

This brochure, dated March 28, 2014,  
provides information about the qualifications and business practices of

**MacKay Shields LLC**  
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The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. In addition, registration with the SEC does not imply a certain level of skill or training.

Additional information about MacKay Shields LLC is also available on the SEC’s website at [\*\*www.adviserinfo.sec.gov\*\*](http://www.adviserinfo.sec.gov).

## MATERIAL CHANGES

This brochure, dated March 28, 2014, makes the following material changes since our last annual update to our brochure, dated August 13, 2013:

- We have added the following investment strategy – High Yield Active Core Low Duration/Short Duration. See “Advisory Business – Clients and Investment Services,” “Fees and Compensation – Fee Schedule” and “Methods of Analysis, Investment Strategies and Risk of Loss.”
- We have revised the description regarding currency hedging to cover application to investment teams other than the Global Fixed Income team. See “Advisory Business – Portfolio Management Practices.”
- We have added a new section addressing the requirement for proper agreements to be in place in connection with transacting in certain derivatives. In addition, reference is made to master agreements that MacKay Shields may have in place from time to time with counterparties for transacting in certain derivatives. See “Brokerage Practices – Derivatives.”
- We have added a new section describing a change to MacKay Shields’s long term incentive program effective December 2013 whereby certain employees may elect to have MacKay Shields allocate a portion of their long-term incentive compensation to track the investment returns one of one or more non-SEC registered investment funds that we sponsor and/or manage. See “Other Financial Industry Activities and Affiliations – Ownership, Management and Compensation.”
- We have added as a new risk factor “Closed-End Funds Risk,” which is applicable to certain investment strategies which permit investment in closed-end funds. See “Methods of Analysis, Investment Strategies and Risk of Loss – Additional Material Risks.”
- We have combined “Floaters and Variable Rate Notes Risk” and “Floating Rate Loans Risk” into a newly created “Floating and Variable Rate Debt Risk,” which contains additional disclosures. See “Methods of Analysis, Investment Strategies and Risk of Loss – Additional Material Risks.”
- We have revised and expanded the risk factor “To-Be-Announced Securities (TBAs) Risk.” See “Methods of Analysis, Investment Strategies and Risk of Loss – Additional Material Risks.”
- We have renamed “Private Investment Funds Risk” as “Non-SEC Registered Investment Funds Risk.” See “Methods of Analysis, Investment Strategies and Risk of Loss – Additional Material Risks.”

- We have revised the description regarding custody to address situations where MacKay Shields has the authority to deduct management fees from the portfolio of our separate account clients. See “Fees and Compensation – Payment of Fees” and “Custody.”
- We have revised the descriptions of the Flexible Bond and Unconstrained Bond investment strategies to state that allocations may be made to non-SEC registered investment funds managed by the same investment team. See “Methods of Analysis, Investment Strategies and Risk of Loss – Fixed Income Investment Strategies.”

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## **ADVISORY BUSINESS**

### **History.**

MacKay Shields LLC (“MacKay Shields”) was founded in 1938 as an economic consulting firm and became a registered investment adviser in April 1969. In 1984, New York Life Insurance Company (“NYLIC”) purchased MacKay Shields. Today, our firm is a wholly-owned subsidiary of New York Life Investment Management Holdings LLC (“NYL Investments Holdings”), which in turn is wholly owned by NYLIC.

### **Clients and Investment Services.**

MacKay Shields managed approximately \$76.5 billion in assets on a discretionary basis and approximately \$3.8 billion on a non-discretionary basis, as of December 31, 2013.

We provide discretionary and non-discretionary investment advisory services primarily to institutions such as U.S. registered investment companies, corporate pension funds, endowments and foundations, Taft-Hartley and public funds, non-SEC registered investment funds and other pooled investment vehicles, wrap fee programs, non-U.S. investment companies and other non-U.S. clients. In addition, we provide discretionary investment advisory services to high net worth clients.

We offer a variety of investment strategies that clients can select depending on their investment objectives. Our clients can impose reasonable restrictions or limitations on how we manage their accounts. These restrictions or limitations generally appear either in the client’s investment management agreement or in investment guidelines. Additional information about this process can be found under “Investment Discretion”.

Information about these strategies is found under “Methods of Analysis, Investment Strategies and Risk of Loss”.

### **Wrap Fee Programs.**

We participate in wrap fee programs by providing portfolio management or portfolio modeling services. In some of these arrangements, we are retained as the adviser directly by the sponsor of the wrap fee program. In other wrap fee arrangements, we act as a sub-adviser when our affiliate New York Life Investment Management LLC (“NYL Investments”) is the adviser. In wrap fee programs, clients typically pay a single wrap fee to the sponsor firm that covers advisory fees as well as trade and execution services, including commission costs. Our fee is paid out of that single wrap fee. We receive our fee either from the wrap fee sponsor or from NYL Investments. Please see “Brokerage Practices”, below, for more detailed information about our brokerage practices. In arrangements where we provide portfolio modeling services, we do not execute any trades.

## **Portfolio Management Practices.**

We may take a position for an advisory client in a security or investment instrument contrary to the position held in the same security or investment instrument (for example, a short versus a long position) by our other clients. We may also purchase a security or investment instrument for one client and sell the same security or investment instrument for another client.

We or our affiliates may purchase on behalf of clients securities that represent the same or different classes of a security of the same issuer, or securities or other instruments that have the same or different rights with respect to the same issuer.

From time to time our portfolio managers or our affiliates' portfolio managers may serve on the board of directors, a creditors' committee or a bondholders' committee of an issuer whose securities are held in client accounts. This is typically the result of the issuer filing bankruptcy or entering into a reorganization proceeding. MacKay Shields, individually as investment adviser or with other investment advisers or bondholders, may also correspond and enter into discussions and negotiations with issuers, trustees and other parties relating to defaults and alleged defaults by issuers and other parties under the indentures or other documents governing securities held by our clients. As a member of such committee or engaging in such discussions or negotiations, or as a result of investing in certain securities or assets, these portfolio managers may acquire material non-public information, which may result in restrictions on trading securities. We are not permitted to communicate any such information to or for the benefit of our clients, and investment professionals with material non-public information are prohibited from acting on the basis of any such information in providing services to clients. We may also refrain from receiving material non-public information or from serving on a board of directors, creditors' committee or bondholders' committee or engaging in such discussions or negotiations in order to avoid restrictions on trading in other securities of the same issuer, even if such material non-public information might otherwise be relevant to our investment decisions.

We have separate groups of portfolio managers that may compete with each other for the same or similar investment opportunities. In most instances, the broker-dealer will determine the allocation to each group. In those instances involving competing groups, we seek to make allocations in a manner that is consistent with each client's investment objectives and strategies and in accordance with objective criteria. Where investment opportunities in certain securities and asset classes are limited, a client may not receive an allocation or as large an allocation in respect of limited investment opportunities as it might otherwise receive in the absence of such competition. This can be particularly acute if the market for the securities is illiquid and the supply limited.

Pursuant to our "Approval of Broker-Dealer Policies and Procedures", our traders may only do business with broker-dealers who are listed as currently approved brokers-dealers, except where clients have limited or designated specific broker-dealers by appropriate language and such change has been approved by our firm's Chief Compliance Officer or the General Counsel.

The appropriate use of derivatives within a portfolio is determined by the respective investment team in the execution of their portfolio construction process. The investment teams assess whether the derivatives can be used effectively and efficiently in comparison with the

alternatives available as well as the use of derivatives in relation to the other investments within the portfolio. Certain derivatives transactions require that clients have proper agreements in place with counterparties and have adhered to other regulatory obligations prior to the transaction being executed. From time to time, MacKay Shields may establish master agreements with counterparties pursuant to which transactions in certain derivatives may be placed on behalf of clients.

If permitted by a client's investment guidelines, currency spot and forward contracts may be used to hedge exposure in one currency to that of another currency. Currency hedges will be implemented within a reasonable period of time, generally within a day or two of any new purchases of securities that are required to be currency hedged. In general, hedge ratios are maintained within a pre-determined range determined by MacKay Shields and rebalanced when this ratio moves beyond that range, unless a client has more specific requirements. In the event a portfolio's hedge ratio exceeds the thresholds, the hedge will be adjusted within a reasonable period of time, generally within a day or two.

If permitted by a client's investment guidelines and provided that proper agreements are in place with futures commission merchants, Treasury futures (long or short) may be used by certain portfolio management teams as a method to manage the duration of the portfolios.

Other derivatives, such as credit default swaps, interest rate swaps and forward settling mortgage transactions, may be used provided that their use is permitted by a client's investment guidelines and proper agreements are in place.

## **FEES AND COMPENSATION**

We receive fees for our services based on a percentage of the value of the assets in the client's account. These are referred to as "asset-based fees". Certain clients also have performance-based fees, as more fully described under "Performance-Based Fees and Side-by-Side Management", below.

### **Fee Schedule.**

Below is our current schedule of asset-based fees, including the minimum amount for opening an account. We may impose a minimum fee for accounts that fall below the minimum asset size.

## **FIXED INCOME**

### **Core Investment Grade**

*(Minimum \$75,000,000)*

0.30% annually on assets up to \$75,000,000

0.25% annually on assets in excess of \$75,000,000 and less than \$150,000,000

0.20% annually on assets in excess of \$150,000,000

### **Core Plus**

*(Minimum \$75,000,000)*



0.35% annually on assets up to \$75,000,000  
0.30% annually on assets in excess of \$75,000,000 and less than \$150,000,000  
0.25% annually on assets in excess of \$150,000,000

**Core Plus Opportunities**

*(Minimum \$75,000,000)*

0.40% annually on assets up to \$75,000,000  
0.35% annually on assets in excess of \$75,000,000 and less than \$150,000,000  
0.30% annually on assets in excess of \$150,000,000

**Credit Fixed Income**

*(Minimum \$75,000,000)*

0.35% annually on assets up to \$75,000,000  
0.30% annually on assets in excess of \$75,000,000 and less than \$150,000,000  
0.25% annually on assets in excess of \$150,000,000

**Crossover Investment Grade with Municipal Securities**

*(Minimum \$75,000,000)*

0.35% annually on assets up to \$75,000,000  
0.25% annually on assets in excess of \$75,000,000 and less than \$150,000,000  
0.20% annually on assets in excess of \$150,000,000

**Defensive Bond Arbitrage**

*Minimum investment and fee schedule to be determined on a case-by-case basis*

**Emerging Markets Credit**

*(Minimum \$75,000,000)*

0.50% annually on all assets

**Emerging Markets Debt**

*(Minimum \$75,000,000)*

0.45% annually on all assets

**Flexible Bond**

*(Minimum \$100,000,000)*

0.75% annually on all assets, plus 20% of net excess return over 3 month LIBOR + 2%

**Global High Yield**

*(Minimum \$75,000,000)*

0.50% on annually on all assets

**Government/Credit**

*(Minimum \$75,000,000)*

0.30% annually on assets up to \$75,000,000  
0.25% annually on assets in excess of \$75,000,000 and less than \$150,000,000  
0.20% annually on assets in excess of \$150,000,000

**High Yield**

*(Minimum \$50,000,000)*

0.50% annually on all assets

**High Yield Active Core**

*(Minimum \$75,000,000)*

0.50% annually on all assets

**High Yield Active Core Low Duration/Short Duration**

*(Minimum \$75,000,000)*

0.45% annually on all assets

**High Yield Opportunities**

*(Minimum \$75,000,000)*

0.65% annually on all assets

**Intermediate**

*(Minimum \$75,000,000)*

0.25% annually on assets up to \$75,000,000

0.20% annually on assets in excess of \$75,000,000 and less than \$150,000,000

0.15% annually on assets in excess of \$150,000,000

**Long Duration**

*(Minimum \$75,000,000)*

0.30% annually on assets up to \$75,000,000

0.25% annually on assets in excess of \$75,000,000 and less than \$150,000,000

0.20% annually on assets in excess of \$150,000,000

**Low Volatility High Yield**

*(Minimum \$30,000,000)*

0.40% annually on all assets

**Municipal High Yield**

*(Minimum \$75,000,000)*

0.90% annually on assets up to \$100 million

0.60% annually on assets over \$100 million

**Municipal Intermediate**

*(Minimum \$20,000,000)*

0.25% annually on assets up to \$100 million

0.20% annually on assets on the next \$400 million

0.15% annually on assets on the next \$500 million

0.125% annually on assets over \$1 billion

**Municipal Investment Grade**

*(Minimum \$20,000,000)*

0.25% annually on assets up to \$100 million  
0.20% annually on assets on the next \$400 million  
0.15% annually on assets on the next \$500 million  
0.125% annually on assets over \$1 billion

**Municipal Long-Term**

*(Minimum \$20,000,000)*

0.25% annually on assets up to \$100 million  
0.20% annually on assets on the next \$400 million  
0.15% annually on assets on the next \$500 million  
0.125% annually on assets over \$1 billion

**Municipal Short-Term**

*(Minimum \$50,000,000)*

0.35% annually on assets up to \$50 million  
0.25% annually on assets on the next \$50 million  
0.20% annually on assets on the next \$400 million  
0.15% annually on assets on the next \$500 million  
0.125% annually on assets over \$1 billion

**Municipal Taxable**

*(Minimum \$20,000,000)*

0.25% annually on assets up to \$100 million  
0.20% annually on assets on the next \$400 million  
0.15% annually on assets on the next \$500 million  
0.125% annually on assets over \$1 billion

**Municipal Total Return**

*Minimum investment and fee schedule to be determined on a case-by-case basis*

**Municipal Ultra Short**

*(Minimum \$20,000,000)*

0.25% annually on assets up to \$100 million  
0.20% annually on assets on the next \$400 million  
0.15% annually on assets on the next \$500 million  
0.125% annually on assets over \$1 billion

**Short Duration High Yield**

*(Minimum \$75,000,000)*

0.45% annually on all assets

**Short-Term**

*(Minimum \$75,000,000)*

0.25% annually on assets up to \$150,000,000

0.20% annually on assets in excess of \$150,000,000

**Select High Yield**

*(Minimum \$30,000,000)*

0.50% annually on all assets

**Unconstrained Bond**

*(Minimum \$100,000,000)*

0.60% annually on all assets

**OTHER**

**Bank Debt**

*(Minimum \$75,000,000)*

0.50% annually on all assets

**Convertible**

*(Minimum \$10,000,000)*

0.50% annually on assets up to \$100,000,000

0.40% annually on assets thereafter

**Floating Rate High Yield**

*(Minimum investment to be determined on a case-by-case basis)*

0.60% annually on all assets

In our sole discretion, we may change our fee schedule at any time, negotiate a performance-based fee or a different asset-based fee for any client, and/or waive the minimum size for opening any account. Any such change will not affect fees charged to clients that have retained our services for a strategy already being managed prior to the effective date of the change. In certain instances, we may waive, rebate, or reduce fees for clients.

