



## Form ADV Part 2A

PPM America, Inc.  
225 West Wacker Drive  
Suite 1200  
Chicago, IL 60606

Phone: 312-634-2500  
[www.ppmamerica.com](http://www.ppmamerica.com)

Brochure dated March 27, 2014

**This brochure provides information about the qualifications and business practices of PPM America, Inc. (the “Adviser”)\*. If you have any questions about the contents of this brochure, please contact Weston B. Wetherell, Vice President, Chief Compliance Officer and Deputy General Counsel at 312-634-2566 or [wes.wetherell@ppmamerica.com](mailto:wes.wetherell@ppmamerica.com).**

**The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about PPM America, Inc. also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**\*PPM America, Inc. is registered with the U.S. Securities and Exchange Commission as an investment adviser. Registration does not imply a certain level of skill or training.**

## Item 2 - MATERIAL CHANGES

### **Annual Update as of March 27, 2014**

There have been no material changes made to the Brochure since its last release on April 1, 2013. **The Brochure has been updated to include:**

- Current information about the Adviser and its clients, including financial information as of December 31, 2013;
- Updated descriptions of specific strategies which may be offered by the Adviser to its current or prospective clients; and
- Updated risk disclosure.

Pursuant to SEC rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of the Adviser's fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, this Brochure may be requested by contacting Weston B. Wetherell, Vice President, Chief Compliance Officer and Deputy General Counsel, at 312-634-2566 or [wes.wetherell@ppmamerica.com](mailto:wes.wetherell@ppmamerica.com). The Brochure is also available on our website at [www.ppmamerica.com](http://www.ppmamerica.com), also free of charge.

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## **Item 4 - ADVISORY BUSINESS**

### *Item 4.A. - Principal Owners – Who is PPM America, Inc.?*

PPM America, Inc. (the “Adviser”) was founded in 1990 to provide investment management services primarily to affiliates of Prudential plc, a company incorporated in the United Kingdom (“UK Parent”), which is publicly held. The UK Parent and its affiliated companies constitute one of the world's leading financial services groups. It provides insurance and financial services through its subsidiaries and affiliates throughout the world. The UK Parent is not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America. As a result of its ownership by UK Parent, the Adviser is affiliated with other entities engaged in providing investment advisory and other related services. The Adviser is headquartered in Chicago, Illinois, and has offices in Schaumburg, Illinois and New York, New York.

### *Item 4.B. - Types of Advisory Services – What types of advisory services does the Adviser provide?*

The Adviser is the primary US institutional investment adviser for entities related to its UK Parent, and also to a limited number of unaffiliated institutional accounts (see Item 7 below). The Adviser provides advice regarding securities and other investments, including U.S. public and private equity and fixed income securities, high yield debt, structured products (collateralized loan obligations (“CLOs”) and collateralized debt obligations (“CDOs”) as examples) and, as necessary, distressed securities. The Adviser offers advice on a wide variety of security types denominated in US dollars, including but not limited to (i) equity securities (exchange-listed and over-the-counter, both for US and foreign issuers), (ii) warrants, (iii) corporate debt securities (including investment grade and high yield debt securities), (iv) commercial paper, (v) certificates of deposit, (vi) certain municipal securities, (vii) US government securities, and (viii) derivatives (including options, futures, options on futures, swap transactions including but not limited to interest rate, total return and credit default swaps (on individual companies or indices), options on swaps and other similar transactions). The Adviser may also offer advice on similar types of securities or instruments denominated in currencies other than the US dollar. The Adviser also offers advice to clients with respect to investments in bank loans, private placements, leveraged buyouts, and mortgage and asset-backed securities. Private placement and leveraged buyout opportunities may also be provided through the purchase of interests in partnerships or other entities and may involve equity or debt investments. In addition, the Adviser may give investment advice to clients relating to subordinated debt or debtor-in-possession financing. The Adviser also provides advice to clients regarding the work-out or restructuring of troubled or defaulted investments.

Further, the Adviser may from time to time, at the request of its affiliates, including affiliated investment advisers, provide them with credit research and support, including consulting services relating to the investment management process, operations and other related functions of such affiliates.

In addition to investment advisory services, the Adviser also provides assistance to its clients with respect to class action claim filings. In this regard, the Adviser has agreements or other instructions with its clients that either (a) the Adviser will handle class action claims filings (with the cooperation and assistance of the client or its custodian), by having the Adviser arrange (directly or through a service) for the filing and monitoring of such claims on behalf of the client, or alternatively (b) the client and/or its custodian or other client agent will handle such claims, and the Adviser will have no such obligation, except as specifically requested or to reasonably cooperate with the client or its agents with respect to such claims. As described in response to

Item 17 below, the Adviser will also accept delegated authority to vote client securities holdings pursuant to its proxy voting guidelines and procedures.

The Adviser focuses primarily on investment management for its clients, and generally does not provide other types of services (for example, investment accounting, custodial services, sales and distribution, etc.). With respect to accounts managed by the Adviser for its affiliates, the Adviser provides marketing and distribution support to such affiliates and their related distribution teams.

*Item 4.C. - Investment Restrictions – How does the Adviser tailor its advisory services for its clients?*

The Adviser works with clients to tailor its investment advisory services to the mandate provided by each client. Client mandates are established through articulation of specific investment guidelines and restrictions, generally incorporated into the client's investment advisory agreement or, in the case of pooled investment vehicles, the prospectus or other governing disclosure document.

*Item 4.D. - Wrap Fee Programs – Does the Adviser participate in wrap fee programs?*

The Adviser does not currently provide portfolio management or other services in connection with wrap fee programs.

*Item 4.E. - Assets Under Management – What is the amount of assets the Adviser manages for its clients?*

As of December 31, 2013, the Adviser managed approximately \$98 billion in assets under management<sup>1</sup> for its clients. Of this amount, approximately \$97 billion was managed for 44 clients on a discretionary basis and approximately \$770 million was managed for 2 clients on a non-discretionary basis.

## **Item 5 - FEES AND COMPENSATION**

*Item 5.A. - Fee Schedules<sup>2</sup> - How is the Adviser compensated for its services?*

The Adviser's fees are computed and billed on an annual, semi-annual, quarterly or monthly basis and are due from clients upon receipt of the billing statement. Fees are generally paid in arrears.

Client fees are generally computed based on the "market value," GAAP book value or principal amount, as applicable, of assets under management in a client's account. While clients of the Adviser (or their custodian or other agent) are generally responsible for obtaining independent valuations of portfolio securities within their account, the Adviser may obtain and provide to clients valuations from independent pricing sources or, in the event that such independent valuations are unavailable, internally derived valuations based upon relevant security attributes and current market conditions. The Adviser may also charge clients a performance fee. In addition, under very limited circumstances, the Adviser may charge affiliated clients a flat fee for

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<sup>1</sup> Form ADV Part 1 includes disclosure of Regulatory Assets Under Management ("Regulatory AUM") which differs from the traditional calculation. For example, Regulatory AUM (a) includes uncalled commitments for certain private accounts normally excluded from the Adviser's assets under management disclosure and (b) excludes certain non-discretionary accounts. As of December 31, 2013, the Adviser's Regulatory AUM was \$98,228,939,092.

<sup>2</sup> This brochure is delivered only to "qualified purchasers" as defined in section 2(a)(51)(A) of the Investment Company Act of 1940, as amended.

certain research-related and other limited investment advisory services in place of an asset-based fee.

Fees are negotiable based on circumstances believed by the Adviser to be relevant, such as affiliation or other relationships with the Adviser or its affiliates, expectation of additions to the account in the future and other circumstances. The Adviser may also negotiate its fee for asset classes or investment strategies to organizations associated with or sponsored by the Adviser. Any performance-based fee charged by the Adviser will comply with the requirements of the Investment Advisers Act of 1940, as amended (the "Advisers Act"), including, when applicable, Rule 205-3 thereunder. Please see additional information in response to Item 6 below.

Finally, as noted in response to Item 4.B., the Adviser may invest client assets in pooled investment vehicles that are managed by other managers, either affiliated or unaffiliated, in accordance with established investment guidelines. In such instances, the client will normally pay management and performance fees to the pool's manager. Unless required by applicable law or pursuant to the terms of the specific agreement with the client, the Adviser does not reduce its fees or offset them by fees paid to the managers or advisers of these pooled products.

*Item 5.B. - Deduction of Fees – How are the Adviser's fees paid?*

The Adviser's fees are computed and billed on an annual, semi-annual, quarterly or monthly basis and are due from clients upon receipt of the billing statement. Fees are not typically deducted but, if deducted, only if specifically agreed in writing with the client. Except as discussed in Item 5.D. below, clients are billed for fees in arrears.

*Item 5.C. - Other Fees and Expenses – What other types of fees or expenses do clients pay the Adviser in connection with advisory services?*

The Adviser from time to time advances payment for certain investment-related fees and expenses of clients (such as legal fees), and is entitled to repayment of such advances. Clients will also bear directly costs associated with custodians and other service providers to the account, as well as brokerage and other transaction costs associated with trading within the client account. Investors in mutual funds or other pooled investment vehicles will also bear other fees relating to the pooled investment vehicle; see "Brokerage Practices" in Item 12 below. Such fees are disclosed in the prospectus (or other governing document). In addition, unless otherwise agreed, the Adviser is not obligated to pay any expenses of the client (or any other investment adviser to the client), including without limitation expenses of employing lawyers or consultants in connection with restructuring any investment, interest and taxes.

*Item 5.D. - Prepaid Fees – Are clients of the Adviser required to prepay advisory fees or do they usually pay them in arrears?*

As noted in response to Item 5.A, fees due to the Adviser are generally paid in arrears following receipt of an applicable billing statement. With respect to private equity funds sponsored by the Adviser during their commitment period, fees are paid quarterly in advance and will be rebated on a pro-rata basis in the event that the private equity fund is terminated before the end of a billing cycle.

*Item 5.E. - Compensation for the Sale of Securities – Is the Adviser compensated for securities transactions or other types of services with might present a conflict?*

Occasionally, the Adviser may render advice to clients regarding certain types of financing and lending opportunities such as leveraged buyouts. In such situations, the issuing entity may compensate the Adviser for its services in structuring and arranging the financing. Clients should be aware that this may create of a potential conflict of interest because the Adviser could be deemed to have a greater incentive to recommend financing opportunities in which the issuing

company provides additional compensation to the Adviser. Notwithstanding the foregoing, the Adviser is cognizant of its obligation under the Advisers Act to render impartial investment advice to its clients and disclose known conflicts of interest. See also *Item 10 – Other Financial Industry Activities and Affiliations* below.

The Adviser does not buy or sell investment products for client accounts through affiliated brokers or agents, and does not receive commissions or other compensation for the sale of investment products recommended to clients. Also, the Adviser does not charge commissions or markups on the purchase or sale of investment products.

