our affiliates. Such services, if any, will be provided at competitive rates.

Some of our clients may retain consulting firms to assist them in selecting investment managers. We might have business relationships with consulting firms that recommend us to their clients. Some consulting firms provide services to both those who hire investment managers and to investment management firms. We may pay to attend conferences sponsored by consulting firms and/or purchase services from consulting firms where we believe those services will be useful to us in operating our investment

management business. We do not pay referral fees to consultants unless we have appointed them as placing agent or, subject to law and regulation, pursuant to an arrangement between the consulting firm and the client or prospective client..

#### **AFFILIATED SOLICITORS AND PLACEMENT AGENTS**

We may pay referral fees to our affiliates (and/or their employees) for referrals that result in additional investment management business. Please see the discussion of affiliated placement agents in Item 10, above.

#### **PARETO NEW YORK LLC (PNY)**

PNY markets Insight Pareto's strategies and provides client servicing for Insight Pareto's North American clients. PNY does not recommend any investment or provide advice in the course of marketing Insight Pareto strategies. PNY is not independent of Insight Pareto and PNY's interests are generally aligned with those of Insight Pareto.

Insight Pareto remunerates PNY by way of reimbursement of the costs and expenses of PNY's operations, including the salaries of employees, plus an additional percentage of those costs and expenses and/or other amount for the benefit of PNY. Insight Pareto may remunerate certain officers or employees of PNY by way of commission for past introduction of certain clients but does not do so for new clients.

#### **BNY MELLON GROUP**

A sales force has been created within BNY Mellon Asset Management ('BNYM Sales Force') to focus on developing new customer relationships, and developing and coordinating existing customer relationships. See Item 10 for more information on the BNY Mellon Group.

Where permitted by law and regulation, the BNYM Sales Force may seek client introductions for Insight Pareto and may be paid fees for sales by Insight Pareto. The fees may be based on revenues and may be a one-time payment or paid out over a number of years.

Sales of securities may be made through a broker-dealer affiliate. Members of the BNYM Sales Force who are registered representatives of such broker-dealer receive compensation for sales of securities.

Insight Pareto and our affiliates may also participate in the BNY Mellon Incentive Compensation Plan, which presents certain conflicts of interest, as described in Item 10 as payments are made to individual employees under this incentive plan.

Insight Pareto participates in commission sharing arrangements, for details please see Item 12.

#### **ITEM 15. CUSTODY**

Insight Pareto does not have custody of any client funds or securities and accordingly, this item is not applicable.

#### **ITEM 16. INVESTMENT DISCRETION**

Insight Pareto typically accepts discretionary investment authority over client assets and exposures for separate accounts. Clients must grant this discretionary authority to us in writing via a contract, usually an Investment Management Agreement ('IMA'). In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives and guidelines for the particular client account.

When making investment decisions we will adhere to investment guidelines and restrictions set out in client agreements.

Insight Pareto may also have full discretionary investment authority over pooled investment vehicles. Each pooled investment vehicle has an investment objective and set of investment policies and/or guidelines. Therefore we cannot tailor the investment advisory services or impose individual investment restrictions for underlying investors in these pooled investment vehicles.

## ITEM 17. VOTING CLIENT SECURITIES

Given the nature of our strategies and the type of financial instruments that we typically invest in, we do not vote proxies for the majority of client portfolio holdings. This is because we generally deal in derivatives and fixed income securities rather than shares.

However, for the small number of portfolio holdings whereby share ownership requires proxy voting, the following policy applies:

### VOTING POLICY

We routinely vote on behalf of our clients with regard to the companies in which they have a shareholding. Insight Pareto retains the services of Manifest Information Services ('Manifest') for the provision of proxy voting services and votes at all meetings where it is deemed appropriate and responsible to do so. Manifest analyse any resolution against Insight Pareto specific voting policy templates which will determine the direction of the vote. Where contentious issues are identified these are escalated to Insight Pareto for further review and direction. Insight Pareto will undertake a review of the voting policy templates on an annual basis.

With regard to voting, the conflicts of interest policy is that Insight Pareto will always seek to act in the best interests of its clients when casting proxy votes on their behalf. Where BNY Mellon, Insight Pareto or the clients themselves have business relationships with investee companies, these will be disregarded by Insight Pareto in making its proxy voting decisions.

Generally our IMAs provide us with the authority to vote proxies on equity securities for our client accounts subject to any specific instructions from the client.

On an annual basis Insight Pareto publish a report titled 'Putting Principles into Practice', available on our website, which describes how we have exercised voting powers. Insight Pareto's Voting Policy is also available on our website.

## ITEM 18. FINANCIAL INFORMATION

This item is not applicable. Insight Pareto has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has never been the subject of a bankruptcy proceeding.