**Affiliated Accounts.**

We may charge lower fees for advisory services to the accounts we manage for our affiliated companies. In addition, such affiliated accounts may pay us a performance fee.

We also act as investment adviser to non-SEC registered investment funds that we sponsor. The fees payable by investors in those non-SEC registered investment funds, of which we receive all or a portion thereof, is described in each fund's offering materials. From time to time, we and/or such non-SEC registered investment fund may enter into arrangements with certain investors or prospective investors that provide for terms that are different than those offered to other investors in such non-SEC registered investment fund. Such arrangements are entered into only where permitted by the applicable non-SEC registered investment fund's operating documents and do not afford investment terms that disadvantage other investors in such fund, and in accordance with applicable laws.

We also act as sub-adviser to certain U.S. registered open- and closed-end funds for which one or more of our affiliates serve as investment adviser or manager. For these services, we receive fees from such affiliates.

### **Performance-Based Fees.**

We have performance-based fee arrangements with certain clients. Performance-based fees may be tied to a benchmark and may be subject to a loss carry forward or high watermark. See “Performance-Based Fees and Side-by-Side Management”, below.

### **Payment of Fees.**

We generally bill clients for advisory services according to the fee schedule in their investment management agreement. Fees may be payable quarterly in advance based on the value of assets under management at the beginning of the quarter, or may be payable quarterly in arrears based on the value of assets under management at the end of the quarter. Fees also may be calculated using average asset values during the billing period, calculated at agreed upon intervals. We may make adjustments in the fee calculation in the event of significant withdrawals from, or deposits into, a client’s account during a calculation period, in accordance with our policy then in effect or as otherwise agreed to with a client. We generally bill our clients for our advisory services, but clients may elect for MacKay Shields, subject to our consent, to deduct fees from their assets.

### **Other Expenses.**

From time to time we engage outside counsel and financial advisors with regard to matters relating to particular issuers held in client portfolios (such as, among others, a workout situation). Pursuant to contractual arrangements with certain clients, those clients may pay a pro rata portion of the fees of such counsel and financial advisors. In that event, we would pay the balance of such fees not borne by those clients, which may result in a benefit to one or more of our other clients who do not pay a portion of such fees.

Our separately managed account clients incur other fees associated with the management of client accounts in addition to the advisory fees described above. For example, your account’s custodian charges a custodial fee and may also charge transaction or other fees for services it provides. In addition, the broker-dealers that we select or recommend to execute transactions in your account charge a spread, commission or transaction fee, as the case may be, that your account pays. Investment funds incur operating and other expenses that are disclosed in a fund’s prospectus or offering documents, which are in addition to our fees. In wrap fee programs, clients typically pay a single wrap fee to the sponsor firm that covers custody, investment management and trading and execution costs, including commission costs. Our sub-advisory or advisory fee is paid out of that single wrap fee.

If clients’ investment guidelines permit, we may invest all or a portion of their assets in one or more investment funds. Such clients bear their proportionate share of fund expenses in connection with such investments. With respect to investments in non-SEC registered investment funds that we manage, we do not receive a management fee from the investment funds with respect to those clients’ investments. Instead, such clients pay us a single fee that is

based on all the assets being managed, including the amounts invested in the investment funds. With respect to investments in investment funds that we do not manage, the management fee paid to the third party investment manager of such investment fund is in addition to the management fee payable to MacKay Shields.

From time to time, clients or their consultants request that we pay costs and expenses relating to analytical services used by the consultants. These payments do not increase the fees paid by the clients.

More detailed information about our brokerage practices is found under “Brokerage Practices”, below, including the factors that we consider when selecting or recommending broker-dealers for client transactions, including the use of client commissions to acquire research and brokerage services.

### **Termination.**

Unless otherwise specified in a client’s investment agreement, our clients have the right to terminate their investment advisory contract at any time without penalty. In the event of termination, we will prorate any fees to the date of termination and we will refund any unearned fees for those clients who paid in advance.

### **Sale of Investment Products and Referral of Clients.**

Some of our employees who are registered representatives of our affiliated broker-dealer NYLIFE Distributors LLC (“NYLIFE Distributors”) may or could receive compensation for the sale of interests in non-SEC registered investment funds that we, our affiliates or unaffiliated third parties sponsor. See “Other Financial Industry Activities and Affiliations,” below. The sales compensation paid to those employees comes out of the fee paid by such non-SEC registered investment funds to us or our affiliates, and is not an additional charge to such non-SEC registered investment funds or their investors. This practice presents a conflict of interest and gives the employee an incentive to recommend these non-SEC registered investment funds based on the compensation received rather than a client’s needs. There are policies and procedures in place that we believe are reasonably designed to address these conflicts of interest. For example, our employees who are registered representatives of NYLIFE Distributors may only recommend investments in these non-SEC registered investment funds if they believe they are suitable for the investor. In some instances, investors have the option to purchase these funds through unaffiliated brokers.

Some of our employees receive compensation from us for referring client accounts to us. See “Client Referrals and Other Compensation,” below. The compensation paid to those employees comes out of the fee paid by such accounts and is not an additional charge to the account.

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

Most of our clients pay us an investment advisory or management fee that is based on the amount of assets in the clients’ accounts. These are commonly referred to as “asset-based fees”.

Some of our clients pay us fees calculated as a percentage of returns, or as a percentage of the increase in net asset value. These fees may be tied to a benchmark and may be subject to a loss carry forward or high watermark. They are commonly referred to as “performance-based fees”.

Managing accounts that have a performance-based fee at the same time that we manage accounts that only have an asset-based fee is commonly referred to as “side-by-side management.” Our portfolio managers may manage multiple accounts, including separate accounts, unregistered funds and registered funds, according to the same or similar investment strategies. This creates a conflict of interest by giving us an incentive to favor those accounts for which we receive a performance-based fee because we will receive a higher fee if their performance exceeds the applicable benchmark. Higher fees benefit our company as well as our employees because the asset-based fees and performance-based fees we receive are included in the pool from which we pay incentive bonuses to our employees and a portion of certain performance based fees may be paid to those employees who generated the performance based fees. In addition, the long-term incentive plan for our employees is based on our company’s financial results.

It is our policy not to favor the interest of one client over another. We address the conflicts of interest created by “side-by-management” by having a trade allocation policy designed so that trades are allocated among client accounts in a fair and equitable manner over time. In addition, it is our policy that we will not permit cross trades between clients unless the portfolio manager instructing the trade deems it in the best interest of both clients at the time and obtains advance compliance approval of the transaction. Furthermore, we have short sale procedures that require pre-approval of certain short sales and restrict certain short sales.

Regardless of their fee arrangements, when we manage accounts according to the same investment strategy, we anticipate that those accounts will generally have the same investment opportunities and be invested in the same or similar securities with the same or similar weighting. However, there are often differences in the nature or amount of securities that we buy or sell for client accounts, because of a variety of factors, including, among others:

- Specific client investment objectives
- Cash available in the account for investment
- Client-imposed investment restrictions
- Initial investment periods for new accounts
- Investment restrictions that laws or regulations impose
- Actual and anticipated cash inflows and outflows in client accounts
- Duration and/or average maturity of the client account
- Size of client account
- Deal size and trade lots
- Current industry or issuer exposure in the client account
- Other concentration limits
- Rounding to whole lots (for example, 100 shares or 10,000 bonds)
- Borrowing capacity
- Other practical limitations

We allocate securities among client accounts based on the above factors and usually do so before executing the trade. When it is impractical or infeasible to allocate prior to the execution of the trade, we will allocate the trade after the trade is executed but in no event later than the end of the day, in a fair and equitable manner among all the participating accounts, based on the above factors. In those situations in which there is a limited supply of a security, it is our general policy to make a *pro rata* allocation based on the original amounts targeted for each account. However, if in our portfolio managers' judgment the amount that would then be allocated to an account would be too small to properly manage, that account could be excluded from the *pro rata* allocation. More detailed information about our allocation and aggregation practice is found under "Brokerage Practices," below.

## **TYPES OF CLIENTS**

We provide discretionary and non-discretionary investment advisory services primarily to institutions such as U.S. registered investment companies, corporate pension funds, endowments and foundations, Taft-Hartley and public funds, non-SEC registered investment funds and other pooled investment vehicles, wrap fee programs, non-U.S. investment companies and other non-U.S. clients. In addition, we provide discretionary investment advisory services to high net worth clients. We also manage accounts for our affiliates. See "Fees and Compensation," above, and "Other Financial Industry Activities and Affiliations," below.

As shown on our schedule of fees (see "Fees and Compensation", above), there is a minimum account size for opening an account, depending on the investment strategy. We reserve the right, in our sole discretion, to adjust the account size minimum with respect to any client.

## **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **Introduction.**

*Investment Strategies.* We offer a variety of investment strategies that clients can select depending on their investment objectives. These are:

### **Fixed Income.**

- Core Investment Grade
- Core Plus
- Core Plus Opportunities
- Credit Fixed Income
- Crossover Investment Grade with Municipal Securities
- Defensive Bond Arbitrage
- Emerging Markets Credit
- Emerging Markets Debt
- Flexible Bond
- Global High Yield
- Government/Credit
- High Yield



- High Yield Active Core
- High Yield Active Core Low Duration/Short Duration
- High Yield Opportunities
- Intermediate
- Long Duration
- Low Volatility High Yield
- Municipal High Yield
- Municipal Intermediate
- Municipal Investment Grade
- Municipal Long-Term
- Municipal Short-Term
- Municipal Taxable
- Municipal Total Return
- Municipal Ultra Short
- Short Duration High Yield
- Short-Term
- Select High Yield
- Unconstrained Bond

**Other.**

- Bank Debt
- Convertible
- Floating Rate High Yield

We describe each of the above investment strategies, including our methods of analysis and related risks, below. Clients may adopt investment guidelines that combine elements of the above investment strategies and that contain limitations or refer to benchmarks that differ from those adopted by other clients.

Investors or potential investors in non-SEC registered investment funds that we sponsor should refer to the offering memoranda for those funds for a description of the investment strategies and risks associated with those funds. See “Additional Material Risks”.

*Risk of Loss.* Investing in securities involves risk of loss that clients should be prepared to bear. Please see the descriptions of risks that relate to each investment strategy. Material risks will vary based on the types of investments purchased for the relevant strategy. Certain risks that relate to more than one investment strategy are referenced in the relevant strategy section and are fully set forth under “Additional Material Risks”.

*Methods of Analysis and Sources of Information.* Our methods of security analysis include economic and industry analysis, fundamental research concerning specific companies, securities and issuers, quantitative analysis, technical analysis including computerized screening, evaluation and optimization techniques, and any other method that one or more of our investment personnel may deem appropriate from time to time. We may not utilize each of the

described methods in connection with each investment strategy. Our investment professionals obtain information from a variety of sources, including:

- meetings and discussions with securities industry analysts
- discussion of publicly available information with issuers and company personnel, on-site inspections and corporate-sponsored meetings
- discussion with a company's customers, competitors and suppliers
- computerized screening, evaluation, optimization studies and reports trade journals and services, governmental publications, statistical summaries and analysis
- with respect to private placements, the issuer and the intermediary
- rating agencies, analysts' reports and various news and industry sources, on-line sources and periodicals
- such other sources as one or more of our investment personnel deem appropriate from time to time

We use a third-party data management system to act as a centralized distribution hub and repository for security master data. Through this tool, we have the ability to import data from multiple sources, including external data providers such as Bloomberg L.P., and generate our security master and custom data through business rules and operational workflow. The investment guidelines for portfolios are monitored using the security information that is obtained from the external data providers. We rely on the accuracy of the information obtained from the external data providers. In addition, we have implemented reconciliation processes to verify the continued accuracy of our data. When we obtain security information on new issues, we initially rely on the accuracy of the information provided by the underwriter of the new issue until the external data managers make available information on the new issue.