## **Item 6 - PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As noted in Item 5.A above, the Adviser may charge a performance fee in connection with certain client accounts, including certain affiliated client accounts or structured products. In addition, supervised persons of the Adviser may have responsibility for client accounts which are charged a performance fee as well as other accounts which are charged fees at a different rate, including accounts which are charged a performance fee. Investors should note that such varying fee structures, as well as a performance-based fee, may create an incentive for an adviser to make investments that are riskier or more speculative than would be the case in the absence of a performance fee. The Adviser has designed and implemented procedures to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

## **Item 7 - TYPES OF CLIENTS**

The Adviser is the primary US institutional investment adviser for entities related to its UK Parent. The Adviser also acts as investment sub-adviser to certain affiliated US and foreign advisers with respect to certain US portfolios of accounts or products managed by such affiliates, including US mutual funds, UK-based pooled investment vehicles (unit trusts or OEICs), Japanese investment trusts, funds organized under Luxembourg-based SICAVs, and Taiwanese investment trust funds for which the Adviser serves as investment consultant and dealing services agent.

The Adviser also serves as an investment adviser to other affiliated and unaffiliated institutional clients such as CDOs, CLOs, and private investment funds (in which certain affiliates of PPM are investors) and a limited number of other unaffiliated accounts, including a foreign monetary fund and a family trust.

The Adviser generally requires a minimum initial account size of \$25 million for unaffiliated client relationships, which may be reduced under certain circumstances.

## **Item 8 - METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

*Item 8.A. - General Description – How does the Adviser formulate investment advice or manage client assets?*

In managing its clients' assets, the Adviser seeks a clear understanding and commitment to the unique needs of its primarily affiliated institutional client base, and to develop investment strategies customized to each client's needs through ongoing communication in creating and developing a defined strategy and focus with well defined (1) operating structures and roles, (2) people management, (3) mechanisms for client mandates and reporting, and (4) performance criteria aligned with client interests and expectations.



The Adviser utilizes a variety of methods of analysis and investment strategies in formulating investment advice and/or managing client assets, including fundamental and technical analysis of a variety of information regarding current or potential investments, including but not limited to financial publications, third party research, information provided through credit rating services and other publicly available information. Other sources of information used by the Adviser in performing its security analysis include other publicly-available company financial statements, on-site meetings and teleconference calls with company management, company roadshows, information memorandums prepared by the company or its agents, product brochures, trade journals and newswire providers. Subject to information blocking procedures, the Adviser may also receive private information, including material non-public information, in connection with certain investments such as bank loans. For private equity investments, information is also received from equity sponsor groups.

The Adviser may also utilize a variety of investment strategies to implement investment advice given to clients to the extent consistent with the client's agreed-upon investment objectives, guidelines and restrictions, including but not limited to long term purchases (securities held at least a year), short term purchases (securities sold within a year), trading (securities sold within 30 days), short sales, margin transactions and option writing. The Adviser may also use certain derivative transactions for risk management and other investment purposes, including, without limitation, options, futures, options on futures, swap transactions, including but not limited to interest rate, total return and credit default swaps (on individual companies or indices), options on swaps and other similar transactions. Investing in derivative transactions and instruments are subject to transaction costs and involves certain risks, including exposure to the swap counterparty as well as the underlying reference entity or instrument, volatility including unanticipated changes in securities prices, potential losses if the derivative position is poorly correlated with other investments for the client account, as well as the potential for liquidity issues.

The Adviser implements agreed-upon client investment strategies primarily through designated portfolio management groups focused on particular asset classes, including the Fixed Income, Bank Loan, Public Equity, and Private Equity Groups. In addition, the Credit Analysis Group provides additional analysis and review to the Fixed Income Group, particularly in ongoing research, monitoring and provision of an internal "relative value" rating system independent from ratings obtained by nationally recognized statistical rating organizations. The Quantitative Analytics & Risk Management Group oversees, monitors and provides risk management metrics and reporting across fixed income client accounts. In addition, the Debt Restructuring Group provides internal consulting, out-of-court and bankruptcy restructuring support, and litigation management for applicable client accounts. Finally, the Administration Group provides operations and accounts, investment performance analysis, and human resources, legal and compliance, information technology and other support services across all asset classes and accounts.

The Fixed Income Group focuses on investments in public investment grade corporate debt ("investment grade") securities, public high yield corporate debt ("high yield") securities, private fixed income securities, and structured products including asset backed and mortgage backed securities and CDOs, as well as US government and agency securities. Generally, the Fixed Income Group manages client accounts in accordance with total return strategies with an objective of outperforming agreed-upon performance benchmarks or a customized portfolio strategy designed to balance the client-articulated return and risk requirements of the particular account. The Fixed Income Group may also manage an account in a manner that is highly customized, including strategies which are managed against agreed upon metrics specific to the individual client, including those which are specific to affiliated insurance company asset liability matching.

## **FIXED INCOME GROUP**



Specific Fixed Income Group strategies include the following “**core**,” “**core plus**,” “**multi-sector**” and “**customized**” strategies for both investment grade fixed income and high yield assets:

**1. Investment Grade Fixed Income Core and Core Plus Strategies:** The Fixed Income Group’s core investment grade strategies seek to maximize total return through security selection and sector allocation and, to a varied but lesser extent, through duration and yield curve management. The main difference between “core” and “core plus” strategies is that core plus strategies generally exercise greater investment latitude in terms of ratings, non-benchmark allocations, and various other portfolio parameters. All of the core strategies seek to maximize total return relative to benchmarks over one and three year time horizons; however performance versus relevant peer groups is also tracked as a supplementary measure.

- A. **Low Duration** strategy is benchmarked against the Barclays US 1-3 Year Government/Credit Bond Index and primarily invests in a diversified portfolio of US dollar-denominated short duration investment grade securities, including Treasuries, corporate bonds and structured securities.
- B. **Core Fixed Income** strategy is benchmarked against the Barclays Aggregate Bond Index and typically invests across US dollar-denominated investment grade asset classes, including Treasuries, corporate bonds and structured securities.
- C. **Core Plus Fixed Income** strategy is also benchmarked against the Barclays Aggregate Bond Index and primarily invests across US dollar-denominated investment grade asset classes, including Treasuries, corporate bonds and structured securities, with a bias towards non-treasury sectors with a relatively wider investment latitude.
- D. **Core Credit** strategy is benchmarked against a custom version of the Barclays US Credit Index, which imposes a 2% issuer constraint and excludes those bonds that are rated below investment grade by any one of the three rating agencies, and primarily invests in US dollar-denominated corporate bonds, and to a lesser extent, structured securities and non-corporate bonds represented in the index, such as those issued by Sovereigns, Supranationals, Foreign Agencies and Foreign Local Governments.
- E. **Core Plus Credit** strategy is benchmarked against a custom BofA Merrill Lynch Index comprised of 90% investment grade and 10% high yield-rated corporate bonds, respectively. This strategy primarily invests in US dollar-denominated corporate bonds, including high yield-rated securities, but has considerable flexibility to also invest in non-corporate sectors and asset classes including structured securities as well as US Treasuries and Agencies.

**2. Investment Grade Fixed Income Multi-Sector Strategies:** The Fixed Income Group also utilizes the following “**multi-sector**” strategies that invest broadly across both investment grade and high yield assets and have considerable investment latitude. These strategies also seek to maximize total return relative to benchmarks and/or peer groups over one and three year time horizons:

- A. **Strategic Income** strategy is benchmarked against a custom 45% Barclays Aggregate Bond / 45% US High Yield / 10% Global Aggregate Index and primarily invests across US dollar-denominated investment grade and high yield asset classes, including Treasuries, corporate bonds, senior secured bank loans and structured securities, with a bias towards non-Treasury sectors and with relatively wide investment latitude to invest in non-US dollar denominated securities in the same and other sectors mentioned above.

- B. **Long Short Credit** strategy is benchmarked against the BofA Merrill Lynch US 3-Month Treasury Bill Index and primarily invests in US dollar-denominated investment grade and high yield asset classes, including corporate bonds, senior secured bank loans and structured securities, with relatively wide latitude to invest in non-US dollar-denominated securities and implement short positions and interest rate hedges using both the cash-market and derivative instruments.

**3. High Yield Core and Core Plus Strategies:** The Fixed Income Group's core high yield strategies seek to maximize total return primarily through security selection and, to a lesser extent, also through sector allocation. The main differences between the core and core plus strategies result from differences in guideline constraints for the underlying mandates. These strategies are managed against benchmarks; however performance versus relevant peer groups is also tracked as a supplementary measure. Both strategies seek to maximize out-performance over one and three-year rolling time periods.

- A. **High Yield Core** strategy is benchmarked against the BofA Merrill Lynch US High Yield Master II Constrained Index and primarily invests in US dollar-denominated high yield corporate bonds and, subject to certain restrictions, other security types including investment grade-rated corporate bonds.
- B. **High Yield Core Plus** strategy is benchmarked against the BofA Merrill Lynch US High Yield Master II Constrained Index and primarily invests in US dollar-denominated high yield corporate bonds, with broad flexibility to also invest in other security types including investment grade-rated corporate bonds, structured securities, and floating rate bank loans.

**4. Customized Strategies:** The Fixed Income Group also utilizes the following "**customized**" strategies to meet very specific needs of PPMA's affiliates and clients:

- A. **Higher Quality High Yield** strategy is benchmarked against a custom BofA Merrill Lynch Index, which is 70% and 30% comprised of BB and B-rated (or the equivalent) corporate bonds, respectively, with relatively limited flexibility to invest in other security types.
- B. **Global High Yield** strategy does not have a benchmark for performance measurement purposes but follows the BofA Merrill Lynch USD Global High Yield & Emerging Markets Index Benchmark as a reference universe and primarily invests in US dollar-denominated high yield-rated corporate and emerging market sovereign bonds. Subject to certain limits, this strategy may also invest in other security types including investment grade-rated corporate bonds.
- C. **Other** strategies are highly customized, and include a number of primarily investment grade mandates that vary considerably in terms of benchmark and investment objectives, including those managed against metrics specific to insurance company asset liability matching.

In managing client assets, the Fixed Income Group focuses on fundamental, bottom-up analysis and cross-asset relative value analysis to identify value created by market inefficiencies. While portfolio managers assigned to each account make final investment decisions for their respective portfolios, the team utilizes a team-based approach for idea generation through participation by asset class specialists, credit research analysts independent from the portfolio managers, the trading desk, and the use of quantitative and risk management tools designed and overseen by the Quantitative Analysis and Risk Management Team. The Fixed Income Group currently manages assets for affiliated insurance company accounts as well as several US mutual funds

and non-US pooled investment vehicles for which the Adviser serves as sub-adviser to affiliated entities.

Within the Fixed Income Group, the Private Finance, Traditional Private Placement Group focuses on private investment grade securities including senior secured and unsecured notes and lease collateralized notes, and currently manages assets primarily for affiliated insurance company accounts. Private investment grade security investments are managed utilizing a bottom-up credit driven strategy, with credit research provided either within the Group or through the Credit Analysis Group.

#### **BANK LOAN GROUP**

The Bank Loan Group focuses on investments in floating rate bank loans, and currently manages assets for affiliated insurance company accounts, several pooled investment vehicles organized as CLOs, and a US mutual fund for which the Adviser serves as sub-adviser to an affiliated entity.

Bank loan investments are managed utilizing a bottom-up credit driven strategy, with credit research provided either within the Group or through the Credit Analysis Group.

The Bank Loan Group strategies include the ***Floating Rate Income Strategy***, which is benchmarked against the S&P/LSTA Leveraged Loan Index and primarily invests in US dollar-denominated floating rate loans and other floating rate investments, with flexibility to also invest in other security types including fixed rate corporate bonds, structured securities, and equities.

#### **PUBLIC EQUITY GROUP**

The Public Equity Group focuses on investments in US registered public equity securities. The Public Equity Group focuses on bottom-up stock selection with a longer term investment orientation. The Public Equity Group manages accounts to target models, each developed in accordance with one of five strategies: large cap value, large cap core value, mid cap value, small cap value, and active core. The Public Equity Group currently manages assets for affiliated insurance company accounts and unaffiliated institutional accounts, and serves as sub-adviser to affiliated entities with respect to several US mutual funds and non-US pooled investment vehicles.

Specific Public Equity Group strategies include the following:

- A. ***Large Cap Value*** strategy is benchmarked against both the S&P 500 Index and S&P 500 Value Index and invests in a diversified fully-invested portfolio of U.S. equity stocks that have market capitalizations above \$2.0 billion.
- B. ***Large Cap Core Value*** strategy is benchmarked against the S&P 500 Index and invests in a diversified fully-invested portfolio of U.S. equity stocks and consists of two components, the large cap value (described above) and a completion component to ensure that the strategy remains within the portfolio's risk constraints.
- C. ***Mid Cap Value*** strategy is benchmarked against the Russell Midcap Index and the Russell Midcap Value Index and invests in a diversified fully-invested portfolio of U.S. equity stocks within the market capitalization range of companies constituting the Russell Midcap Index under normal market conditions at the time of initial purchase.
- D. ***Small Cap Value*** strategy is benchmarked against the S&P SmallCap 600 Index and S&P 600 Value Index and invests in diversified fully-invested portfolio of U.S. equity stocks that have market capitalizations within the market capitalization range of the S&P SmallCap 600 index under normal market conditions at the time of initial purchase.
- E. ***Active Core*** strategy utilizes fundamental research with a focus on bottom-up stock selection. This is complemented by a multi-factor ranking system to identify potential

investment opportunities within a large cap universe. The strategy looks to moderate prospective tracking error relative to its benchmark, the S&P 500.

#### **PRIVATE EQUITY GROUP**

The Private Equity Group focuses on investments in private equity securities focused on sponsored buyouts, recapitalizations and other growth opportunities either directly through co-investments with other private equity investors or through investment in other private equity funds. The Private Equity Group currently manages assets solely for affiliated insurance company accounts.

Investing in securities involves risk of loss that clients should be prepared to bear.

#### ***Item 8.B. and C. - Material Risks for Significant Investment Strategies and Significant Types of Securities - What material risks should clients of the Adviser consider?***

The investment strategies and methods of analysis used by the Adviser in managing client accounts, as well as investments recommended by the Adviser for client accounts, involve a number of risks, including but not limited to the following:

##### **General**

**Credit risk** – A client could lose money if the issuer or guarantor of a fixed income security, or the counterparty to a derivatives contract, repurchase agreement or a loan of portfolio securities, is unable or unwilling to make timely principal and/or interest payments, or to otherwise honor its obligations. Credit ratings may reflect the varying degrees of risk. Corporate debt securities are subject to the risk that litigation, legislation or other political events, economic conditions, or the bankruptcy of the issuer could have a significant effect on an issuer's ability to make payments of principal and/or interest.

**Company risk** – Investments in U.S. and/or foreign traded equity securities may fluctuate more than the values of other types of securities in response to changes in a particular company's financial conditions. For example, poor earnings performance of a company may result in a decline in its stock price.

**Cyclical opportunities risk** –The Adviser might seek to take tactical advantage of changes in the business cycle evidencing growth potential, short-term market movements or changes affecting particular issuers or industries. If the anticipated changes do not occur, the value of the investment could fall. Cyclical company investments may tend to increase in value quickly during economic upturns, but they also tend to lose value quickly in economic downturns. These companies may have relatively weak balance sheets and, during economic downturns, they may have insufficient cash flow to pay their debt obligations and difficulty finding additional financing needed for their operations.

**Regulatory risk** – The Adviser is an indirect wholly-owned subsidiary of its UK Parent, which is a publicly traded company incorporated in the United Kingdom. Through its ownership structure, the Adviser has a number of global financial industry affiliated entities. As a result of this structure, and the asset management and financial industry business activities of the Adviser and its affiliates, the Adviser may be prohibited or limited in effecting transactions in certain securities on behalf of its clients. The Adviser may also encounter trading limitations or restrictions because of aggregation issues or other foreign regulatory requirements. Foreign regulators or foreign laws may impose position limits on securities held by clients of the Adviser, and its clients may be limited as to which securities they may purchase or sell, as well as, the timing of such purchases or sales. These foreign regulatory limits may increase client expenses and may limit the client account performance.

In addition to the foregoing, changes in US or other applicable law, including but not limited to implementation of requirements under the Dodd-Frank Wall Street Reform and Consumer

Protection Act (“Dodd-Frank”), European Market Infrastructure Regulation (“EMIR”), the European Union Alternative Investment Fund Managers Directive (“AIFMD”) and the Undertakings For The Collective investment of Transferable Securities (“UCITS”), may result in changes the Adviser’s investment strategy or practices, increases in client transaction costs and related fees, delay implementation of desired investment strategies, and potentially adversely impacting the Adviser’s provision of investment advisory services to a client.

**Illiquid securities risk** – Securities and other investments purchased by a client account that are liquid at the time of purchase may subsequently become illiquid due to events relating to the issuer of the securities, market events, economic conditions or investor perceptions. Domestic and foreign markets are becoming more and more complex and interrelated, so that events in one sector of the market or the economy, or in one geographical region, can reverberate and have negative consequences for other market, economic or regional sectors in a manner that may not be reasonably foreseen. With respect to over-the-counter traded securities, the continued viability of any over-the-counter secondary market depends on the continued willingness of dealers and other participants to purchase the securities. The value of illiquid securities may be difficult to obtain and may reflect a discount, which may be significant, from the market price of comparable securities for which a liquid market exists, and thus negatively affect a client’s current account value.

**Industry concentration risk** – Companies within an industry are often faced with the same economic conditions, government regulations, availability of basic resources or supplies, or other events that affect that industry, and their common stock may react similarly and move in unison to these and other market conditions. As a result, securities in which the Adviser invests for a client account may be more volatile, and carry greater risk of adverse developments affecting many of the client’s holdings, than a mixture of securities of companies from a wider variety of industries.

**Investment strategy risk** – Investment decisions made by the Adviser in using investment strategies agreed upon with the client may not produce the returns expected by the Adviser, may cause the client’s account to lose value or may cause the account to underperform other similar accounts with similar investment objectives.

**Issuer risk** – A security’s value may decline for reasons that directly relate to the issuer, such as management performance, corporate governance, financial leverage and reduced demand for the issuer’s goods or services.

**Liquidity risk** – Investments in securities that are difficult to purchase or sell (illiquid or thinly-traded securities) may reduce returns if the Adviser is unable to sell the securities at an advantageous time or price or achieve its desired level of exposure to a certain sector. Liquidity risk arises, for example, from small average trading volumes, trading restrictions, or temporary suspensions of trading. Small capitalization companies and companies domiciled in emerging markets pose greater liquidity and volatility risks of price fluctuations.

The liquidity of floating rate loans, including the volume and frequency of secondary market trading in such loans, varies significantly over time and among individual floating rate loans. For example, if the credit quality of a floating rate loan unexpectedly declines significantly, secondary market trading in that floating rate loan can also decline for a period of time. During periods of infrequent trading, valuing a floating rate loan can be more difficult and buying and selling a floating rate loan at an acceptable price can be more difficult and delayed. Difficulty in selling a floating rate loan can result in a loss.

**Managed portfolio risk** – As an actively managed portfolio, the value of a client account’s investments could decline because the financial condition of an issuer may change (due to such factors as management performance, reduced demand or overall market changes), financial markets may fluctuate or overall prices may decline, or the Adviser’s investment techniques could fail to achieve the client’s investment objective or legislative, regulatory, or tax developments may



affect the investment techniques available to the Adviser on behalf of the client's account. There is no guarantee that the investment objective of the client's account will be achieved.

**Market risk** – Stock market risk refers to the fact that stock (equities) prices typically fluctuate more than the values of other types of securities, typically in response to changes in the particular company's financial condition and factors affecting the market in general. Over time, the stock market tends to move in cycles, with periods when stock prices rise, and periods when stock prices decline. Consequently, a broad-based market drop may also cause a stock's price to fall.

Bond market risk generally refers to credit risk and interest rate risk. Credit risk is the actual or perceived risk that the issuer of the bond will not pay the interest and principal payments when due. Bond value typically declines if the issuer's credit quality deteriorates. Interest rate risk is the risk that interest rates will rise and the value of bonds will fall. A broad-based market drop may also cause a bond's price to fall.

Securities may also decline in value due to factors affecting securities markets generally, such as real or perceived adverse economic conditions, or particular industries represented in the securities markets, such as competitive conditions. In addition, the markets may not favor a particular kind of security, such as dividend-paying securities, and may not favor equities or bonds at all.

**Portfolio turnover risk** – Active trading may increase transaction costs, which may reduce performance and also may increase realized short-term capital gains and losses.

**Restricted securities risk** – Restricted securities may be illiquid. The Adviser may be unable to sell them on short notice or may be able to sell them only at a price below current value. Also, the Adviser may get only limited information about the issuer of a restricted security, so it may be less able to predict a loss. In addition, if the Adviser receives material nonpublic information about the issuer, a client account may as a result be unable to sell the securities.