### **Fixed Income Investment Strategies.**

#### **CORE INVESTMENT GRADE**

##### *Investment Strategies*

This strategy invests a substantial portion of its assets by allocating to all types of debt securities, such as: debt or debt-related securities issued or guaranteed by the U.S. or foreign governments, their agencies or instrumentalities; obligations of international or supranational entities; debt securities issued by U.S. or foreign corporate entities; zero coupon bonds; municipal bonds; and mortgage-related and other asset-backed securities. A majority of the strategy's total assets will be invested in debt securities that are rated investment grade or, if unrated, that we determine to be of comparable quality. The strategy may invest in mortgage dollar rolls, to-be-announced securities transactions (TBAs) and mortgage- and asset-backed securities. The strategy also invests in floating and variable rate debt, as well as money market instruments and cash equivalents. The strategy's principal investments may have fixed or floating rates of interest.

The strategy may also include derivatives, such as financial futures, to try to manage interest rate risk or reduce the risk of loss of (that is, hedge) certain of its holdings.

This strategy employs a top-down, macro-overlay incorporating the risk cycle; a relative value risk analysis incorporating what we believe to be the important fixed income risk factors; a bottom-up assessment of sector valuations; and a bottom-up analysis of security relative valuation.

### *Material Risks*

*Debt Securities Risk.* The risks of investing in debt securities include (without limitation): (i) credit risk -- the issuer may not repay the loan created by the issuance of that debt security; (ii) maturity risk -- a debt security with a longer maturity may fluctuate in value more than one with a shorter maturity; (iii) market risk -- low demand for debt securities may have a negative impact on their price; (iv) interest rate risk -- when interest rates go up, the value of a debt security goes down, and when interest rates go down, the value of a debt security goes up; (v) selection risk -- the securities that we select may underperform the market or other securities selected by other funds; and (vi) call risk -- during a period of falling interest rates, the issuer may redeem a security by repaying it early, which may reduce the strategy's income, if the proceeds are reinvested at lower interest rates.

Please see below under "Additional Material Risks" regarding the following risks:

- Derivatives Risk
- Floating and Variable Rate Debt Risk
- Foreign Securities Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Mortgage Dollar Roll Transaction Risk
- Mortgage-Backed/Asset-Backed Securities Risk
- To-Be-Announced Securities Risk
- Valuation Risk

## **CORE PLUS**

### *Investment Strategies*

This strategy follows the Core Investment Grade strategy (see above), but also invests a portion of assets in high yield bonds and foreign bonds of developed countries and emerging countries. We refer to these as "plus" sectors, for their potential to add incremental returns. Some of the foreign securities may be denominated in foreign currency. The strategy invests in countries that are considered emerging markets, but may invest in countries with established economies that we believe present favorable conditions.

With respect to the "plus" sectors, we purchase high yield bonds that are generally rated below investment grade or, if unrated, that we determine to be of comparable quality.

The strategy may also include derivatives, such as futures, to try to manage interest rate risk or reduce the risk of loss of (that is, hedge) certain of its holdings. In addition, the strategy may buy

and sell currency on a spot basis and enter into foreign currency forward contracts for risk management.

### *Material Risks*

*Debt Securities Risk.* The risks of investing in debt securities include (without limitation): (i) credit risk -- the issuer may not repay the loan created by the issuance of that debt security; (ii) maturity risk -- a debt security with a longer maturity may fluctuate in value more than one with a shorter maturity; (iii) market risk -- low demand for debt securities may have a negative impact on their price; (iv) interest rate risk -- when interest rates go up, the value of a debt security goes down, and when interest rates go down, the value of a debt security goes up; (v) selection risk -- the securities that we select may underperform the market or other securities selected by other funds; and (vi) call risk -- during a period of falling interest rates, the issuer may redeem a security by repaying it early, which may reduce the strategy's income, if the proceeds are reinvested at lower interest rates.

*High-Yield Securities Risk.* Investments in high-yield securities (commonly referred to as "junk bonds") are sometimes considered speculative as they present a greater risk of loss than higher quality securities. Such securities may, under certain circumstances, be less liquid than higher rated securities. These securities pay investors a premium (a high interest rate or yield) because of the increased risk of loss. These securities can also be subject to greater price volatility. In times of unusual or adverse market, economic or political conditions, these securities may experience higher than normal default rates.

*Foreign Securities Risk.* Investments in foreign securities are subject to risks that differ from those of U.S. issuers. These risks may include: fluctuating currency values; less liquid trading markets; greater price volatility; political and economic instability; less publicly available information about issuers; changes in U.S. or foreign tax or currency laws; and changes in monetary policy. Foreign securities may be more difficult to sell than U.S. securities. These risks may be greater in emerging market countries than in more developed countries. Please see a more detailed description of Foreign Securities Risk under "Additional Material Risks", below.

Please see below under "Additional Material Risks" regarding the following risks:

- Currency Risk
- Derivatives Risk
- Distressed Securities Risk
- Floating and Variable Rate Debt Risk
- Loan Participation Interest Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Mortgage Dollar Roll Transaction Risk
- Mortgage-Backed/Asset-Backed Securities Risk
- To-Be-Announced Securities Risk
- Valuation Risk

## CORE PLUS OPPORTUNITIES

### *Investment Strategies*

This strategy invests primarily by allocating to investment grade debt securities and seeks to add incremental returns by taking opportunistic exposures to asset classes such as international fixed income, emerging market debt and high yield debt securities. Eligible investments generally include, but are not limited to, U.S. Treasuries, TIPS, agencies, corporates, mortgage- and asset-backed securities, preferred securities, convertible securities, bank loans, taxable municipals and money market instruments (including STIF) and the strategy may make both long and short investments. We evaluate long and short term investments across the fixed income spectrum combining both top-down and bottom-up processes.

The strategy may also include derivatives, such as financial futures, to try to manage interest rate risk. In addition, the strategy may buy and sell currency on a spot basis and enter into foreign currency forward contracts for risk management. Additionally, where client guidelines permit, this strategy typically makes allocations in one or more non-SEC registered investment funds that are also managed by the same investment team.

### *Material Risks*

*High-Yield Securities Risk.* Investments in high-yield securities (commonly referred to as “junk bonds”) are sometimes considered speculative as they present a greater risk of loss than higher quality securities. Such securities may, under certain circumstances, be less liquid than higher rated securities. These securities pay investors a premium (a high interest rate or yield) because of the increased risk of loss. These securities can also be subject to greater price volatility. In times of unusual or adverse market, economic or political conditions, these securities may experience higher than normal default rates.

*Foreign Securities Risk.* Investments in foreign securities are subject to risks that differ from those of U.S. issuers. These risks may include: fluctuating currency values; less liquid trading markets; greater price volatility; political and economic instability; less publicly available information about issuers; changes in U.S. or foreign tax or currency laws; and changes in monetary policy. Foreign securities may be more difficult to sell than U.S. securities. These risks may be greater in emerging market countries than in more developed countries. Please see a more detailed description of Foreign Securities Risk under “Additional Material Risks”, below.

*Non-SEC Registered Investment Funds Risk.* The investment strategies and risks associated with the funds that may be used in this strategy are set forth in the offering memoranda for those funds that are provided to investors.

Additional material risks associated with an investment in the portfolio include the following: (i) not all U.S. government securities are insured or guaranteed by the U.S. Government - some are backed only by the issuing agency, which must rely on its own resources to repay the debt; and (ii) the portfolio’s yield will fluctuate with changes in short-term interest rates.

Please see below under “Additional Material Risks” regarding the following risks:

- Currency Risk
- Debt Securities Risk
- Derivatives Risk
- Distressed Securities Risk
- Equity Securities Risk
- Floating and Variable Rate Debt Risk
- Loan Participation Interest Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Mortgage Dollar Roll Transaction Risk
- Mortgage-Backed/Asset-Backed Securities Risk
- Short-Selling Risk
- Valuation Risk
- When-Issued Securities Risk

## **CREDIT FIXED INCOME**

### *Investment Strategies*

This strategy invests a substantial portion of its assets by allocating across credit-related instruments, which include all types of debt instruments, such as: debt or debt-related securities issued or guaranteed by the U.S. or foreign governments, their agencies or instrumentalities; obligations of international or supranational entities; debt securities issued by U.S. or foreign corporate entities; zero coupon bonds; municipal bonds; mortgage-related and other asset-backed securities; and loan participation interests. This strategy combines a top-down assessment of the climate for risk and the outlook for the economy, while security selection represents the bottom-up element of the investment process. The strategy's bottom-up process for issuer selection involves an analysis of credit fundamentals, a review of company management and a competitive analysis. The strategy may also include derivatives, such as futures, to try to manage interest rate risk or reduce the risk of loss of (that is, hedge) certain of its holdings.

### *Material Risks*

*Debt Securities Risk.* The risks of investing in debt securities include (without limitation): (i) credit risk -- the issuer may not repay the loan created by the issuance of that debt security; (ii) maturity risk -- a debt security with a longer maturity may fluctuate in value more than one with a shorter maturity; (iii) market risk -- low demand for debt securities may have a negative impact on their price; (iv) interest rate risk -- when interest rates go up, the value of a debt security goes down, and when interest rates go down, the value of a debt security goes up; (v) selection risk -- the securities that we select may underperform the market or other securities selected by other funds; and (vi) call risk -- during a period of falling interest rates, the issuer may redeem a security by repaying it early, which may reduce the strategy's income, if the proceeds are reinvested at lower interest rates.

Please see below under "Additional Material Risks" regarding the following risks:

- Currency Risk
- Derivatives Risk
- Floating and Variable Rate Debt Risk
- Foreign Securities Risk
- High-Yield Securities Risk
- Loan Participation Interest Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Mortgage Dollar Roll Transaction Risk
- Mortgage-Backed/Asset-Backed Securities Risk
- To-Be-Announced Securities Risk
- Valuation Risk

## **CROSSOVER INVESTMENT GRADE WITH MUNICIPAL SECURITIES**

### *Investment Strategies*

The investment objective of the strategy is to optimize the asset allocation between the taxable and tax-exempt bond markets in order to maximize a portfolio's after-tax, risk adjusted total return.

A majority of the strategy's total assets will be invested in debt securities that are rated investment grade or, if unrated, that we determine to be of comparable quality. The strategy may invest in mortgage dollar rolls, to-be-announced securities transactions (TBAs) and mortgage- and asset-backed securities. The strategy also invests in floating and variable rate debt, as well as money market instruments and cash equivalents. The strategy's principal investments may have fixed or floating rates of interest.

Municipal bonds include debt obligations issued by or on behalf of a governmental entity or other qualifying entity/issuer that pays interest that is, in the opinion of bond counsel to the issuer, generally excludable from gross income for federal income tax purposes (except that the interest may be includable in taxable income for purposes of the federal alternative minimum tax). Municipal bonds may be obligations of a variety of issuers, such as governmental entities or other qualifying issuers. Issuers may be states, territories and possessions of the U.S. and the District of Columbia and their political subdivisions, agencies and instrumentalities. Municipal bonds also include short-term, tax-exempt obligations such as municipal notes and variable rate demand obligations.

The strategy may also include derivatives, such as financial futures, to try to manage interest rate risk or reduce the risk of loss of (that is, hedge) certain of its holdings.

### *Material Risks*

*Debt Securities Risk.* The risks of investing in debt securities include (without limitation): (i) credit risk -- the issuer may not repay the loan created by the issuance of that debt security; (ii) maturity risk -- a debt security with a longer maturity may fluctuate in value more than one

with a shorter maturity; (iii) market risk -- low demand for debt securities may have a negative impact on their price; (iv) interest rate risk -- when interest rates go up, the value of a debt security goes down, and when interest rates go down, the value of a debt security goes up; (v) selection risk -- the securities that we select may underperform the market or other securities selected by other funds; and (vi) call risk -- during a period of falling interest rates, the issuer may redeem a security by repaying it early, which may reduce the strategy's income, if the proceeds are reinvested at lower interest rates.

*Municipal Securities Risk.* Municipal securities risks include the ability of the issuer to repay the obligation, the relative lack of information about certain issuers, and the possibility of future tax and legislative changes which could affect the market for and value of municipal securities. To be tax exempt, municipal bonds must meet certain regulatory requirements. If a municipal bond fails to meet such requirements, the interest received by the strategy from its investment in such bonds may be taxable. Please see a more detailed description of Municipal Securities Risk under "Additional Material Risks", below.

Please see below under "Additional Material Risks" regarding the following risks:

- Build America Bonds Risk
- Derivatives Risk
- Floating and Variable Rate Debt Risk
- Foreign Securities Risk
- Liquidity Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Mortgage Dollar Roll Transaction Risk
- Mortgage-Backed/Asset-Backed Securities Risk
- To-Be-Announced Securities Risk
- Valuation Risk

## **DEFENSIVE BOND ARBITRAGE**

### *Investment Strategies*

The strategy seeks to take advantage of different sources of return available in U.S. securities to generate risk adjusted returns superior to those available from conventional high yield bonds. This strategy seeks to achieve this objective through the active management of U.S. dollar-denominated fixed-income corporate securities rated less than investment grade. This strategy may also invest in a range of other financial instruments including, but not limited to, common stock, preferred stock, convertible debt, bank debt, loan participations, trade claims, non-U.S. dollar-denominated securities, private placements, credit default swaps, futures, options and warrants. In addition, this strategy may take both long and short positions in the high yield bond market and other securities.