**Temporary defensive positions and large cash positions** – In anticipation of, or in response to, adverse market or other conditions, or atypical circumstances such as unusually large cash inflows or redemptions, and sub-adviser transitions, the Adviser generally may temporarily hold all or a significant portion, without limitation, of its assets in cash, cash equivalents, and money market funds, or high quality debt instruments. During periods in which the Adviser employs such a temporary defensive strategy or holds large cash positions, it will not be pursuing, and will not achieve, its investment objective. Taking a defensive or large cash position may reduce the potential for appreciation of the portfolio and may affect performance.

**When-issued and delayed delivery securities and forward commitments risk** – When-issued and delayed delivery securities and forward commitments involve the risk that the security the Adviser buys for a client account will lose value prior to its delivery. There also is the risk that the security will not be issued or that the other party to the transaction will not meet its obligation. If this occurs, the client account loses both the investment opportunity for the assets it set aside to pay for the security and any gain in the security's price.

### **Equity**

**Equity securities risk** – Common and preferred stocks represent equity ownership in a company. Stock markets are volatile. The price of equity securities will fluctuate and can decline and reduce the value of a portfolio investing in equities. The value of equity securities purchased by the Adviser on behalf of a client account could decline if the financial condition of the companies in which the client account invests decline or if overall market and economic conditions deteriorate. They may also decline due to factors that affect a particular industry or industries, such as labor shortages or an increase in production costs and competitive conditions within an industry. In addition, they may decline due to general market conditions that are not specifically related to a company or industry, such as real or perceived adverse economic

conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates or generally adverse investor sentiment.

**Investment value style risk** – The returns from a certain investment style may trail returns from the overall market or comparable products. For example, accounts managed with a value equity strategy typically emphasize stocks whose prices are below-average in comparison to earnings and book value, although they may yield above-average dividends. A value stock may not increase in price if other investors fail to recognize the company's value or the factors that are expected to increase the price of the security do not occur.

**Mid-capitalization investing risk** – The prices of securities of mid-capitalization companies tend to fluctuate more widely than those of larger, more established companies. Mid-capitalization companies may have limited product lines, markets or financial resources or may depend on the expertise of a few people and may be subject to more abrupt or erratic market movements than securities of larger, more established companies or the market averages in general. Securities of such issuers may lack sufficient market liquidity to effect sales at an advantageous time or without a substantial drop in price.

**Preferred stock risk** – Preferred stock represents an equity interest in a company that generally entitles the holder to receive, in preference to the holders of other stocks such as common stocks, dividends and a fixed share of the proceeds resulting from a liquidation of the company. Some preferred stocks also entitle their holders to receive additional liquidation proceeds on the same basis as holders of a company's common stock, and thus also represent an ownership interest in that company. Preferred stocks may pay fixed or adjustable rates of return. Preferred stock is subject to issuer-specific and market risks applicable generally to equity securities and is sensitive to changes in the issuer's creditworthiness and to changes in interest rates, and may decline in value if interest rates rise. In addition, a company's preferred stock generally pays dividends only after the company makes required payments to holders of its bonds and other debt. For this reason, the value of preferred stock will usually react more strongly than bonds and other debt to actual or perceived changes in the company's financial condition or prospects. Preferred stock of smaller companies may be more vulnerable to adverse developments than preferred stock of larger companies.

**Private equity risk** – There are inherent risks in investing in private equity funds, whose principal business is to invest in and lend capital to privately held companies. Generally, little public information exists for private and thinly traded companies and may impede the ability to make a fully informed investment decision. Private equity funds may have relatively concentrated investment portfolios of small number of holdings. The aggregate returns realized may be adversely impacted by the poor performance of a small number of investments, or even a single investment, or the need to write down the value of an investment.

**Small cap investing risk** – Investing in smaller, newer companies generally involves greater risks than investing in larger, more established ones. Small cap may have limited product lines, markets or financial resources or may depend on the expertise of a few people and may be subject to more abrupt or erratic market movements than securities of larger, more established companies or the market averages in general. Many small capitalization companies may be in the early stages of development. Since equity securities of smaller companies may lack sufficient market liquidity and may not be regularly traded, it may be difficult or impossible to sell securities at an advantageous time or a desirable price.

#### **Fixed Income**

**Asset-Backed Securities** – The Adviser may invest on behalf of its clients in asset-backed securities, which include mortgage-backed securities. Asset-backed securities represent interests in pools of assets which are backed by assets such as, but not exclusively, installment sales contracts, credit card receivables, automobile loans and leases, equipment sales/lease contracts, obligation trusts, commercial and residential mortgages and most are structured as pass-through



securities. The credit quality of most asset-backed securities depends primarily on the credit quality of the assets underlying such securities, how well the entity issuing the security is insulated from the credit risk of the originator or any other affiliated entities, and the amount and quality of any credit support provided to the securities. The rate of principal payment on asset-backed securities generally depends on the rate of principal payments received on the underlying assets, which in turn may be affected by a variety of economic and other factors. As a result, the yield on any asset-backed security is difficult to predict with precision and actual yield to maturity may be more or less than the anticipated yield to maturity.

Asset-backed securities may be classified as pass-through certificates or collateralized obligations. Pass-through certificates are asset-backed securities that represent an undivided fractional ownership interest in an underlying pool of assets. Pass-through certificates usually provide for payments of principal and interest received to be passed through to their holders, usually after deduction for certain costs and expenses incurred in administering the pool. Because pass-through certificates represent an ownership interest in the underlying assets, the holders thereof directly bear the risk of any defaults by the obligors on the underlying assets not covered by any credit support.

Asset-backed securities issued in the form of debt instruments, also known as collateralized obligations, are generally issued as the debt of a special purpose entity organized solely for the purpose of owning such assets and issuing such debt. Such assets are most often trade, credit card or automobile receivables. The assets collateralizing such asset-backed securities are pledged to a trustee or custodian for the benefit of the holders hereof. Such issuers generally hold no assets other than those underlying the asset-backed securities and any credit support provided. As a result, although payments on such asset-backed securities are obligations of the issuers, in the event of defaults on the underlying assets not covered by any credit support, the issuing entities are unlikely to have sufficient assets to satisfy their obligations on the related asset-backed securities.

If a client purchases an asset-backed security at a premium, that portion may be lost if there is a decline in the market value of the security whether resulting from changes in interest rates or prepayments in the underlying collateral. As with other interest-bearing securities, the prices of such securities are inversely affected by changes in interest rates. However, though the value of an asset-backed security may decline when interest rates rise, the converse is not necessarily true. Interest rate changes also affect prepayments, which in turn affect the yield on asset-backed securities. For these and other reasons, an asset-backed security's average maturity may be shortened or lengthened as a result of interest rate fluctuations and, therefore, it is not possible to predict accurately the security's return. Asset-backed securities may, at times, be illiquid securities.

**Bonds risk** – Rising interest rates will generally cause the prices of bonds and other debt securities to fall. In addition, falling interest rates may cause an issuer to redeem, call or refinance a security before its stated maturity, which may result in the fund having to reinvest the proceeds in lower yielding securities. Longer maturity debt securities may be subject to greater price fluctuations than shorter maturity debt securities. Bonds and other debt securities are subject to credit risk, which is the possibility that the credit strength of an issuer will weaken and/or an issuer of a debt security will fail to make timely payments of principal or interest and the security will go into default.

**Call risk** – Call risk is the risk that, during a period of falling interest rates, the issuer may redeem a security by repaying it early, which may reduce income earned in a client account if the proceeds are reinvested at lower interest rates.

**Extension risk** – When interest rates rise, certain obligations will be paid off by the obligor more slowly than anticipated, causing the value of these securities to fall. Rising interest rates tend to extend the duration of securities, making them more sensitive to changes in interest rates. The

value of longer-term securities generally changes more in response to changes in interest rates than shorter-term securities. As a result, in a period of rising interest rates, securities may exhibit additional volatility and may lose value.

**Fixed income risk** – The prices of fixed income securities respond to economic developments, particularly interest rate changes, as well as to perceptions about the credit risk of individual issuers. Increases in interest rates can cause the prices of fixed income securities to decline, and the level of current income from a portfolio of fixed income securities may decline in certain interest rate environments.

**High-yield bonds, lower-rated bond, and unrated securities** – High-yield bonds, lower-rated bonds, and unrated securities are broadly referred to as “junk bonds,” and are considered below “investment-grade” by national ratings agencies. Junk bonds typically have a higher yield to compensate for a greater risk that the issuer might not make its interest and principal payments. An unanticipated default would result in a reduction in income, a decline in the market value of the related securities and a decline in value. During an economic downturn or substantial period of rising interest rates, highly leveraged issuers may experience financial stress which could adversely affect their ability to service principal and interest payment obligations, to meet projected business goals and to obtain additional financing. The market prices of junk bonds are generally less sensitive to interest rate changes than higher-rated investments, but more sensitive to adverse economic or political changes, or individual developments specific to the issuer. Periods of economic or political uncertainty and change can be expected to result in price volatility.

**Interest rate risk** – When interest rates increase, fixed income securities generally will decline in value. Long-term fixed-income securities normally have more price volatility than short-term fixed-income securities. A nominal interest rate can be described as the sum of a real interest rate and an expected inflation rate. Inflation-indexed securities, including TIPS, decline in value when real interest rates rise. In certain interest rate environments, such as when real interest rates are rising faster than normal interest rates, inflation-indexed securities may experience greater losses than other fixed income securities with similar durations.

Floating rate investments have adjustable interest rates and as a result, generally fluctuate less in response to interest rate changes than will fixed-rate investments. However, because floating rates generally only reset periodically, changes in prevailing interest rates may cause a fluctuation in the client account's value. In addition, extreme increases in prevailing interest rates may cause an increase in defaults on floating rate investments, which may cause a further decline in the client account's value. Finally, a decrease in interest rates could adversely affect the income earned by the client account from its floating rate debt securities.

**Mortgage-backed and mortgage-related securities risk** – The risk of investing in mortgage-related and other asset-backed securities include interest rate risk, extension risk and prepayment risk. Rising interest rates tend to extend the duration of mortgage-related securities, making them more sensitive to changes in interest rates. As a result, in a period of rising interest rates, mortgage-related securities may exhibit additional volatility. This is known as extension risk. Rising interest rates and falling property prices may increase the likelihood that individuals and entities may fall behind or fail to make payments on their mortgages. This is referred to as default risk. When there are a number of mortgage defaults, the interest paid by mortgage-backed and mortgage-related securities may decline, or may not be paid. In addition, a number of mortgage defaults could lead to a decline in the value of mortgage-backed and mortgage-related securities. There may also exist legal and documentation risk related to mortgage defaults. Mortgage-related securities are also subject to prepayment risk. When interest rates decline, borrowers may pay off their mortgages sooner than expected. This can reduce the returns because the client's account will have to reinvest that money at the lower prevailing interest rates. This is referred to as contraction risk.

Investments in mortgage-backed securities entail the uncertainty of the timing of cash flows resulting from the rate of prepayments or defaults on the underlying mortgages serving as collateral. An increase or decrease in payment rates (resulting primarily from a decrease or increase in mortgage interest rates) will affect the yield, average life, and price. The prices of mortgage-backed securities, depending on their structure and the rate of payments, can be volatile. Some mortgage-backed securities may also not be as liquid as other securities. The value of these securities also may change because of changes in the market's perception or the actual creditworthiness of the issuer. In addition, the mortgage securities market in general may be adversely affected by changes in governmental regulation, interest rates, and/or tax policies.

**Prepayment risk** – During periods of falling interest rates, there is the risk that a debt security with a high stated interest rate will be prepaid before its expected maturity date and that the client may have to reinvest the proceeds in an investment that may have lower yields than the yield on the prepaid debt security.

**Rule 144A securities risk** – Rule 144A securities may have an active trading market, but carry the risk that the active trading market may not continue.

**U.S. Government securities risk** – Obligations issued by agencies and instrumentalities of the U.S. Government vary in the level of support they receive from the U.S. Government. They may be: (i) supported by the full faith and credit of the U.S. Treasury, such as those of the Government National Mortgage Association; (ii) supported by the right of the issuer to borrow from the U.S. Treasury, such as those of the Federal National Mortgage Association (“Fannie Mae”); (iii) supported by the discretionary authority of the U.S. Government to purchase the issuer's obligations, such as those of the former Student Loan Marketing Association; or (iv) supported only by the credit of the issuer, such as those of the Federal Farm Credit Bureau. The maximum potential liability of the issuers of some U.S. Government Securities may greatly exceed their current resources, including their legal right to support from the U.S. Treasury. It is possible that these issuers will not have the funds to meet their payment obligations in the future.

Although many types of U.S. Government Securities may be purchased by the Adviser on behalf of its clients, such as those issued by the Fannie Mae, Federal Home Loan Mortgage Corporation (“Freddie Mac”) and Federal Home Loan Banks may be chartered or sponsored by Acts of Congress, their securities are neither issued nor guaranteed by the United States Treasury and, therefore, are not backed by the full faith and credit of the United States. The U.S. Government may choose not to provide financial support to U.S. Government sponsored agencies or instrumentalities if it is not legally obligated to do so, in which case, if the issuer defaulted, the holder of the securities of such issuer might not be able to recover its investment from the U.S. Government. In September 2008, the U.S. Treasury Department and the Federal Housing Finance Administration (“FHFA”) announced that Fannie Mae and Freddie Mac would be placed into conservatorship under FHFA. The effect that this conservatorship will have on the entities' debt and equities and on securities guaranteed by the entities is unclear. No assurance can be given that the U.S. Treasury initiatives discussed above with respect to the debt and mortgage-backed securities issued by FNMA and FHLMC will be successful. In addition, new accounting standards and future Congressional action may affect the value of FNMA and FHLMC debt.

#### **Alternative Investments**

**Commodity risk** – Commodities investments and/or commodity-linked derivative instruments, especially if leveraged may entail greater volatility than traditional securities. Derivative instruments' values may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments.

**Counterparty and settlement risk** – Trading options, futures contracts and other derivative financial instruments entails credit risk on the counterparties. Such instruments are not afforded

the same protections as may apply to trading futures or options on organized exchanges. Substantial losses may arise from the insolvency, bankruptcy or default of a counterparty and risk of settlement default of parties with whom it trades securities.

**Derivatives risk** – Investing in a derivative instrument (such as, swaps, options, futures contracts, forward currency contracts, indexed securities and asset-backed securities, to be announced (TBAs) securities, interest rate swaps, credit default swaps, and certain exchange-traded funds) is subject to transaction costs and certain risks, such as unanticipated changes in securities prices and global currency investment. Derivatives are subject to a number of risks described elsewhere in this section, such as liquidity risk, interest rate risk, market risk, credit risk and management risk. They also involve the risk of mispricing or improper valuation and the risk that changes in the value of the derivative may not correlate perfectly with the underlying asset, rate or index, and the client could lose more than the principal amount invested. The Adviser must choose the correct derivatives exposure versus the underlying assets to be hedged or the income to be generated, in order to realize the desired results from the investment. The Adviser must also correctly predict price, credit or other applicable movements, during the life of a derivative, with respect to the underlying asset in order to realize the desired results from the investment. The client account could experience losses if its derivatives were poorly correlated with its other investments, or if the Adviser were unable to liquidate the client's position because of an illiquid secondary market. The market for many derivatives is, or suddenly can become, illiquid. Changes in liquidity may result in significant, rapid and unpredictable changes in the prices for derivatives. The value of derivatives may fluctuate more rapidly than other investments, which may increase the volatility of the value of the client's account, depending on the nature and extent of the derivatives in the client's portfolio. If the Adviser uses derivatives in attempting to manage or "hedge" the overall risk of the portfolio, the strategy might not be successful.

**Forward and futures contract risk** – The successful use of forward and futures contracts draws upon the Adviser's skill and experience with respect to such instruments and are subject to special risk considerations. The primary risks associated with the use of futures contracts are (a) the imperfect correlation between the change in market value of the instruments held in a client account and the price of the forward or futures contract; (b) possible lack of a liquid secondary market for a forward or futures contract and the resulting inability to close a forward or futures contract when desired; (c) losses caused by unanticipated market movements, which are potentially unlimited; (d) the Adviser's inability to predict correctly the direction of securities prices, interest rates, currency exchange rates and other economic factors; (e) the possibility that the counterparty will default in the performance of its obligations; and (f) if the client account has insufficient cash, it may have to sell securities from its portfolio to meet daily variation margin requirements, and the client may have to sell securities at a time when it may be disadvantageous to do so.

**Hedging instruments risk** – The Adviser, may attempt, from time to time, to hedge (protect) against currency risks, using forward foreign currency exchange contracts, where available and when, in the Adviser's opinion, it would be advantageous to the client's account. A forward foreign currency exchange contract is an agreement to buy or sell a specific currency at a future date and at a price set at the time of the contract. Forward foreign currency exchange contracts may reduce the risk of loss from a change in value of a currency, but they also limit any potential gains and do not protect against fluctuations in the value of the underlying position. For example, during periods when the U.S. dollar weakens in relation to a foreign currency the Adviser's use of a currency hedging program will result in lower returns than if no currency hedging programs were in effect. The Adviser may also attempt, from time to time, to hedge against market risks by using other derivative investments, which may include purchasing or selling call and put options. A call option gives the purchaser of the option, upon payment of a premium, the right to buy, and the seller of the option the obligation to sell, the underlying instrument at the exercise price. Conversely, a put option gives the purchaser of the option, upon payment of a premium, the right to sell, and the seller of the option the obligation to buy, the underlying instrument at the exercise price. Forward foreign currency exchange contracts and put options are considered derivative

investments, because their value and performance depend, at least in part, on the value and performance of an underlying asset. The Adviser may also use futures, swaps, and other derivative instruments to hedge risk. The client account's investment in derivatives may involve a small investment relative to the amount of risk assumed. To the extent the Adviser enters into these transactions, its success will depend on its ability to predict market movements, and their use may have the opposite effect of that intended. Risks include potential loss due to the imposition of controls by a government on the exchange of foreign currencies, the loss of any premium paid to enter into the transaction, delivery failure, default by any other party, or inability to close out a position because the trading market becomes illiquid.

**Leveraging risk** – Reverse repurchase agreements, dollar rolls, buy backs, futures, forwards, and the use of when-issued, delayed delivery or forward commitment transactions, and other derivatives, may give rise to a form of leverage. The effect of using leverage is to amplify the client account's gains and losses in comparison to the amount of the client's assets (that is, assets other than borrowed assets) at risk, thus causing the client account to be more volatile.

**Loans risk** – Bank loans, corporate loans, loan participations and assignments involve credit risk, interest rate risk, liquidity risk, and the risks of being a lender.

Indebtedness of companies whose creditworthiness is poor may be highly speculative involving substantially greater risks that those companies may never pay off their indebtedness, or may pay only a small fraction of the amount owed and may pay only after a delay, with a substantial risk of losing the entire amount invested.

After purchase of a loan, the client may only be able to enforce its rights through the lender, and may assume the credit risk of both the lender and the borrower. In the event that a borrower defaults, access to the collateral securing the loan may be limited by bankruptcy and other insolvency laws. The collateral may decline in value and/or be inadequate or difficult to realize upon. In addition, a court could take action with respect to the floating rate loan adverse to the holders of the loan, such as invalidating the loan, subordinating the loan to presently existing or future indebtedness, or ordering the refund of interest previously paid to the borrower. As a result, the client account might not receive payments to which it is entitled. The Adviser may have to participate in legal proceedings or take possession of and manage assets that secure the issuer's obligations on behalf of the client's account. This could increase the client's expenses. To the extent that the Adviser invests in loans that are not secured by any specific collateral of the borrower and if the borrower is unable to pay interest or defaults in the payment of principal, there will be no collateral on which the client's account can foreclose. Therefore, these loans present greater risks than collateralized loans.

Loan instruments may not be rated by a rating agency, registered with the SEC or any state securities commission or listed on any national securities exchange. The amount of public information available with respect to loans may be less extensive than that available for registered or exchange listed securities. In evaluating the creditworthiness of borrowers, the Adviser relies on its own evaluation of borrowers, but will consider, and may rely in part on, analyses performed by others.

The secondary market for loans may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods, which may cause the Adviser to be unable to realize full value for the client's account upon sale.

Floating rate loans are typically structured and administered by a financial institution that acts as an agent for the holders of the loan. In the event of the insolvency of an agent bank, a loan could be subject to settlement risk, as well as, the risk of interruptions in the administrative duties performed in the day-to-day administration of the loan (such as processing LIBOR calculations, processing draws, etc.).



**Real estate investment risk** – Real estate is also affected by general economic conditions and legal, cultural or technological developments. When growth is slowing, demand for property decreases and prices may decline. Real estate company share prices may drop because of the failure of borrowers to pay their loans and poor management. Many real estate companies, including real estate investment trusts (“REITs”), utilize leverage (and some may be highly leveraged), which increases investment risk and could adversely affect a real estate company’s operations and market value in periods of rising interest rates. Financial covenants related to real estate company leveraging may affect the company’s ability to operate effectively. A real estate company may become liable for removal or other costs related to environmental contamination. Real estate companies tend to be small to medium-sized companies and share prices can be more volatile than, and perform differently from, larger company shares. A client account could hold real estate directly if a company defaults on its debt securities. Direct ownership in real estate present additional risks, including liquidity risks, declines in value of the properties, risks from general and local economic conditions, changes in the climate for real estate, increases in taxes, expenses and costs, changes in laws, casualty and condemnation losses, rent control limitations and increases in interest rates. Investment in REITs may be affected by the management skill of the persons managing the REIT.