### *Material Risks*



*Debt Securities Risk.* The risks of investing in debt securities include (without limitation): (i) credit risk -- the issuer may not repay the loan created by the issuance of that debt security; (ii) maturity risk -- a debt security with a longer maturity may fluctuate in value more than one with a shorter maturity; (iii) market risk -- low demand for debt securities may have a negative impact on their price; (iv) interest rate risk -- when interest rates go up, the value of a debt security goes down, and when interest rates go down, the value of a debt security goes up; (v) selection risk -- the securities that we select may underperform the market or other securities selected by other funds; and (vi) call risk -- during a period of falling interest rates, the issuer may redeem a security by repaying it early, which may reduce the strategy's income, if the proceeds are reinvested at lower interest rates.

*High-Yield Securities Risk.* Investments in high-yield securities (commonly referred to as "junk bonds") are sometimes considered speculative as they present a greater risk of loss than higher quality securities. Such securities may, under certain circumstances, be less liquid than higher rated securities. These securities pay investors a premium (a high interest rate or yield) because of the increased risk of loss. These securities can also be subject to greater price volatility. In times of unusual or adverse market, economic or political conditions, these securities may experience higher than normal default rates.

*Foreign Securities Risk.* Investments in foreign securities are subject to risks that differ from those of U.S. issuers. These risks may include: fluctuating currency values; less liquid trading markets; greater price volatility; political and economic instability; less publicly available information about issuers; changes in U.S. or foreign tax or currency laws; and changes in monetary policy. Foreign securities may be more difficult to sell than U.S. securities. These risks may be greater in emerging market countries than in more developed countries. Please see a more detailed description of Foreign Securities Risk under "Additional Material Risks", below.

Additional material risks associated with an investment in the portfolio include the following: (i) not all U.S. government securities are insured or guaranteed by the U.S. Government - some are backed only by the issuing agency, which must rely on its own resources to repay the debt; and (ii) the portfolio's yield will fluctuate with changes in short-term interest rates.

Please see below under "Additional Material Risks" regarding the following risks:

- Currency Risk
- Derivatives Risk
- Distressed Securities Risk
- Equity Security Risk
- Floating Rate Loans Risk
- Floating and Variable Rate Debt Risk
- Foreign Securities Risk
- High-Yield Securities Risk
- Leverage Risk
- Liquidity Risk
- Loan Participation Interest Risk
- Loss of Money Risk

- Management Risk
- Market Changes Risk
- Mortgage Dollar Roll Transaction Risk
- Mortgage-Backed/Asset-Backed Securities Risk
- Short Selling Risk
- To-Be-Announced Securities Risk
- Valuation Risk
- When-Issued Securities Risk

## **EMERGING MARKETS CREDIT**

### *Investment Strategies*

This strategy typically invests in debt securities issued by corporations that are located in foreign countries. The strategy focuses on debt securities that are rated investment grade and below investment grade or, if unrated, that we determine to be of comparable quality. We employ a combination of top-down macro analysis for overall risk levels and asset allocation coupled with a bottom-up approach to security selection.

A significant portion of the strategy's assets typically include foreign securities, which are securities issued by companies and sovereign entities organized outside the U.S. and which may be denominated in foreign currency. The strategy principally invests in countries that are considered emerging markets, but may invest in countries with established economies that we believe present favorable conditions. The strategy may also include foreign currency options, swaps (including credit default swaps) and futures. These techniques may be used to try to increase the strategy's return, manage interest rate risk or reduce the risk of loss of (that is, hedge) certain of its holdings.

We maintain quantitative models to guide country allocation decisions. We assess whether exposures should be held in U.S. dollar-denominated foreign sovereign bonds, U.S. dollar-denominated foreign corporate bonds or local currency bonds. Exposure to foreign currency may also be made by using the foreign currency forward market. The strategy may buy and sell currency on a spot basis and enter into foreign currency forward contracts for risk management.

The strategy may also include derivatives, such as futures, to try to manage interest rate risk or reduce the risk of loss of (that is, hedge) certain of its holdings.

### *Material Risks*

*Foreign Securities Risk.* Investments in foreign securities are subject to risks that differ from those of U.S. issuers. These risks may include: fluctuating currency values; less liquid trading markets; greater price volatility; political and economic instability; less publicly available information about issuers; changes in U.S. or foreign tax or currency laws; and changes in monetary policy. Foreign securities may be more difficult to sell than U.S. securities. These risks may be greater in emerging market countries than in more developed countries. Please see a more detailed description of Foreign Securities Risk under "Additional Material Risks", below.

*Currency Risk.* The value of a client's assets may be affected favorably or unfavorably by the changes in currency rates and exchange control regulations. Some currency exchange costs may be incurred by clients when a strategy changes investments from one country to another. Currency exchange rates may fluctuate significantly over short periods of time. They generally are determined by the forces of supply and demand in the respective markets and the relative merits of investments in different countries, actual or perceived changes in interest rates and other complex factors, as seen from an international perspective. Currency exchange rates can also be affected unpredictably by intervention by governments or central banks (or the failure to intervene) or by currency controls or political developments.

Please see below under "Additional Material Risks" regarding the following risks:

- Debt Securities Risk
- Derivatives Risk
- Floating and Variable Rate Debt Risk
- High-Yield Securities Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Money Market/Short-Term Securities Risk
- Mortgage Dollar Roll Transaction Risk
- Mortgage-Backed/Asset-Backed Securities Risk
- Valuation Risk

## **EMERGING MARKETS DEBT**

### *Investment Strategies*

This strategy typically invests in debt securities issued by governments, their agencies and authorities, and corporations that are located in foreign countries. The strategy focuses on debt securities that are rated investment grade and below investment grade or, if unrated, that we determine to be of comparable quality. We employ a combination of top-down macro analysis for overall risk levels and asset allocation coupled with a bottom-up approach to security selection.

A significant portion of the strategy's assets typically include foreign securities, which are securities issued by companies and sovereign entities organized outside the U.S. and which may be denominated in foreign currency. The strategy principally invests in countries that are considered emerging markets, but may invest in countries with established economies that we believe present favorable conditions. The strategy may also include foreign currency options, swaps (including credit default swaps) and futures. These techniques may be used to try to increase the strategy's return, manage interest rate risk or reduce the risk of loss of (that is, hedge) certain of its holdings.

We maintain quantitative models to guide country allocation decisions. We assess whether exposures should be held in U.S. dollar-denominated foreign sovereign bonds, U.S. dollar-denominated foreign corporate bonds or local currency bonds. Exposure to foreign currency

may also be made by using the foreign currency forward market. The strategy may buy and sell currency on a spot basis and enter into foreign currency forward contracts for risk management.

The strategy may also include derivatives, such as futures, to try to manage interest rate risk or reduce the risk of loss of (that is, hedge) certain of its holdings.

### *Material Risks*

*Foreign Securities Risk.* Investments in foreign securities are subject to risks that differ from those of U.S. issuers. These risks may include: fluctuating currency values; less liquid trading markets; greater price volatility; political and economic instability; less publicly available information about issuers; changes in U.S. or foreign tax or currency laws; and changes in monetary policy. Foreign securities may be more difficult to sell than U.S. securities. These risks may be greater in emerging market countries than in more developed countries. Please see a more detailed description of Foreign Securities Risk under “Additional Material Risks”, below.

*Currency Risk.* The value of a client’s assets may be affected favorably or unfavorably by the changes in currency rates and exchange control regulations. Some currency exchange costs may be incurred by clients when a strategy changes investments from one country to another. Currency exchange rates may fluctuate significantly over short periods of time. They generally are determined by the forces of supply and demand in the respective markets and the relative merits of investments in different countries, actual or perceived changes in interest rates and other complex factors, as seen from an international perspective. Currency exchange rates can also be affected unpredictably by intervention by governments or central banks (or the failure to intervene) or by currency controls or political developments.

Please see below under “Additional Material Risks” regarding the following risks:

- Debt Securities Risk
- Derivatives Risk
- Floating and Variable Rate Debt Risk
- High-Yield Securities Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Money Market/Short-Term Securities Risk
- Mortgage Dollar Roll Transaction Risk
- Mortgage-Backed/Asset-Backed Securities Risk
- Valuation Risk

## **FLEXIBLE BOND**

### *Investment Strategies*

Flexible Bond seeks high current income and absolute total return by allocating investments among the various bond market sectors based on current and projected economic and market conditions. In order to implement this strategy we will, to the fullest extent possible, use broad

investment discretion with respect to the types of investment strategies we may employ or the markets or instruments in which we may invest.

To the extent that the required trading facilities are in place, the strategy may take short positions, up to 50% of net assets. The proceeds from the strategy's short positions may be used to purchase all or a portion of the additional long positions, which may aggregate up to 150% of net assets. Additionally, where client guidelines permit, this strategy typically makes allocations in one or more non-SEC registered investment funds that are also managed by the same investment team.

The strategy may invest in derivatives, such as futures, options, forward commitments and swap agreements to try to enhance returns or reduce the risk of loss (hedge) from certain of its holdings or manage duration. This strategy requires the completion of all trading and other documentation to implement the derivative strategy in full.

### *Material Risks*

*Convertible Securities Risk.* Convertible securities may be subordinate to other securities. In part, the total return for a convertible security depends upon performance of the underlying stock into which it can be converted. Also, issuers of convertible securities are often not as strong financially as those issuing securities with higher credit ratings, are more likely to encounter financial difficulties and typically are more vulnerable to changes in the economy, such as a recession or a sustained period of rising interest rates, which could affect their ability to make interest and principal payments. If an issuer stops making interest and/or principal payments, the strategy could lose its entire investment.

*Currency Risk.* The value of a client's assets may be affected favorably or unfavorably by the changes in currency rates and exchange control regulations. Some currency exchange costs may be incurred by clients when a strategy changes investments from one country to another. Currency exchange rates may fluctuate significantly over short periods of time. They generally are determined by the forces of supply and demand in the respective markets and the relative merits of investments in different countries, actual or perceived changes in interest rates and other complex factors, as seen from an international perspective. Currency exchange rates can also be affected unpredictably by intervention by governments or central banks (or the failure to intervene) or by currency controls or political developments.

*Debt Securities Risk.* The risks of investing in debt securities include (without limitation): (i) credit risk -- the issuer may not repay the loan created by the issuance of that debt security; (ii) maturity risk -- a debt security with a longer maturity may fluctuate in value more than one with a shorter maturity; (iii) market risk -- low demand for debt securities may have a negative impact on their price; (iv) interest rate risk -- when interest rates go up, the value of a debt security goes down, and when interest rates go down, the value of a debt security goes up; (v) selection risk -- the securities that we select may underperform the market or other securities selected by other funds; and (vi) call risk -- during a period of falling interest rates, the issuer may redeem a security by repaying it early, which may reduce the strategy's income, if the proceeds are reinvested at lower interest rates.

*Derivatives Risk.* The strategy may lose money using derivatives. The use of derivatives may increase the volatility of the value of the strategy's assets and may involve a small investment of cash relative to the magnitude of risk assumed. The principal risk of forward commitments is that the security may be worth less when it is issued or received than the price the strategy agreed to pay when it made the commitment. The principal risks of swap agreements are that they may be difficult to value and may be susceptible to liquidity and credit risk. The principal risk of futures contracts is that they may result in losses in excess of the amount invested in the futures contract, which may be unlimited. The principal risk of options transactions is that they may increase the volatility of the value of the strategy's assets and may involve a small investment of cash relative to the magnitude of the risk assumed. Derivatives may also be subject to counterparty risk, that is, the risk that the other party in the transaction will not fulfill its contractual obligations.

*Distressed Securities Risk.* Investments in distressed securities are subject to substantial risks in addition to the risks of investing in other types of high-yield securities. Distressed securities are speculative and involve substantial risk that principal will not be repaid. Generally, the strategy will not receive interest payments on such securities and may incur costs to protect its investment. In addition, the strategy's ability to sell distressed securities and any securities received in exchange for such securities may be restricted.

*Foreign Securities Risk.* Investments in foreign securities are subject to risks that differ from those of U.S. issuers. These risks may include: fluctuating currency values; less liquid trading markets; greater price volatility; political and economic instability; less publicly available information about issuers; changes in U.S. or foreign tax or currency laws; and changes in monetary policy. Foreign securities may be more difficult to sell than U.S. securities. These risks may be greater in emerging market countries than in more developed countries. Please see a more detailed description of Foreign Securities Risk under "Additional Material Risks", below.

*High Yield Municipal Bonds Risk.* High yield municipal bonds may be subject to increased liquidity risk as compared to other high yield debt securities. There may be little or no active trading market for certain high yield municipal bonds, which may make it difficult for the strategy to sell such securities at or near their perceived value. In such cases, the value of a high yield municipal bond may decline dramatically, even during periods of declining interest rates. The high yield municipal bonds in which the strategy intends to invest may be more likely to pay interest that is includable in taxable income for purposes of the federal alternative minimum tax than other municipal bonds.

The strategy may invest more heavily in bonds from certain cities, states or regions than others, which may increase the strategy's exposure to losses resulting from economic, political, or regulatory occurrences impacting these particular cities, states or regions.

Investments in high-yield securities (commonly referred to as "junk bonds") are sometimes considered speculative as they present a greater risk of loss than higher quality securities. Such securities may, under certain circumstances, be less liquid than higher rated securities. These securities pay investors a premium (a high interest rate or yield) because of the increased risk of loss. These securities can also be subject to greater price volatility. In times of unusual or adverse market, economic or political conditions, these securities may experience higher than normal default rates.

*High-Yield Securities Risk.* Investments in high yield securities (commonly referred to as “junk bonds”) are sometimes considered speculative as they present a greater risk of loss than higher quality securities. Such securities may, under certain circumstances, be less liquid than higher rated securities. These securities pay investors a premium (a high interest rate or yield) because of the increased risk of loss. These securities can also be subject to greater price volatility. In times of unusual or adverse market, economic or political conditions, these securities may experience higher than normal default rates.

*Leverage Risk.* Leverage, including borrowing, will cause the value of an account to be more volatile than if the account did not use leverage. This is because leverage tends to exaggerate the effect of any increase or decrease in the value of the account’s portfolio securities. We may engage in transactions or purchase instruments that give rise to forms of leverage. These transactions and instruments may include, among others, the use of short sales. The use of leverage may cause an account to liquidate portfolio positions when it would not be advantageous to do so in order to satisfy its obligations. Certain types of leveraging transactions, such as short sales that are not “against the box,” could theoretically be subject to unlimited losses in cases where the account, for any reason, is unable to close out the transaction.

*Loan Participation Interest Risk.* There may not be a readily available market for loan participation interests, which in some cases could result in the strategy disposing of such interests at a substantial discount from face value or holding such interests until maturity. In addition, there is also the credit risk of the underlying corporate borrower as well as the lending institution or other participant from whom the strategy purchased the loan participation interests.

*Money Market/Short-Term Securities Risk.* To the extent the strategy holds cash or invests in short-term securities, there is no assurance that the strategy will achieve its investment objective.

*Municipal Securities Risk.* Municipal securities risks include the ability of the issuer to repay the obligation, the relative lack of information about certain issuers, and the possibility of future tax and legislative changes which could affect the market for and value of municipal securities. To be tax exempt, municipal bonds must meet certain regulatory requirements. If a municipal bond fails to meet such requirements, the interest received by the strategy from its investment in such bonds may be taxable. Please see a more detailed description of Municipal Securities Risk under “Additional Material Risks”, below.

*Short Selling Risk.* If a security sold short increases in price, the strategy may have to cover its short position at a higher price than the short sale price, resulting in a loss. The strategy may have substantial short positions and must borrow those securities to make delivery to the buyer. The strategy may not be able to borrow a security that it needs to deliver or it may not be able to close out a short position at an acceptable price and may have to sell related long positions before it had intended to do so. Thus, we may not be able to successfully implement the short sale strategy due to limited availability of desired securities or for other reasons. Please see a more detailed description of Short Selling Risk under “Additional Material Risks”, below.

*Synthetic Convertible Securities Risk.* The values of a synthetic convertible and a true convertible security may respond differently to market fluctuations. In addition, in purchasing a synthetic convertible security, the strategy may have counterparty (including counterparty credit) risk with

respect to the financial institution or investment bank that offers the instrument. Purchasing a synthetic convertible security may provide greater flexibility than purchasing a traditional convertible security.

Please see below under “Additional Material Risks” regarding the following risks:

- Build America Bonds Risk
- Equity Securities Risk
- Floating and Variable Rate Debt Risk
- Liquidity Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Mortgage Backed/Asset Backed Securities Risk
- Mortgage Dollar Roll Transaction Risk
- Non-SEC Registered Investment Funds Risk
- To-Be-Announced Securities Risk
- Valuation Risk
- When-Issued Securities Risk

## **GLOBAL HIGH YIELD**

### *Investment Strategies*

This strategy follows the same strategy as the High Yield Active Core strategy (see below), but generally invests a greater portion of assets in securities of foreign issuers. The strategy may buy and sell currency on a spot basis and enter into foreign currency forward contracts for risk management.

### *Material Risks*

*Foreign Securities Risk.* Investments in foreign securities are subject to risks that differ from those of U.S. issuers. These risks may include: fluctuating currency values; less liquid trading markets; greater price volatility; political and economic instability; less publicly available information about issuers; changes in U.S. or foreign tax or currency laws; and changes in monetary policy. Foreign securities may be more difficult to sell than U.S. securities. These risks may be greater in emerging market countries than in more developed countries. Please see a more detailed description of Foreign Securities Risk under “Additional Material Risks”, below.

*High-Yield Securities Risk.* Investments in high-yield securities (commonly referred to as “junk bonds”) are sometimes considered speculative as they present a greater risk of loss than higher quality securities. Such securities may, under certain circumstances, be less liquid than higher rated securities. These securities pay investors a premium (a high interest rate or yield) because of the increased risk of loss. These securities can also be subject to greater price volatility. In times of unusual or adverse market, economic or political conditions, these securities may experience higher than normal default rates.

Please see below under “Additional Material Risks” regarding the following risks:



- Convertible Securities Risk
- Currency Risk
- Debt Securities Risk
- Derivatives Risk
- Distressed Securities Risk
- Equity Securities Risk
- Floating and Variable Rate Debts Risk
- Liquidity Risk
- Loan Participation Interest Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Money Market/Short-Term Securities Risk
- Valuation Risk

## **GOVERNMENT/CREDIT**

### *Investment Strategies*

This strategy invests a substantial portion of its assets in all types of debt securities, such as: debt or debt-related securities issued or guaranteed by the U.S. or foreign governments, their agencies or instrumentalities; obligations of international or supranational entities; debt securities issued by U.S. or foreign corporate entities; zero coupon bonds; municipal bonds; and mortgage-related and other asset-backed securities. A majority of the strategy's total assets will be invested in debt securities that are rated investment grade or, if unrated, that we determine to be of comparable quality. The strategy may invest in mortgage dollar rolls, to-be-announced securities transactions (TBAs) and mortgage- and asset-backed securities. The strategy also invests in floating and variable rate debt, as well as money market instruments and cash equivalents. The strategy's principal investments may have fixed or floating rates of interest.

The strategy may also include derivatives such as financial futures to try to manage interest rate risk or reduce the risk of loss of (that is, hedge) certain of its holdings.

### *Material Risks*

Material risks associated with an investment in the strategy include the following: (i) not all U.S. government securities are insured or guaranteed by the U.S. Government -- some are backed only by the issuing agency, which must rely on its own resources to repay the debt; and (ii) the strategy's yield will fluctuate with changes in short-term interest rates.

Please see below under "Additional Material Risks" regarding the following risks:

- Debt Securities Risk
- Derivatives Risk
- Floating and Variable Rate Debt Risk
- Loss of Money Risk

- Management Risk
- Market Changes Risk
- Money Market/Short-Term Securities Risk
- Mortgage Dollar Roll Transaction Risk
- Mortgage-Backed/Asset-Backed Securities Risk
- To-Be-Announced Securities Risk
- Valuation Risk

## **HIGH YIELD**

### *Investment Strategies*

This strategy utilizes a bottom-up, value oriented approach to investing in the U.S. high yield market (the Low Volatility High Yield and Stressed High Yield strategies are managed in a similar style by the same investment team). The key feature of this strategy is the disciplined investment process we employ. This process requires every security we invest in to have what we believe is a margin-of-safety through sufficient asset coverage. We define asset coverage as our conservative estimate of a company's value divided by its fully drawn debt. In particular, we focus on companies we believe to have strategic importance in their industries, with characteristics such as low cost assets, large market shares and high barriers to entry.

We categorize every security in the portfolio into one of four levels of risk, which are delineated by the strength of asset coverage, volatility of cash flows and the potential for default. We seek to manage the portfolio to make sure that it is properly compensated for the level of credit risk. In doing so, we believe that we can maximize the portfolio's risk adjusted return.

This strategy follows a strict sell discipline. We will typically sell an investment for one of three reasons:

- the security has reached a price or yield that makes its relative value unattractive
- the issuer's fundamentals have deteriorated (for example, asset coverage has been reduced to an unacceptable level)
- to diversify the portfolio if a security or industry exceeds certain weighting limits

This strategy includes high yield corporate debt securities, consisting of all types of high yield domestic and foreign corporate debt securities that are rated below investment grade or, if unrated, that we determine to be of comparable quality.

The strategy's high yield investments may also include convertible corporate bonds, loan participation interests (bank debt), common stocks and other equity-related securities.

In times of unusual or adverse market, economic or political conditions, the strategy may invest without limit in investment grade securities and may include a significant amount of U.S. government securities, or other high quality money market instruments.

The strategy may enter into foreign currency forward contracts for risk management.

### *Material Risks*

*High-Yield Securities Risk.* Investments in high yield securities (commonly referred to as “junk bonds”) are sometimes considered speculative as they present a greater risk of loss than higher quality securities. Such securities may, under certain circumstances, be less liquid than higher rated securities. These securities pay investors a premium (a high interest rate or yield) because of the increased risk of loss. These securities can also be subject to greater price volatility. In times of unusual or adverse market, economic or political conditions, these securities may experience higher than normal default rates.

Please see below under “Additional Material Risks” regarding the following risks:

- Convertible Securities Risk
- Currency Risk
- Debt Securities Risk
- Derivatives Risk
- Distressed Securities Risk
- Equity Securities Risk
- Floating and Variable Rate Debts Risk
- Foreign Securities Risk
- Liquidity Risk
- Loan Participation Interest Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Money Market/Short-Term Securities Risk
- Valuation Risk

## **HIGH YIELD ACTIVE CORE**

### *Investment Strategies*

This strategy invests in high-yield corporate debt securities, and may be composed of all types of high-yield domestic and foreign corporate debt securities that are rated below investment grade or, if unrated, that we determine to be of comparable quality.

The strategy’s high-yield investments may also include convertible corporate bonds and loan participation interests (bank debt). The strategy may also include common stocks and other equity securities.

In times of unusual or adverse market, economic or political conditions, the strategy may invest without limit in investment grade securities and may include a significant amount of U.S. government securities, or other high quality money market instruments.

This strategy imposes limits relating to credit, issuer and industry concentrations, as well as bond type and duration.

The strategy may also include derivatives, such as futures, to try to manage interest rate risk or reduce the risk of loss of (that is, hedge) certain of its holdings. In addition, the strategy may buy and sell currency on a spot basis and enter into foreign currency forward contracts for risk management.

This strategy rigorously follows a strict sell discipline. We will typically sell an instrument for one (or more) of the following reasons:

- credit deterioration
- repositioning caused by a change in our top-down outlook
- excessive downward price volatility
- recognition of a more attractive alternative relative value opportunity

### *Material Risks*

*High-Yield Securities Risk.* Investments in high-yield securities (commonly referred to as “junk bonds”) are sometimes considered speculative as they present a greater risk of loss than higher quality securities. Such securities may, under certain circumstances, be less liquid than higher rated securities. These securities pay investors a premium (a high interest rate or yield) because of the increased risk of loss. These securities can also be subject to greater price volatility. In times of unusual or adverse market, economic or political conditions, these securities may experience higher than normal default rates.

Please see below under “Additional Material Risks” regarding the following risks:

- Convertible Securities Risk
- Currency Risk
- Debt Securities Risk
- Derivatives Risk
- Distressed Securities Risk
- Equity Securities Risk
- Floating and Variable Rate Debts Risk
- Foreign Securities Risk
- Liquidity Risk
- Loan Participation Interest Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Money Market/Short-Term Securities Risk
- Valuation Risk

## **HIGH YIELD ACTIVE CORE LOW DURATION/SHORT DURATION**

### *Investment Strategies*

This strategy invests in high-yield corporate debt securities with a shorter final maturity, and may be composed of all types of high-yield domestic and foreign corporate debt securities that are rated below investment grade or, if unrated, that we determine to be of comparable quality.

The strategy's high-yield investments may also include convertible corporate bonds and loan participation interests (bank debt).

In times of unusual or adverse market, economic or political conditions, the strategy may invest without limit in investment grade securities and may include a significant amount of U.S. government securities, or other high quality money market instruments.

This strategy imposes limits relating to credit, issuer and industry concentrations, as well as bond type and duration. Specifically, investments tend to have a lower price sensitivity to interest rate changes (also known as the "duration" of the investment).

The strategy may also include derivatives, such as futures, to try to manage interest rate risk or reduce the risk of loss of (that is, hedge) certain of its holdings. The low duration/short duration strategy will include the use of interest rate futures to specifically manage the duration of the overall portfolio. In addition, the strategy may buy and sell currency on a spot basis and enter into foreign currency forward contracts for risk management.

This strategy rigorously follows a strict sell discipline. We will typically sell an instrument for one (or more) of the following reasons:

- credit deterioration
- repositioning caused by a change in our top-down outlook
- excessive downward price volatility
- recognition of a more attractive alternative relative value opportunity

### *Material Risks*

*High-Yield Securities Risk.* Investments in high-yield securities (commonly referred to as "junk bonds") are sometimes considered speculative as they present a greater risk of loss than higher quality securities. Such securities may, under certain circumstances, be less liquid than higher rated securities. These securities pay investors a premium (a high interest rate or yield) because of the increased risk of loss. These securities can also be subject to greater price volatility. In times of unusual or adverse market, economic or political conditions, these securities may experience higher than normal default rates.

Please see below under "Additional Material Risks" regarding the following risks:

- Convertible Securities Risk
- Currency Risk
- Debt Securities Risk
- Derivatives Risk
- Distressed Securities Risk
- Equity Securities Risk

- Floating and Variable Rate Debts Risk
- Foreign Securities Risk
- Liquidity Risk
- Loan Participation Interest Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Money Market/Short-Term Securities Risk
- Valuation Risk

## **HIGH YIELD OPPORTUNITIES**

### *Investment Strategies*

This strategy follows the same strategy as the High Yield Active Core strategy (see above), but it has the ability to take short positions and reinvest the proceeds to leverage the portfolio depending upon client guidelines.