**Short sales risk** – A short sale may be effected by selling a security that a client account does not own. If the price of the security sold short increases, the fund would incur a loss; conversely, if the price declines, the fund will realize a gain. Although the gain is limited by the price at which the security was sold short, the loss is potentially unlimited. In addition, short positions typically involve increased liquidity risk and transaction costs, and the risk that the third party to the short sale may fail to honor its contract terms.

**Speculative exposure risk** – To the extent that a derivative or practice is not used as a hedge, the Fund is directly exposed to its risks. Gains or losses from speculative positions in a derivative may be much greater than the derivative’s original cost.

#### **International**

**Currency risk** – Currency values between the US dollar and local currency of the Adviser’s clients may vary, and exchange rates can be volatile and affected by a number of factors, such as the general economics of a country, the actions (or inaction) of U.S. and foreign governments or central banks, the imposition of currency controls, and speculation.

**Emerging markets risk** – Investments in emerging markets involve greater risk resulting from economic and political systems that typically are less developed, and likely to be less stable, than those of more advanced countries. There may be government policies that restrict investment by foreigners, and a higher risk of a government taking private property. Low or nonexistent trading volume in securities of issuers may result in a lack of liquidity and in price volatility. Issuers in emerging markets typically are subject to greater risk of adverse changes in earnings and business prospects than are companies in developed markets. Loss may also result from the imposition of exchange controls, confiscations and other government restrictions or from problems in security registration or settlement and custody. The client’s account will also be subject to the risk of negative foreign currency rate fluctuations.

**Foreign securities risk** – Investments in foreign securities involve risks not typically associated with U.S. investments. These risks include, among others, adverse fluctuations in foreign currency values as well as adverse political, social and economic developments. In addition, there may be less publicly available information and more volatile or less liquid markets. Investments in foreign securities could be affected by restrictions on receiving the investment proceeds from a foreign country, confiscatory foreign tax laws, and potential difficulties in enforcing contractual obligations. Transactions may be subject to less efficient settlement practices, including extended clearance and settlement periods. Foreign accounting may be less revealing than U.S. accounting practices and regulation may be inadequate or irregular.

**Sovereign debt risk** – These investments are subject to the risk that a governmental entity may delay or refuse to pay interest or repay principal on its sovereign debt, due, for example, to cash flow problems, insufficient foreign currency reserves, political considerations, the relative size of the governmental entity's debt position in relation to the economy or the failure to put in place economic reforms required by the International Monetary Fund or other multilateral agencies. If a governmental entity defaults, it may ask for more time in which to pay or for further loans. There is no legal process for collecting sovereign debt that a government does not pay nor are there bankruptcy proceedings through which all or part of the sovereign debt that a governmental entity has not repaid may be collected.

Additional information regarding risks relating to strategies and securities for client accounts organized as US mutual funds or US or foreign pooled investment vehicles are included in the prospectus or other similar disclosure documentation.

## **Item 9 - DISCIPLINARY INFORMATION**

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of the Adviser's business or the integrity of its management. In the past, the Adviser's parent company, Prudential plc, has entered into certain settlements with regulators and other third parties and have been the subject of adverse legal and disciplinary events. Additional information regarding certain of these settlements is set forth in Part 1A of the Adviser's ADV.

## **Item 10 - OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

This Brochure discusses only those functions performed by the Adviser on behalf of its clients and does not discuss the activities of other affiliated entities or related persons on behalf of their respective clients except to the extent such activities are conducted in connection with the investment advisory activities of the Adviser. Additional information relating to these related persons of the Adviser may be found on Schedule D to Part 1 of the Adviser's Form ADV and, to the extent applicable, in the Form ADV for such affiliated entities or related persons.

As of March 27, 2014, three of the Adviser's management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of Jackson National Distributors, LLC, an affiliated broker-dealer.

As of March 27, 2014, none of the Adviser's management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities. The Adviser meets the definition of a "commodity trading adviser" pursuant to Section 1a(12) of the Commodity Exchange Act, but is exempt from registration with the Commodities Futures Trading Commission pursuant to CFTC Regulation 4.14(a)(8).

As discussed in response to Item 7 above, the Adviser serves as investment adviser to numerous affiliates of its UK Parent worldwide, including in the US, the UK and Asia. The UK Parent is the parent of M&G Group Limited, which is the parent of M&G Investment Management Limited ("MAGIM"), an investment manager based in the UK which is registered with the Financial Conduct Authority ("FCA"), the regulatory organization responsible for the UK investment management industry. MAGIM is also registered with the SEC as an investment adviser.

In the US, the Adviser serves as investment adviser to Jackson National Life Insurance Company ("Jackson") and its wholly-owned subsidiary, Jackson National Life Insurance Company of New York, as well as certain other related entities relevant to the Adviser's business as set forth below. The Adviser also currently serves as investment sub-adviser to eight mutual funds sponsored and advised by Jackson National Asset Management, LLC, and to one mutual fund sponsored and advised by Curian Capital, LLC, both wholly-owned subsidiaries of Jackson.



The Adviser serves as investment adviser to various UK affiliates of its UK Parent in connection with the management of either or both of the US equity and fixed income portion of certain accounts or funds. The Adviser has entered into sub-advisory or other similar arrangements with various affiliates of its UK Parent in Asia, such as Singapore, Taiwan and Japan, to manage the US equity and fixed income portions of certain of their respective clients' portfolios. In this capacity, the Adviser serves as investment adviser or sub-adviser to general accounts of affiliated insurance companies and various portfolios of investment products sponsored by affiliates, including unit trusts or open-ended investment companies in the UK open-ended investment management funds in Japan and various sub-funds of open-ended investment companies registered in Luxembourg. The Adviser also provides non-discretionary advisory services (consulting services and dealing services) to its affiliate in Taiwan relating to two Taiwanese on-shore investment funds. The Adviser may also enter into other discretionary or non-discretionary advisory arrangements with affiliates in other jurisdictions.

The Adviser does not recommend or select other investment advisers for its clients.

#### *Affiliations and Conflicts of Interest*

The Adviser is committed to providing clients with service of the highest quality and seeks to act in the best interests of its clients. Nevertheless, there are circumstances where client interests conflict with the Adviser's interests, the interests of the Adviser's affiliates (including affiliated clients), or the interests of other clients. Some of these conflicts of interest are inherent to the Adviser's business and are encountered by other large financial services firms that offer similar services. The Adviser has policies and procedures that are designed to ensure that we act in the best interests of its clients.

The Adviser provides advice for a number of clients, including affiliated entities. The Adviser may advise some clients or take actions for them that differ from recommendations or actions taken for other clients. The Adviser is not obligated to recommend to any or all clients any investments that it may recommend to, or purchase or sell for, certain other clients. The Adviser's employees regularly share information, perceptions, advice and recommendations about market trends, the valuations of individual securities, and investment strategies, except where prohibited by ethical walls established by the Adviser or by applicable law or regulation. Persons associated with the Adviser may themselves have investments in securities that are recommended to clients or held in client accounts, subject to compliance with our policies regarding personal securities trading.

Under certain circumstances, a client may invest in a transaction in which one or more other clients are expected to participate, or already have made or will seek to make, an investment. Such clients (or groups of clients) may have conflicting interests and objectives in connection with such investments, including with respect to views on the operations or activities of the issuer involved, the targeted returns from the investment and the timeframe for, and method of, exiting the investment. Further, potential conflicts may be inherent in the Adviser's use of multiple strategies. For example, conflicts will arise in cases where clients with different strategies invest in different parts of an issuer's capital structure, including circumstances in which one or more clients may own private securities or obligations of an issuer and other clients may own other private or public securities of the same issuer. For example, a client may acquire a loan, loan participation or a loan assignment of a particular borrower in which one or more other clients have an equity investment, or the Adviser may invest in senior debt obligations of an issuer for one Client and junior debt obligations of the same issuer for another Client.

The Adviser may also, for example, direct a client to invest in a tranche of a structured finance vehicle, such as a collateralized loan or debt obligation, where the Adviser is also, at the same or different time, directing another client to make investments in a different tranche of the same vehicle, which tranche's interests may be adverse to other tranches. The Adviser may also cause a client to purchase from, or sell assets to, an entity, such as a structured finance vehicle, in which other clients may have an interest, potentially in a manner that will have an adverse effect on the other clients. There may also be conflicts where, for example, a client holds certain loans

of an issuer, and that same issuer has issued other loans or instruments that are owned by other clients or by an entity, such as a structured finance vehicle, in which other clients have an interest: in this situation, the Adviser may take actions with respect to the assets held by one client that are adverse to the other clients, for example, by foreclosing on loans or by putting an issuer into default. In negotiating the terms and conditions of any such investments, or any subsequent amendments or waivers, the Adviser may find that the interests of a client and the interests of one or more other clients could conflict. In these situations, decisions over items such as whether to make the investment, proxy voting, corporate reorganization, how to exit an investment, or bankruptcy matters (including, for example, whether to trigger an event of default or the terms of any workout) may result in conflicts of interest. Similarly, if an issuer in which a client and one or more other clients directly or indirectly hold different classes of securities (or other assets, instruments or obligations issued by such issuer or underlying investments of such issuer) encounters financial problems, decisions over the terms of any workout will raise conflicts of interests (including, for example, conflicts over proposed waivers and amendments to debt covenants). For example, a debt holder may be better served by a liquidation of the issuer in which it may be paid in full, whereas an equity or junior bond holder might prefer a reorganization that holds the potential to create value for the equity holders. Although in some cases the Adviser may refrain from taking certain actions or making investments on behalf of clients because of conflicts (potentially disadvantaging the clients on whose behalf the actions are not take or investments not made), in other cases the Adviser will not refrain from taking actions or making investments on behalf of some clients that have the potential to disadvantage other clients.

The foregoing conflicts of interest will be reviewed on a case-by-case basis. Any review will take into consideration the interests of the relevant clients, the circumstances giving rise to the conflict and applicable laws. Clients should be aware that conflicts will not necessarily be resolved in favor of their interests, and the Adviser will attempt to resolve such matters fairly, but even fair resolution may be resolved in favor of other clients, including mutual funds or other pooled investment vehicles, which may pay the Adviser higher fees or performance fees or in which the Adviser or its affiliates have a significant proprietary interest. There can be no assurance that any actual or potential conflicts of interest will not result in a particular client or group of clients receiving less favorable investment terms in or returns from certain investments than if such conflicts of interest did not exist.