The strategy will take long positions that we believe offer the potential for attractive returns and will take short positions in securities that we believe in the aggregate will underperform the relevant benchmark. The long and short positions held by the strategy may vary over time as market opportunities develop. The proceeds from the strategy's short positions may be used to purchase all or a portion of the additional long positions. Regulatory limitations or bans on short selling activities may prevent full implementation of the strategy. The strategy may also include futures, to try to manage interest rate risk or reduce the risk of loss of (that is, hedge) certain of its holdings.

In pursuing the investment strategy, we seek to identify investment opportunities based on the financial condition and competitiveness of individual companies and bond structure. The strategy's principal investments include, but are not limited to, domestic corporate debt securities; Yankee debt securities, which are dollar-denominated securities of foreign issuers that are traded in the United States; non-U.S. dollar-denominated corporate debt securities; derivatives, such as forward currency exchange contracts and swaps (including credit default swaps); and sovereign debt.

The strategy's high-yield investments may also include convertible corporate bonds and loan participation interests (bank debt).

Generally, the strategy will include distressed securities when we believe that such an investment offers significant potential for higher returns or can be exchanged for other securities that offer this potential. However, the strategy cannot guarantee that it will achieve these returns or that an issuer will make an exchange offer or emerge from bankruptcy.

### *Material Risks*

*High-Yield Securities Risk.* Investments in high-yield securities (commonly referred to as "junk bonds") are sometimes considered speculative as they present a greater risk of loss than higher

quality securities. Such securities may, under certain circumstances, be less liquid than higher rated securities. These securities pay investors a premium (a high interest rate or yield) because of the increased risk of loss. These securities can also be subject to greater price volatility. In times of unusual or adverse market, economic or political conditions, these securities may experience higher than normal default rates.

*Short Selling Risk.* If a security sold short increases in price, the strategy may have to cover its short position at a higher price than the short sale price, resulting in a loss. The strategy may have substantial short positions and must borrow those securities to make delivery to the buyer. The strategy may not be able to borrow a security that it needs to deliver or it may not be able to close out a short position at an acceptable price and may have to sell related long positions before it had intended to do so. Thus, we may not be able to successfully implement the short sale strategy due to limited availability of desired securities or for other reasons. Please see a more detailed description of Short Selling Risk under “Additional Material Risks”, below.

Please see below under “Additional Material Risks” regarding the following risks:

- Convertible Securities Risk
- Currency Risk
- Debt Securities Risk
- Derivatives Risk
- Distressed Securities Risk
- Equity Securities Risk
- Floating and Variable Rate Debts Risk
- Foreign Securities Risk
- Leverage Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Valuation Risk

## **INTERMEDIATE**

### *Investment Strategies*

This strategy invests a substantial portion of its assets by allocating to all types of debt securities, such as: debt or debt-related securities issued or guaranteed by the U.S. or foreign governments, their agencies or instrumentalities; obligations of international or supranational entities; debt securities issued by U.S. or foreign corporate entities; zero coupon bonds; municipal bonds; and mortgage-related and other asset-backed securities. A majority of the strategy’s total assets will be invested in debt securities that are investment grade or, if unrated, that we determine to be of comparable quality. The strategy may invest in mortgage dollar rolls, to-be-announced securities transactions (TBAs) and mortgage- and asset-backed securities. The strategy also invests in floating and variable rate debt, as well as money market instruments and cash equivalents. The strategy’s principal investments may have fixed or floating rates of interest.

The strategy may also include derivatives, such as financial futures, to try to manage interest rate risk or reduce the risk of loss of (that is, hedge) certain of its holdings.

This strategy employs a top-down, macro-overlay incorporating the risk cycle; a relative value risk analysis incorporating what we believe to be the important fixed income risk factors; a bottom-up assessment of sector valuations; and a bottom-up analysis of security relative valuation.

The effective maturity of the strategy's investments will generally be in intermediate maturities (three to ten years), although it may vary depending on market conditions, as we may determine. Effective maturity is a measure of a debt security's maturity that takes into consideration the possibility that the issuer may call the debt security before its maturity date.

### *Material Risks*

*Debt Securities Risk.* The risks of investing in debt securities include (without limitation): (i) credit risk -- the issuer may not repay the loan created by the issuance of that debt security; (ii) maturity risk -- a debt security with a longer maturity may fluctuate in value more than one with a shorter maturity; (iii) market risk -- low demand for debt securities may have a negative impact on their price; (iv) interest rate risk -- when interest rates go up, the value of a debt security goes down, and when interest rates go down, the value of a debt security goes up; (v) selection risk -- the securities that we select may underperform the market or other securities selected by other funds; and (vi) call risk -- during a period of falling interest rates, the issuer may redeem a security by repaying it early, which may reduce the strategy's income, if the proceeds are reinvested at lower interest rates.

Please see below under "Additional Material Risks" regarding the following risks:

- Derivatives Risk
- Floating and Variable Rate Debt Risk
- Foreign Securities Risk
- Loan Participation Interest Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Mortgage Dollar Roll Transaction Risk
- Mortgage-Backed/Asset-Backed Securities Risk
- To-Be-Announced Securities Risk
- Valuation Risk

## **LONG DURATION**

### *Investment Strategies*

This strategy typically follows the Core Investment Grade strategy (see above), but the effective maturity of this portion of the strategy's investments will generally be in the longer range (10+ years), although it may vary depending on client guidelines or market conditions, as we may



determine. Effective maturity is a measure of a debt security's maturity that takes into consideration the possibility that the issuer may call the debt security before its maturity date. The strategy may buy and sell currency on a spot basis and enter into foreign currency forward contracts for risk management. If client guidelines permit, investments in high yield and/or emerging market debt may be made.

### *Material Risks*

*Debt Securities Risk.* The risks of investing in debt securities include (without limitation): (i) credit risk -- the issuer may not repay the loan created by the issuance of that debt security; (ii) maturity risk -- a debt security with a longer maturity may fluctuate in value more than one with a shorter maturity; (iii) market risk -- low demand for debt securities may have a negative impact on their price; (iv) interest rate risk -- when interest rates go up, the value of a debt security goes down, and when interest rates go down, the value of a debt security goes up; (v) selection risk -- the securities that we select may underperform the market or other securities selected by other funds; and (vi) call risk -- during a period of falling interest rates, the issuer may redeem a security by repaying it early, which may reduce the strategy's income, if the proceeds are reinvested at lower interest rates.

Please see below under "Additional Material Risks" regarding the following risks:

- Currency Risk
- Derivatives Risk
- Floating and Variable Rate Debt Risk
- Foreign Securities Risk
- High-Yield Securities Risk
- Loan Participation Interest Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Mortgage Dollar Roll Transaction Risk
- Mortgage-Backed/Asset-Backed Securities Risk
- To-Be-Announced Securities Risk
- Valuation Risk

## **LOW VOLATILITY HIGH YIELD**

### *Investment Strategies*

Low Volatility High Yield consists solely of higher quality, shorter duration high yield bonds managed in the same bottom-up investment style and by the same investment team as High Yield and Stressed High Yield. We believe that the combination of higher quality and yield represents the opportunity to earn attractive risk-adjusted income. We select securities in this portfolio that we believe have resilient credit profiles as measured by strong asset coverage, conservative debt maturities and robust liquidity. Specifically, this strategy:

- Only includes higher quality corporate high yield bonds (BBB/BB/B)

- Limits portfolio duration to 3 years and individual security maturity limit of 7.5 years
- Does not employ leverage and prohibits derivatives

Like the High Yield and Stressed High Yield strategies, the Low Volatility High Yield investment strategy utilizes a bottom-up, value oriented approach to investing in the U.S. high yield market. The key feature of this strategy is the disciplined investment process we employ. This process requires every security we invest in to have what we believe is a margin-of-safety through sufficient asset coverage. We define asset coverage as our conservative assessment of a company's value divided by its fully drawn debt. In particular, we focus on companies we believe to have strategic importance in their industries, with characteristics such as low cost assets, large market shares and high barriers to entry.

This strategy follows a strict sell discipline. We will typically sell an investment for one of three reasons:

- the security has reached a price or yield that makes its relative value unattractive
- the issuer's fundamentals have deteriorated (for example, asset coverage has been reduced to an unacceptable level)
- to diversify the portfolio if a security or industry exceeds certain weighting limits

The strategy's high yield investments may also include convertible corporate bonds and loan participation interests (bank debt).

In times of unusual or adverse market, economic or political conditions, the strategy may invest without limit in investment grade securities and may include a significant amount of U.S. government securities, or other high quality money market instruments.

The strategy may enter into foreign currency forward contracts for risk management.

### *Material Risks*

*High-Yield Securities Risk.* Investments in high yield securities (commonly referred to as "junk bonds") are sometimes considered speculative as they present a greater risk of loss than higher quality securities. Such securities may, under certain circumstances, be less liquid than higher rated securities. These securities pay investors a premium (a high interest rate or yield) because of the increased risk of loss. These securities can also be subject to greater price volatility. In times of unusual or adverse market, economic or political conditions, these securities may experience higher than normal default rates.

Please see below under "Additional Material Risks" regarding the following risks:

- Convertible Securities Risk
- Currency Risk
- Debt Securities Risk
- Distressed Securities Risk
- Equity Securities Risk

- Floating and Variable Rate Debts Risk
- Foreign Securities Risk
- Liquidity Risk
- Loan Participation Interest Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Money Market/Short-Term Securities Risk
- Valuation Risk

## **MUNICIPAL HIGH YIELD**

### *Investment Strategies*

The strategy may invest in municipal bonds in any rating category, but focuses on medium- to low-quality, including municipal bonds that are the subject of bankruptcy proceedings, that are in default as to the payment of principal or interest, or that are rated in the lowest rating category or, if unrated, that we determine to be of comparable quality (“distressed securities”). It is possible that the strategy could invest up to 100% of its assets in these securities. However, the strategy reserves the right to invest less of its assets in medium- to low-quality bonds if we determine that there is insufficient supply of such obligations available for investment. The strategy will generally include investments in municipal bonds that have a maturity of five years or longer at the time of purchase.

Municipal bonds include debt obligations issued by or on behalf of a governmental entity or other qualifying entity/issuer that pays interest that is, in the opinion of bond counsel to the issuer, generally excludable from gross income for federal income tax purposes (except that the interest may be includable in taxable income for purposes of the federal alternative minimum tax). Municipal bonds may be obligations of a variety of issuers, such as governmental entities or other qualifying issuers. Issuers may be states, territories and possessions of the U.S. and the District of Columbia and their political subdivisions, agencies and instrumentalities. Municipal bonds also include short-term, tax-exempt obligations such as municipal notes and variable rate demand obligations.

We use active management in an effort to identify tax-exempt securities we believe to be mispriced and to build a consistent yield advantage. We focus on reducing volatility through a disciplined investment process that includes fundamental, bottom-up credit research and risk management.

The strategy may also invest in municipal bonds that are related in such a way that an economic, business or political development or change affecting one such security could also affect the other securities.

The strategy may also invest in industrial development bonds. Such bonds are usually revenue bonds issued to pay for facilities with a public purpose operated by private corporations. The credit quality of industrial development bonds is usually directly related to the credit standing of the owner or user of the facilities.

Generally, the strategy will incorporate distressed securities when we believe that such an investment offers significant potential for higher returns or can be exchanged for other securities that offer this potential. However, the strategy cannot guarantee that it will achieve these returns or that an issuer will make an exchange offer or emerge from bankruptcy.

The strategy may also invest in Build America Bonds, which are taxable municipal securities issued by state and local governments.

The strategy may include derivatives, such as futures, options and swap agreements to seek enhanced returns or to reduce the risk of loss of (that is, hedge) certain of its holdings.

### *Material Risks*

*High Yield Municipal Bonds Risk.* High yield municipal bonds may be subject to increased liquidity risk as compared to other high yield debt securities. There may be little or no active trading market for certain high yield municipal bonds, which may make it difficult for the strategy to sell such securities at or near their perceived value. In such cases, the value of a high yield municipal bond may decline dramatically, even during periods of declining interest rates. The high yield municipal bonds in which the strategy intends to invest may be more likely to pay interest that is includable in taxable income for purposes of the federal alternative minimum tax than other municipal bonds.

The strategy may invest more heavily in bonds from certain cities, states or regions than others, which may increase the strategy's exposure to losses resulting from economic, political, or regulatory occurrences impacting these particular cities, states or regions.

Investments in high-yield securities (commonly referred to as "junk bonds") are sometimes considered speculative as they present a greater risk of loss than higher quality securities. Such securities may, under certain circumstances, be less liquid than higher rated securities. These securities pay investors a premium (a high interest rate or yield) because of the increased risk of loss. These securities can also be subject to greater price volatility. In times of unusual or adverse market, economic or political conditions, these securities may experience higher than normal default rates.

*Municipal Securities Risk.* Municipal securities risks include the ability of the issuer to repay the obligation, the relative lack of information about certain issuers, and the possibility of future tax and legislative changes which could affect the market for and value of municipal securities. To be tax exempt, municipal bonds must meet certain regulatory requirements. If a municipal bond fails to meet such requirements, the interest received by the strategy from its investment in such bonds may be taxable. Please see a more detailed description of Municipal Securities Risk under "Additional Material Risks", below.