## **Item 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

### *Item 11.A. - Code of Ethics – Has the Adviser adopted a code of ethics?*

In addition to a variety of other policies and procedures (including policies and procedures of its UK Parent), the Adviser and certain affiliates have in place a Code of Ethics and Conduct ("Code") which sets forth, among other things, standards of conduct expected of their advisory personnel and addresses conflicts that arise from personal trading by advisory personnel. Officers, directors, employees, certain temporary employees and certain affiliated employees of the Adviser, and certain of their immediate families and households ("Covered Persons"), may purchase or sell securities that have been purchased or sold for a client's account. The Adviser's Code prohibits personal securities transactions based on inside information or trading in securities appearing on applicable restricted lists; requires pre-approval of certain personal transactions for Covered Persons; requires under certain circumstances a waiting period between execution of a trade for a client and execution of a personal transaction; and restricts or prohibits certain other transactions. The Adviser also has in place a separate Code of Ethics for Certain Employees of Jackson National Life Insurance Company ("Code for JNL Covered Persons"). The Adviser will provide a copy of its Codes to any client or prospective client upon request.

*Item 11.B. - Participation or Interest in Client Transactions – Does the Adviser (or any related person) participate or have a material interest in client transactions?*

The Adviser does not buy or sell securities to or from client accounts on a principal basis except on rare occasions as permitted by law and in accordance with its compliance procedures. It should also be noted that currently many of the Adviser's clients would be deemed "advisory affiliates" or "related persons," as such terms are defined in the Glossary to Form ADV. Further, certain employees or affiliates of the Adviser own interests in affiliated entities that entitle them to an allocation from certain of the affiliated entities of gains in excess of a preferred return (see Item 6 above).

To the extent permitted by applicable law, client guidelines and restrictions and in accordance with its compliance procedures, the Adviser also may effect "cross" transactions between client accounts. In these cases, one client will purchase a security held by another client. Neither the Adviser nor any related party receives any compensation in connection with a "cross" transaction. The Adviser effects these transactions pursuant to internal procedures in place only when it deems the transaction to be in the best interests of both buying and selling clients and at prices that the Adviser has determined reflect fair value.

The Adviser in many instances purchases and sells, pursuant to its discretionary authority, the same securities for the accounts of related and unrelated persons. In those instances, the Adviser has internal procedures in place to allocate those securities to related and unrelated accounts on a fair and equitable basis over time.

The Adviser may purchase on behalf of clients privately-placed securities involving corporates, asset-backed, leveraged leases, high yield debt, and private equity. The Adviser may purchase for a client account different classes of debt of the same issuer, debt and equity of the same issuer for different accounts, and securities of issuers whose securities may also be held by one or more affiliates of the Adviser. Such investments may be deemed to create conflicts of interest in the event, for example, of a bankruptcy or workout if the terms, standing and security of the investments by the Adviser's affiliates may be deemed to be more advantageous than those received by the unaffiliated accounts. The Adviser generally addresses this conflict through disclosure in the offering documents or investment advisory agreement for such clients.

Similarly, the Adviser may take certain actions for some clients that may have an adverse effect on other clients. This may mean, for example, that if the Adviser is on a creditor's committee in the case of a distressed investment and learns of material nonpublic information, it may be precluded from taking action for other clients holding securities of the same or another affected issuer.

The Adviser maintains Policies and Procedures regarding Inside Information and Chinese Walls that establish barriers around certain internal groups which might be in possession or aware of material non-public information. The policy is designed to block the flow and potential misuse of that information. In addition, the Adviser has adopted other policies and procedures designed to minimize potential conflicts of interest of this nature and to address such conflicts in a manner which is most equitable to all accounts.

*Item 11.C. and D. - Participation or Interest in Personal Trading – Client Recommendations and Client Trading - Does the Adviser (or any related person) invest in or trade securities in which client accounts invest or trade?*

As noted in response to Item 11.A. above, the Adviser has adopted a Code of Ethics, as well as other policies and procedures, which seek to address potential conflicts involving personal trading by the Adviser's Covered Persons. Subject to compliance with such policies and procedures, the Adviser's Covered Persons may invest in the same or related securities that are purchased for

client accounts. However, the Code imposes limits on such transactions, including generally prohibiting transactions within a 7 day blackout period before or after client trading in such securities, or in circumstances where the Covered Person has access to material non-public information relating to the security or the issuer or the security. Except in limited circumstances, personal securities trading is subject to monitoring and oversight by the Adviser's Compliance Department.

## **Item 12 - BROKERAGE PRACTICES**

### *Item 12.A. - Broker-Dealer Selection – How does the Adviser select broker-dealers for client transactions?*

The Adviser may render investment advice and counseling on a discretionary and non-discretionary basis. The precise nature of the Adviser's relationship with its clients and the extent to which the Adviser may exercise discretion under its management contract with a client are frequently a function of the personal relationship developed between the Adviser's personnel with whom the client deals and the client's investment needs, objectives and desires. When the Adviser has been granted the authority to do so, the Adviser may determine which securities are bought and sold, the amount of securities bought and sold, which broker or dealer will effect such transactions and the commission rates at which the transactions will be effected. The Adviser maintains lists of broker-dealers, futures commission merchants and derivatives and repurchase agreement counterparties that have been reviewed and approved in connection with the Adviser's Best Execution Policies and Procedures. Traders generally have discretion to effect transactions with any broker or dealer on the approved lists. With respect to non-discretionary accounts, the Adviser will recommend securities trades, but the client must instruct the Adviser to effect a trade and the Adviser will not presume a client's consent to a trade from the client's silence.

The Adviser generally seeks to obtain best execution for client transactions with brokers or dealers (collectively, "Broker Dealers"), that is, to obtain not necessarily the lowest commission cost or best price, but the best overall qualitative execution under the circumstances. Factors that influence the manner in which the Adviser selects Broker Dealers for trade execution include: the quality of trade execution, including the accuracy and timely execution of trades, clearance and cooperation by the Broker Dealer in resolving errors and disputes; the reputation, financial strength and creditworthiness of the Broker Dealer; block trading by the Broker Dealer and its block positioning capabilities; the reliability of the Broker Dealer, both historically and currently; the willingness of the Broker Dealer to execute difficult transactions; the willingness of the Broker Dealer to execute a transaction in combination with another transaction or transactions which, in the aggregate, provide net benefit to the Adviser's client; the willingness and ability of the Broker Dealer to commit capital; access provided by the Broker Dealer to the Adviser and its clients to underwritten offerings, including new issues of fixed income securities; overall costs of trades placed, that is, the net price paid or proceeds received, including commissions, mark-ups, mark-downs, spreads, other transaction costs and opportunity costs in the context of the Adviser's knowledge of negotiated commission rates currently available; awareness of commission rates currently available and other current transaction costs; the nature of the security being traded; the size of the transaction; the desired timing of the trade; the activity existing and anticipated in the market for the particular security; confidentiality concerns; the research, products and other services provided for the benefit of the Adviser and its clients; and other factors. In light of the lack of market data for the fixed income market, best execution is not evaluated on a transaction-by-transaction basis, but on an overall basis over time.

### *Item 12.A.1 - Research and Other Soft Dollar Benefits – Does the Adviser receive research or other products or services in connection with client securities transactions?*

The Adviser may allocate brokerage transactions for clients to Broker Dealers that provide brokerage and research services to the Adviser and that charge commissions in excess of the

amount of commission another Broker Dealer would charge for the same transaction. Such brokerage and research services may be available to the Adviser on a cash basis and at a lower cost. Before effecting these brokerage transactions, the Adviser determines in good faith that the amount of such commission is reasonable in relation to the factors set forth above, including the value of the brokerage and research services provided by such Broker Dealer viewed in terms of either that particular transaction or the Adviser's overall responsibilities to all its clients. The Adviser periodically reviews the general level of brokerage allocated to various firms and the services provided by such Broker Dealers.

Brokerage and research services may relate to a specific transaction placed with such Broker Dealer, but for the most part, the services so provided will consist of a wide variety of information useful to the Adviser in providing its investment advice to some or all of its clients. This material generally relates to general economic, interest rate, and equity and debt market conditions as well as information on specific companies and industries.

The brokerage and research services that may be paid for with client commissions include: research reports; specialized financial and industry publications and research compilations; quantitative, economic, international and market strategy services; compilations of securities prices; dividends and similar data bases; market data; professional seminars; and the services of certain economic or financial consultants. These and other types of brokerage and research services may be originated by the Broker Dealer performing execution services or by third parties that are paid by the Broker Dealer.

From time to time the Adviser may receive products or services that are used both as investment research and for administrative, marketing or other non-research purposes. In those cases, the Adviser makes a good faith effort to determine the relative proportions of such products or services that constitute "research." The Adviser has a conflict in making this decision. The portion of the cost of such products or services attributable to research may be paid, in whole or in part, by brokerage commissions on client transactions. In any such instance, the costs not attributable to research will be paid by the Adviser in cash.

Research products or services may benefit any or all of the Adviser's clients and such research products or services may not necessarily be used by the Adviser for the account(s) that paid the commissions to the Broker Dealer providing such products or services.

The Adviser also may advise clients regarding debt issues or other fixed price offerings ("Fixed Price Offerings"). The Adviser may direct that a portion of such a Fixed Price Offering be purchased for a client from a Broker Dealer who provides "selling concessions" to the Adviser in the form of research services, products or analysis which will consist of a wide variety of information and products useful to the Adviser or its clients in general. The direction of such purchases of Fixed Price Offerings to particular Broker Dealers generally will not result in any added costs to clients. Nevertheless, since the Adviser derives a benefit from such selling concessions that it would not otherwise have absent its relationship with its clients, clients should be aware that such arrangements may create a conflict of interest.

Currently, while the Adviser may pay more than the lowest available commission rate in accordance with the "safe harbor" provision of Section 28(e) of the Securities Exchange Act of 1934 ("Section 28(e)") in its selection of brokers as noted above, the Adviser generally does not enter into contractual arrangements for the receipt of research or other services to be paid with soft dollar transactions.

While the Adviser generally does not enter into contractual arrangements or other understandings to obtain research or other products or services, the receipt thereof would provide a benefit to the Adviser (and to its clients) as the Adviser does not have to produce or pay for such research, products or services.



Also, the availability of research, products or services may provide an incentive to the Adviser to select or recommend a particular Broker-Dealer, rather than solely based on the clients' interest based in receiving most favorable execution.

The Adviser does not cause clients to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits.

Research received by the Adviser pursuant to the use of soft dollars is used in connection with all clients of the Adviser for whom the applicable portfolio managers or other advisory personnel receiving research provide investment advice.