*Distressed Securities Risk.* Investments in distressed securities are subject to substantial risks in addition to the risks of investing in other types of high-yield securities. Distressed securities are speculative and involve substantial risk that principal will not be repaid. Generally, the strategy will not receive interest payments on such securities and may incur costs to protect its investment. In addition, the strategy's ability to sell distressed securities and any securities received in exchange for such securities may be restricted.

Please see below under “Additional Material Risks” regarding the following risks:

- Build America Bonds Risk
- Closed-End Funds Risk
- Debt Securities Risk
- Derivatives Risk
- Liquidity Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Valuation Risk

## **MUNICIPAL INTERMEDIATE**

### *Investment Strategies*

This strategy follows the same strategy as Municipal Investment Grade (see below), but typically invests in municipal securities with an average modified duration between three and ten years.

### *Material Risks*

*Municipal Securities Risk.* Municipal securities risks include the ability of the issuer to repay the obligation, the relative lack of information about certain issuers, and the possibility of future tax and legislative changes which could affect the market for and value of municipal securities. To be tax exempt, municipal bonds must meet certain regulatory requirements. If a municipal bond fails to meet such requirements, the interest received by the strategy from its investment in such bonds may be taxable. Please see a more detailed description of Municipal Securities Risk under “Additional Material Risks”, below.

Please see below under “Additional Material Risks” regarding the following risks:

- Build America Bonds Risk
- Closed-End Funds Risk
- Debt Securities Risk
- Derivatives Risk
- Liquidity Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Valuation Risk

## **MUNICIPAL INVESTMENT GRADE**

### *Investment Strategies*

The strategy focuses on municipal bonds that are rated investment grade or, if unrated, that we determine to be of comparable quality. The strategy will typically invest in municipal bonds that have a modified duration of 2.5 to 15 years.

Municipal bonds include debt obligations issued by or on behalf of a governmental entity or other qualifying entity/issuer that pays interest that is, in the opinion of bond counsel to the issuer, generally excludable from gross income for federal income tax purposes (except that the interest may be includable in taxable income for purposes of the federal alternative minimum tax). Municipal bonds may be obligations of a variety of issuers, such as governmental entities or other qualifying issuers. Issuers may be states, territories and possessions of the U.S. and the District of Columbia and their political subdivisions, agencies and instrumentalities. Municipal bonds also include short-term, tax-exempt obligations such as municipal notes and variable rate demand obligations.

The strategy includes duration management, sector allocation, yield curve positioning and buy/sell trade execution. We use active management in an effort to identify mispriced tax-exempt securities and build a consistent yield advantage. We attempt to reduce volatility through a disciplined investment process that includes fundamental, bottom-up credit research and risk management.

The strategy may also invest in municipal bonds that are related in such a way that an economic, business or political development or change affecting one such security could also affect the other securities (for example, securities whose issuers are located in the same state).

The strategy may also invest in Build America Bonds, which are taxable municipal securities issued by state and local governments.

The strategy may include derivatives, such as futures, options and swap agreements to try to enhance returns or reduce the risk of loss of (that is, hedge) certain of its holdings.

### *Material Risks*

*Municipal Securities Risk.* Municipal securities risks include the ability of the issuer to repay the obligation, the relative lack of information about certain issuers, and the possibility of future tax and legislative changes which could affect the market for and value of municipal securities. To be tax exempt, municipal bonds must meet certain regulatory requirements. If a municipal bond fails to meet such requirements, the interest received by the strategy from its investment in such bonds may be taxable. Please see a more detailed description of Municipal Securities Risk under “Additional Material Risks”, below.

Please see below under “Additional Material Risks” regarding the following risks:

- Build America Bonds Risk
- Closed End Funds Risk
- Debt Securities Risk
- Derivatives Risk
- Liquidity Risk

- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Valuation Risk

## **MUNICIPAL LONG-TERM**

### *Investment Strategies*

This strategy follows the same strategy as Municipal Investment Grade (see above), but typically invests in municipal securities with an average maturity of ten years or more.

### *Material Risks*

*Municipal Securities Risk.* Municipal securities risks include the ability of the issuer to repay the obligation, the relative lack of information about certain issuers, and the possibility of future tax and legislative changes which could affect the market for and value of municipal securities. To be tax exempt, municipal bonds must meet certain regulatory requirements. If a municipal bond fails to meet such requirements, the interest received by the strategy from its investment in such bonds may be taxable. Please see a more detailed description of Municipal Securities Risk under “Additional Material Risks”, below.

Please see below under “Additional Material Risks” regarding the following risks:

- Build America Bonds Risk
- Closed End Funds Risk
- Debt Securities Risk
- Derivatives Risk
- Liquidity Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Valuation Risk

## **MUNICIPAL SHORT-TERM**

### *Investment Strategies*

This strategy follows the same strategy as Municipal Investment Grade (see above), but typically invests in municipal securities with a maximum duration of two years.

### *Material Risks*

*Municipal Securities Risk.* Municipal securities risks include the ability of the issuer to repay the obligation, the relative lack of information about certain issuers, and the possibility of future tax and legislative changes which could affect the market for and value of municipal securities. To be tax exempt, municipal bonds must meet certain regulatory requirements. If a municipal bond

fails to meet such requirements, the interest received by the strategy from its investment in such bonds may be taxable. Please see a more detailed description of Municipal Securities Risk under “Additional Material Risks”, below.

Please see below under “Additional Material Risks” regarding the following risks:

- Build America Bonds Risk
- Closed End Funds Risk
- Debt Securities Risk
- Derivatives Risk
- Liquidity Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Valuation Risk

## **MUNICIPAL TAXABLE**

### *Investment Strategies*

This strategy follows the same strategy as Municipal Investment Grade (see above), but focuses the construction of the portfolio on taxable municipal securities including Build America Bonds (“BABs”) with an average modified duration between five and fifteen years. BABs are taxable municipal securities issued by state and local governments. Issuers of BABs are eligible to receive a subsidy of the U.S. Treasury of up to 35% of the interest paid on the bonds. Subsidy payments received by issuers of BABs may be subject to offset against amounts owed by them to the federal government and may be reduced or eliminated.

### *Material Risks*

*Build America Bonds.* The Build America Bond market is smaller and less diverse than the broader municipal securities market. In addition, BABs are a new form of municipal financing and bonds issued after December 31, 2010 do not qualify as BABs because the BAB enabling legislation expired on December 31, 2010. It is difficult to predict the extent to which a market for such bonds will develop, meaning that BABs may experience greater illiquidity than other types of municipal securities. There can be no assurance that BABs will be actively traded. In addition, illiquidity may have a negative effect on the value of the bonds.

*Municipal Securities Risk.* Municipal securities risks include the ability of the issuer to repay the obligation, the relative lack of information about certain issuers, and the possibility of future tax and legislative changes which could affect the market for and value of municipal securities. To be tax exempt, municipal bonds must meet certain regulatory requirements. If a municipal bond fails to meet such requirements, the interest received by the strategy from its investment in such bonds may be taxable. Please see a more detailed description of Municipal Securities Risk under “Additional Material Risks”, below.

Please see below under “Additional Material Risks” regarding the following risks:



- Debt Securities Risk
- Derivatives Risk
- Liquidity Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Valuation Risk

## **MUNICIPAL TOTAL RETURN**

### *Investment Strategies*

The strategy may invest in municipal bonds in any rating category and will typically use between 0 and 3 times leverage to invest in municipal bonds that have a modified duration of approximately 0 to 20 years. The strategy includes duration management, sector allocation, yield curve positioning and buy/sell trade execution. We use active management in an effort to identify mispriced tax-exempt securities. The strategy may also invest in municipal bonds that are related in such a way that an economic business or political development or change affecting one such security could also affect the other securities (for example, securities whose issuers are located in the same state). The strategy may also invest in taxable bonds, including Build America Bonds. The strategy may also include derivatives, such as futures, options and swap agreements to try to enhance returns or reduce the risk of loss (that is, hedge) certain of its holdings.

Municipal bonds include debt obligations issued by or on behalf of a governmental entity or other qualifying entity/issuer that pays interest that is, in the opinion of bond counsel to the issuer, generally excludable from gross income for federal income tax purposes (except that the interest may be includable in taxable income for purposes of the federal alternative minimum tax). Municipal bonds may be obligations of a variety of issuers, such as governmental entities or other qualifying issuers. Issuers may be states, territories and possessions of the U.S. and the District of Columbia and their political subdivisions, agencies and instrumentalities. Municipal bonds also include short-term, tax-exempt obligations such as municipal notes and variable rate demand obligations.

### *Material Risks*

*Municipal Securities Risk.* Municipal securities risks include the ability of the issuer to repay the obligation, the relative lack of information about certain issuers, and the possibility of future tax and legislative changes which could affect the market for and value of municipal securities. To be tax-exempt, municipal bonds must meet certain regulatory requirements. If a municipal bond fails to meet such requirements, the interest received by the strategy from its investment in such bonds may be taxable. Please see a more detailed description of Municipal Securities Risk under “Additional Material Risks”, below.

Please see below under “Additional Material Risks” regarding the following risks:

- Build America Bonds Risk

- Closed End Funds Risk
- Debt Securities Risk
- Derivatives Risk
- Distressed Securities Risk
- High Yield Municipal Bonds Risk
- Leverage Risk
- Liquidity Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Valuation Risk

## **MUNICIPAL ULTRA SHORT**

### *Investment Strategies*

The effective maturity of this portion of the strategy's investments will generally be in short-term maturities (one month to five years), although it may vary depending on market conditions, as we may determine. Effective maturity is a measure of a debt security's maturity that takes into consideration the possibility that the issuer may call the debt security before its maturity date.

This strategy follows the same strategy as Municipal Investment Grade (see above), but typically invests in municipal securities with maturities of 7 days to 60 days or less (which may be due to put features).

### *Material Risks*

*Municipal Securities Risk.* Municipal securities risks include the ability of the issuer to repay the obligation, the relative lack of information about certain issuers, and the possibility of future tax and legislative changes which could affect the market for and value of municipal securities. To be tax exempt, municipal bonds must meet certain regulatory requirements. If a municipal bond fails to meet such requirements, the interest received by the strategy from its investment in such bonds may be taxable. Please see a more detailed description of Municipal Securities Risk under "Additional Material Risks", below.

Please see below under "Additional Material Risks" regarding the following risks:

- Build America Bonds Risk
- Debt Securities Risk
- Derivatives Risk
- Liquidity Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Valuation Risk

## SHORT DURATION HIGH YIELD

### *Investment Strategies*

This strategy follows the same strategy as the High Yield Active Core strategy (see above), but the portfolio will focus on maintaining an overall duration that is below the average for the high yield market, typically around 2 years and below.

The strategy may be comprised of all types of high yield domestic and foreign corporate debt securities that are rated below investment grade, or if unrated, that we determine to be of comparable quality. To lower the duration of the overall portfolio we focus on securities that are shorter in duration, closer to maturity or closer to the expected call date than the average high yield bond. We may also use futures and cash in conjunction with longer duration securities to manage the duration of the overall portfolio.

The strategy's high-yield investments may also include convertible corporate bonds and loan participation interests (bank debt). The strategy may also include common stocks and other equity securities.

In times of unusual or adverse market, economic or political conditions, the strategy may invest without limit in investment grade securities and may include a significant amount of U.S. government securities, or other high quality money market instruments.

This strategy imposes limits relating to credit, issuer and industry concentrations, as well as bond type and duration.

The strategy may also include derivatives, such as futures, to try to manage interest rate risk or reduce the risk of loss of (that is, hedge) certain of its holdings. In addition, the strategy may buy and sell currency on a spot basis and enter into foreign currency forward contracts for risk management.

This strategy rigorously follows a strict sell discipline. We will typically sell an instrument for one (or more) of the following reasons:

- credit deterioration
- repositioning caused by a change in our top-down outlook
- excessive downward price volatility
- recognition of a more attractive alternative relative value opportunity

### *Material Risks*

*High-Yield Securities Risk.* Investments in high-yield securities (commonly referred to as “junk bonds”) are sometimes considered speculative as they present a greater risk of loss than higher quality securities. Such securities may, under certain circumstances, be less liquid than higher rated securities. These securities pay investors a premium (a high interest rate or yield) because of the increased risk of loss. These securities can also be subject to greater price volatility. In times of unusual or adverse market, economic or political conditions, these securities may experience higher than normal default rates.

Please see below under “Additional Material Risks” regarding the following risks:

- Convertible Securities Risk
- Currency Risk
- Debt Securities Risk
- Derivatives Risk
- Distressed Securities Risk
- Equity Securities Risk
- Floating and Variable Rate Debts Risk
- Foreign Securities Risk
- Liquidity Risk
- Loan Participation Interest Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Money Market/Short-Term Securities Risk
- Valuation Risk

## **SHORT-TERM**

### *Investment Strategies*

The effective maturity of this portion of the strategy’s investments will generally be in short-term maturities (one month to five years), although it may vary depending on market conditions, as we may determine. Effective maturity is a measure of a debt security’s maturity that takes into consideration the possibility that the issuer may call the debt security before its maturity date.

This strategy invests a substantial portion of its assets in all types of debt securities, such as: debt or debt-related securities issued or guaranteed by the U.S. or foreign governments, their agencies or instrumentalities; obligations of international or supranational entities; debt securities issued by U.S. or foreign corporate entities; zero coupon bonds; municipal bonds; and mortgage-related and other asset-backed securities. A majority of the strategy’s total assets will be invested in debt securities that are rated investment grade or, if unrated, that we determine to be of comparable quality. The strategy may include mortgage dollar rolls, to-be-announced securities transactions (TBAs) and mortgage- and asset-backed securities. The strategy also invests in floating and variable rate debt, as well as money market instruments and cash equivalents. The strategy’s principal investments may have fixed or floating rates of interest.