As noted above, the Adviser has not entered into contractual arrangements to obtain research or brokerage services in exchange for client brokerage commissions within the last fiscal year. Consistent with its obligation to seek best execution on behalf of its clients, the Adviser does receive brokerage and research in accordance with the requirements of Section 28(e). Research received includes, to the extent permissible under applicable law, specific company or third party research, market data, access to securities analysts and corporate management and industry conferences and (1) furnishes advice as to the value of securities, the advisability of investing in, purchasing or selling securities, or the availability of securities or purchasers or sellers of securities or (2) furnishes analyses and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy, and the performance of accounts. The Adviser will only obtain research the extent that it reasonably believes that it provides lawful and appropriate assistance to the Adviser in the performance of its investment decision-making responsibilities. Brokerage services received includes access to electronic trading platforms, access to traders with greater familiarity with company trading and market makers, and assists in effecting securities or performs other functions incidental to the transaction (such as clearance or settlement). Research or brokerage service received is used by the portfolio managers in connection with their management of all applicable client accounts.

The Adviser has not entered into any arrangements to direct client transactions to a particular broker-dealer in return for soft dollar benefits it has received during the last fiscal year.

***Item 12.A.2 - Brokerage for Client Referrals – Does the Adviser (or a related person) receive client referrals from a broker-dealer or third party?***

When selecting broker-dealers for trade execution on behalf of client accounts, the Adviser does not take into consideration any client referrals from a broker-dealer or third party, either for itself or for a related person.

***Item 12.A.3 - Directed Brokerage – Does the Adviser recommend, request or require that a client direct it to trade through a specified broker-dealer?***

The Adviser does not routinely recommend, request or require that a client direct it to execute transactions through a specified broker-dealer.

In limited circumstances, the Adviser will permit a client to direct brokerage to a specified broker-dealer. Any such arrangements are subject to the Adviser's responsibility to seek best execution and the receipt of the most favorable execution of client transactions. During the past fiscal year, the only client which directed brokerage in this manner was a US mutual fund for which the Adviser serves as sub-adviser, and additional information relating to this arrangement is set forth in the Fund's prospectus. The discretionary authority of the Adviser may be limited by directions from a client to have a transaction effected through a specific Broker Dealer for research and services pertaining specifically to, or to defray expenses incurred by, its account. As with all directed brokerage transactions, the Adviser may not be able to freely negotiate commission rates or select Broker Dealers on the basis of best price and execution for such transactions. In addition, transactions directed in this manner generally may not be batched for execution with

transactions in the same securities for other clients. As a result, such client may have to pay higher commissions or receive less favorable net prices or execution than would be the case if the Adviser were authorized to choose the Broker Dealer through which to execute transactions for the client's account.

***Item 12.B. - Aggregation of Trades – Does the Adviser aggregate purchases or sales of securities for various client accounts?***

When possible, the Adviser seeks to purchase or sell the same securities or instruments for a number of clients simultaneously, including, where appropriate, affiliated clients. When possible, orders for the same security are combined or batched to facilitate best execution and to reduce brokerage commissions or other costs. The Adviser effects batched transactions in a manner designed to ensure that no participating client is favored over any other client. Specifically, each client that participates in a batched transaction will participate at the average price for all of the Adviser's transactions for that order on that business day. For publicly traded equity securities, purchase and sale orders effected in batched transactions are generally allocated pro-rata relative to the market value of each asset class and, when possible, to the participating client accounts in proportion to the size of the order placed for each account. Each client that participates in a batched transaction is assessed the pro rata costs associated with that transaction in proportion to size of the order completed for that account. The Adviser may, however, increase or decrease the amount of securities allocated to each account if necessary to avoid holding odd-lot or small numbers of shares for particular clients. Additionally, if the Adviser is unable to fully execute a batched transaction and the Adviser determines that it would be impractical to allocate a small number of securities among the accounts participating in the transaction on a pro-rata basis, the Adviser may allocate such securities in a manner determined in good faith to be fair and equitable over time. Transactions for each client account may also be completed independently where aggregating orders is not possible or advisable.

Orders for clients with directed brokerage arrangements will not be aggregated with other client transactions unless the Adviser is able to place an aggregated trade or trades with the directed Broker Dealer and if the directed Broker Dealer provides best execution under the circumstances. Directed brokerage trades not aggregated with other client trades will generally be placed by the Adviser after the aggregated trade is filled and may not receive as favorable pricing or execution as the aggregated trade.

In connection with managing various asset classes (e.g., public and private fixed income securities, public and private equity securities), the Adviser has developed procedures for aggregating purchase and sale orders and allocating securities, investment opportunities and sale proceeds among accounts. The Adviser also develops new, and modifies as necessary existing, allocation procedures depending upon a number of factors, including, for example, the investment styles employed, nature of securities, effect on existing accounts, and additions of new, and liquidation of older, accounts (i.e., new accounts and accounts in a ramp-up phase may receive greater allocations until they are fully-invested, and positions in liquidating accounts may be sold on a priority basis). These procedures guide the Adviser's personnel in deciding how to spread investment opportunities among accounts, taking into account, among other factors, any unique account mandates and asset class trading issues, and are designed to result in the fair and equitable treatment over time of all affected accounts. The Adviser may change its current allocation procedures without notice to clients as it deems necessary.

## **Item 13 - REVIEW OF ACCOUNTS**

The Adviser's portfolio managers responsible for each particular style of management regularly monitor the accounts under their supervision and formally review each account within their style of management as frequently as deemed appropriate for such account (which may be daily, monthly or quarterly as applicable). Specifically, they review client investment objectives, asset



diversification, account performance and market activity. Client profiles are reviewed periodically and may be re-examined upon client request or in the event of a change in prevailing market conditions. The Adviser's senior investment officers meet periodically with portfolio managers to review, among other things, investment selections and opportunities, market developments, asset allocations and asset liability statistics. Each management team is responsible for reviewing and supervising the accounts managed within a particular style, the number of which vary depending upon the style of management, size of assets and complexity of investment dictates.

Generally, all clients receive, at least quarterly, a written summary outlining the activity in their accounts, including, where applicable, performance information which highlights the portfolio's return and characteristics as compared to the appropriate benchmarks (as applicable). In addition, the Adviser generally will hold meetings with clients to review their portfolios on a periodic basis or at the request of the client. Further, the Trustee provides written reports to all investors, and the Adviser provides reports to investors (if known to the Adviser) in pooled vehicles such as CLOs or CDOs that the Adviser advises or manages. The nature and frequency of the Trustee reports are described in the applicable pool's governing agreement and other relevant instrument (such as the indenture or limited partnership agreement). The Adviser's reports generally summarize or supplement such reports, as deemed appropriate by the Adviser.

#### **Item 14 - CLIENT REFERRALS AND OTHER COMPENSATION**

The Adviser does not receive an economic benefit from any third party for providing investment advice or other advisory services to any of the Adviser's clients.

Although it has done so in the past, the Adviser does not currently compensate unrelated third parties for client referrals. In the event that the Adviser determines to pay such compensation in the future, it will do so in accordance with then current regulatory requirements (currently Rule 206(4)-3 under the Advisers Act).

Certain non-US affiliates of the Adviser provide, either directly or indirectly through other affiliated entities, marketing, sales and client servicing to the Adviser in support of current or non-US prospective clients in their local jurisdiction. In such circumstances, the Adviser compensates such affiliated entities and the provision of such services may be deemed to be a "solicitation" arrangement within the meaning of Section 206 of the Advisers Act and Rule 206(4)-3 thereunder. Any such affiliated entity shall meet the qualification and disclosure requirements of the Advisers Act and the Rules thereunder.

#### **Item 15 - CUSTODY**

Generally, each client appoints a third party qualified custodian for the client's funds and securities. However, the Adviser is deemed to have custody in limited circumstances involving certain pooled investment vehicle clients organized as a limited partnership or limited liability company and for which the Adviser or an affiliate serves as general partner or managing member. In these circumstances, all assets of each such client are held by a qualified custodian (except for securities not evidenced by any original document in our possession and where there are no interests which could be maintained by a custodian), and account statements are delivered at least quarterly directly from the qualified custodian to the independent representative designated by the client to receive such statements on behalf of the client. Underlying investors of the pooled investment vehicle clients will also receive statements from the Adviser, and such clients and underlying holders should compare the account statements provided by the Adviser and those received by the independent representative with respect to questions regarding the client's holdings.

#### **Item 16 - INVESTMENT DISCRETION**

The Adviser generally accepts discretionary authority to manage the accounts of its clients pursuant to investment guidelines and restrictions established in connection with the client or the affiliated investment adviser who is delegating sub-advisory responsibilities to the Adviser. Prior to assuming this authority, the Adviser will generally enter into an investment management or other similar agreement, which either includes or incorporates by reference the client's specific investment objective(s), restrictions, guidelines and applicable reference benchmarks.

## **Item 17 - VOTING CLIENT SECURITIES**

As required by Rule 206(4)-6 under the Advisers Act, the Adviser has adopted written policies and procedures in connection with voting proxies for those clients for whom it exercises proxy voting authority. Copies of the Adviser's proxy voting policies and procedures are available by request. Clients may also request copies of voting records for their proxies.

The Adviser's primary consideration in determining how to vote a proxy is the financial interest of its clients. The Adviser generally votes all proxies in accordance with its proxy voting guideline summary, which are periodically reviewed and updated as necessary. The voting guidelines have been established with the assistance of Institutional Shareholder Services, Inc. ("ISS"), a proxy voting and consulting firm, and are designed to further the interests of clients when voting on particular proposals. In this regard, except as noted in the Adviser's proxy voting guideline summary, the Adviser has generally adopted the ISS guidelines for use with its clients who have except with respect to certain specific identified topics. Where proposals are not addressed in the Adviser's voting guideline summary and the ISS guidelines, or in the event that the portfolio manager recommends a vote contrary to the voting guidelines, the Adviser will vote in the manner believed to be in the best interests of its clients, and, if necessary, the Adviser's conflicts committee, consisting of the Adviser's Chief Executive Officer, Chief Operating Officer and General Counsel, will be convened to address any conflicts of interest. In the event that the Adviser determines that a proxy should be voted in a manner contrary to the policy set forth in the voting guidelines, the Adviser's conflicts committee independently considers the proposed vote to resolve any potential conflict in the best interests of the Adviser's clients. If a client desires to do so, they may contact the portfolio manager responsible for their account with direction regarding particular voting with respect a particular situation on behalf of their account.

Clients of the Adviser may determine not to delegate authority to the Adviser to vote client securities. In this event, clients will arrange to receive proxies directly from their custodian or transfer agent and may contact the Adviser with questions regarding any particular solicitation.

## **Item 18 - FINANCIAL INFORMATION**

The Adviser does not require or solicit prepayment of more than \$1,200 in fees per client six months or more in advance and therefore has not included a balance sheet of its most recent fiscal year. Also, the Adviser is not aware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients and has not been the subject of a bankruptcy petition at any time during the past ten years.