The strategy may also include derivatives, such as futures, to try to manage interest rate risk or reduce the risk of loss of (that is, hedge) certain of its holdings.

This strategy employs a top-down, macro-overlay incorporating the risk cycle; a relative value risk analysis incorporating what we believe to be the important fixed income risk factors; a bottom-up assessment of sector valuations; and a bottom-up analysis of security relative valuation.

### *Material Risks*

*Money Market/Short-Term Securities Risk.* To the extent the strategy holds cash or invests in short-term securities, there is no assurance that the strategy will achieve its investment objective.

Additional material risks associated with an investment in the strategy include the following: (i) not all U.S. government securities are insured or guaranteed by the U.S. Government - some are backed only by the issuing agency, which must rely on its own resources to repay the debt; and (ii) the strategy's yield will fluctuate with changes in short-term interest rates.

Please see below under "Additional Material Risks" regarding the following risks:

- Debt Securities Risk
- Derivatives Risk
- Floating and Variable Rate Debt Risk
- Foreign Securities Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- To-Be-Announced Securities Risk
- Valuation Risk

## **STRESSED HIGH YIELD**

### *Investment Strategies*

The Stressed High Yield strategy seeks to earn a yield higher than the broad high yield market while maintaining a significantly stronger credit profile than the average CCC bond. Stressed High Yield is managed in the same bottom-up investment style and by the same investment team as High Yield and Low Volatility High Yield. It differs in that the portfolio is more concentrated than the other two strategies.

Like the High Yield and Low Volatility High Yield strategies, Stressed High Yield utilizes a bottom-up, value oriented approach to investing in the U.S. high yield market. The key feature of this strategy is the disciplined investment process we employ. This process requires every security we invest in to have what we believe is a margin-of-safety through sufficient asset coverage. We define asset coverage as our conservative assessment of a company's value divided by its fully drawn debt. In particular, we focus on companies we believe to have strategic importance in their industries, with characteristics such as low cost assets, large market shares and high barriers to entry.

This strategy follows a strict sell discipline. We will typically sell an investment for one of three reasons:

- the security has reached a price or yield that makes its relative value unattractive
- the issuer's fundamentals have deteriorated (for example, asset coverage has been reduced to an unacceptable level)
- for diversification purposes if necessary

The strategy's high yield investments may also include convertible corporate bonds and loan participation interests (bank debt).

In times of unusual or adverse market, economic or political conditions, the strategy may invest without limit in investment grade securities and may include a significant amount of U.S. government securities, or other high quality money market instruments.

The strategy may enter into foreign currency forward contracts for risk management.

### *Material Risks*

*High-Yield Securities Risk.* Investments in high yield securities (commonly referred to as “junk bonds”) are sometimes considered speculative as they present a greater risk of loss than higher quality securities. Such securities may, under certain circumstances, be less liquid than higher rated securities. These securities pay investors a premium (a high interest rate or yield) because of the increased risk of loss. These securities can also be subject to greater price volatility. In times of unusual or adverse market, economic or political conditions, these securities may experience higher than normal default rates.

Please see below under “Additional Material Risks” regarding the following risks:

- Convertible Securities Risk
- Currency Risk
- Debt Securities Risk
- Derivatives Risk
- Distressed Securities Risk
- Equity Securities Risk
- Floating and Variable Rate Debts Risk
- Foreign Securities Risk
- Liquidity Risk
- Loan Participation Interest Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Money Market/Short-Term Securities Risk
- Valuation Risk

## **UNCONSTRAINED BOND**

### *Investment Strategies*

Unconstrained Bond is a total return strategy that seeks to exploit opportunities in the global bond markets through a process of multi-sector asset allocation. In order to implement this strategy we will, to the fullest extent possible, use broad investment discretion with respect to the types of investment strategies we may employ or the markets or instruments in which we may invest. The strategy invests primarily in debt securities and debt-related derivative instruments offering relatively attractive current market yields based on current and projected economic and

market conditions. We may also invest assets in rated and unrated money market instruments and cash deposits denominated in U.S. Dollars or such other currency as the portfolio managers may determine. This investment strategy will not borrow to purchase securities but may engage in short selling or enter into transactions with implied leverage. Additionally, where client guidelines permit, this strategy typically makes allocations in one or more non-SEC registered investment funds that are also managed by the same investment team.

### *Material Risks*

*Convertible Securities Risk.* Convertible securities may be subordinate to other securities. In part, the total return for a convertible security depends upon performance of the underlying stock into which it can be converted. Also, issuers of convertible securities are often not as strong financially as those issuing securities with higher credit ratings, are more likely to encounter financial difficulties and typically are more vulnerable to changes in the economy, such as a recession or a sustained period of rising interest rates, which could affect their ability to make interest and principal payments. If an issuer stops making interest and/or principal payments, the strategy could lose its entire investment.

*Currency Risk.* The value of a client's assets may be affected favorably or unfavorably by the changes in currency rates and exchange control regulations. Some currency exchange costs may be incurred by clients when a strategy changes investments from one country to another. Currency exchange rates may fluctuate significantly over short periods of time. They generally are determined by the forces of supply and demand in the respective markets and the relative merits of investments in different countries, actual or perceived changes in interest rates and other complex factors, as seen from an international perspective. Currency exchange rates can also be affected unpredictably by intervention by governments or central banks (or the failure to intervene) or by currency controls or political developments.

*Debt Securities Risk.* The risks of investing in debt securities include (without limitation): (i) credit risk -- the issuer may not repay the loan created by the issuance of that debt security; (ii) maturity risk -- a debt security with a longer maturity may fluctuate in value more than one with a shorter maturity; (iii) market risk -- low demand for debt securities may have a negative impact on their price; (iv) interest rate risk -- when interest rates go up, the value of a debt security goes down, and when interest rates go down, the value of a debt security goes up; (v) selection risk -- the securities that we select may underperform the market or other securities selected by other funds; and (vi) call risk -- during a period of falling interest rates, the issuer may redeem a security by repaying it early, which may reduce the strategy's income, if the proceeds are reinvested at lower interest rates.

*Derivatives Risk.* The strategy may lose money using derivatives. The use of derivatives may increase the volatility of the value of the strategy's assets and may involve a small investment of cash relative to the magnitude of risk assumed. The principal risk of forward commitments is that the security may be worth less when it is issued or received than the price the strategy agreed to pay when it made the commitment. The principal risks of swap agreements are that they may be difficult to value and may be susceptible to liquidity and credit risk. The principal risk of futures contracts is that they may result in losses in excess of the amount invested in the futures contract, which may be unlimited. The principal risk of options transactions is that they may increase the

volatility of the value of the strategy's assets and may involve a small investment of cash relative to the magnitude of the risk assumed. Derivatives may also be subject to counterparty risk, that is, the risk that the other party in the transaction will not fulfill its contractual obligations.

*Distressed Securities Risk.* Investments in distressed securities are subject to substantial risks in addition to the risks of investing in other types of high-yield securities. Distressed securities are speculative and involve substantial risk that principal will not be repaid. Generally, the strategy will not receive interest payments on such securities and may incur costs to protect its investment. In addition, the strategy's ability to sell distressed securities and any securities received in exchange for such securities may be restricted.

*Foreign Securities Risk.* Investments in foreign securities are subject to risks that differ from those of U.S. issuers. These risks may include: fluctuating currency values; less liquid trading markets; greater price volatility; political and economic instability; less publicly available information about issuers; changes in U.S. or foreign tax or currency laws; and changes in monetary policy. Foreign securities may be more difficult to sell than U.S. securities. These risks may be greater in emerging market countries than in more developed countries. Please see a more detailed description of Foreign Securities Risk under "Additional Material Risks", below.

*High Yield Municipal Bonds Risk.* High yield municipal bonds may be subject to increased liquidity risk as compared to other high yield debt securities. There may be little or no active trading market for certain high yield municipal bonds, which may make it difficult for the strategy to sell such securities at or near their perceived value. In such cases, the value of a high yield municipal bond may decline dramatically, even during periods of declining interest rates. The high yield municipal bonds in which the strategy intends to invest may be more likely to pay interest that is includable in taxable income for purposes of the federal alternative minimum tax than other municipal bonds.

The strategy may invest more heavily in bonds from certain cities, states or regions than others, which may increase the strategy's exposure to losses resulting from economic, political, or regulatory occurrences impacting these particular cities, states or regions.

Investments in high-yield securities (commonly referred to as "junk bonds") are sometimes considered speculative as they present a greater risk of loss than higher quality securities. Such securities may, under certain circumstances, be less liquid than higher rated securities. These securities pay investors a premium (a high interest rate or yield) because of the increased risk of loss. These securities can also be subject to greater price volatility. In times of unusual or adverse market, economic or political conditions, these securities may experience higher than normal default rates.

*High-Yield Securities Risk.* Investments in high yield securities (commonly referred to as "junk bonds") are sometimes considered speculative as they present a greater risk of loss than higher quality securities. Such securities may, under certain circumstances, be less liquid than higher rated securities. These securities pay investors a premium (a high interest rate or yield) because of the increased risk of loss. These securities can also be subject to greater price volatility. In times of unusual or adverse market, economic or political conditions, these securities may experience higher than normal default rates.



*Leverage Risk.* Leverage, including borrowing, will cause the value of an account to be more volatile than if the account did not use leverage. This is because leverage tends to exaggerate the effect of any increase or decrease in the value of the account's portfolio securities. We may engage in transactions or purchase instruments that give rise to forms of leverage. These transactions and instruments may include, among others, the use of short sales. The use of leverage may cause an account to liquidate portfolio positions when it would not be advantageous to do so in order to satisfy its obligations. Certain types of leveraging transactions, such as short sales that are not "against the box," could theoretically be subject to unlimited losses in cases where the account, for any reason, is unable to close out the transaction.

*Loan Participation Interest Risk.* There may not be a readily available market for loan participation interests, which in some cases could result in the strategy disposing of such interests at a substantial discount from face value or holding such interests until maturity. In addition, there is also the credit risk of the underlying corporate borrower as well as the lending institution or other participant from whom the strategy purchased the loan participation interests.

*Money Market/Short-Term Securities Risk.* To the extent the strategy holds cash or invests in short-term securities, there is no assurance that the strategy will achieve its investment objective.

*Municipal Securities Risk.* Municipal securities risks include the ability of the issuer to repay the obligation, the relative lack of information about certain issuers, and the possibility of future tax and legislative changes which could affect the market for and value of municipal securities. To be tax exempt, municipal bonds must meet certain regulatory requirements. If a municipal bond fails to meet such requirements, the interest received by the strategy from its investment in such bonds may be taxable. Please see a more detailed description of Municipal Securities Risk under "Additional Material Risks", below.

*Short Selling Risk.* If a security sold short increases in price, the strategy may have to cover its short position at a higher price than the short sale price, resulting in a loss. The strategy may have substantial short positions and must borrow those securities to make delivery to the buyer. The strategy may not be able to borrow a security that it needs to deliver or it may not be able to close out a short position at an acceptable price and may have to sell related long positions before it had intended to do so. Thus, we may not be able to successfully implement the short sale strategy due to limited availability of desired securities or for other reasons. Please see a more detailed description of Short Selling Risk under "Additional Material Risks", below.

*Synthetic Convertible Securities Risk.* The values of a synthetic convertible and a true convertible security may respond differently to market fluctuations. In addition, in purchasing a synthetic convertible security, the strategy may have counterparty (including counterparty credit) risk with respect to the financial institution or investment bank that offers the instrument. Purchasing a synthetic convertible security may provide greater flexibility than purchasing a traditional convertible security.

Please see below under "Additional Material Risks" regarding the following risks:

- Build America Bonds Risk
- Equity Securities Risk

- Floating and Variable Rate Debt Risk
- Liquidity Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Mortgage Backed/Asset Backed Securities Risk
- Mortgage Dollar Roll Transaction Risk
- Non-SEC Registered Investment Funds Risk
- To-Be-Announced Securities Risk
- Valuation Risk
- When-Issued Securities Risk

### **Other Investment Strategies.**

#### **BANK DEBT**

##### *Investment Strategies*

This strategy focuses on high-yield investments in loan participation interests (bank debt). This strategy may also invest in high-yield corporate debt securities, and may be composed of all types of high-yield domestic and foreign corporate debt securities that are rated below investment grade or, if unrated, that we determine to be of comparable quality. In times of unusual or adverse market, economic or political conditions, the strategy may invest without limit in investment grade securities and may include a significant amount of U.S. government securities, or other high quality money market instruments.

This strategy imposes limits relating to credit, issuer and industry concentrations, as well as instrument type and duration.

This strategy rigorously follows a strict sell discipline. We will typically sell a loan or other instrument for one (or more) of the following reasons:

- credit deterioration
- repositioning caused by a change in our top-down outlook
- excessive downward price volatility
- recognition of a more attractive alternative relative value opportunity

##### *Material Risks*

*Loan Participation Interest Risk.* There may not be a readily available market for loan participation interests, which in some cases could result in the strategy disposing of such interests at a substantial discount from face value or holding such interests until maturity. In addition, there is also the credit risk of the underlying corporate borrower as well as the lending institution or other participant from whom the strategy purchased the loan participation interests.

*High-Yield Securities Risk.* Investments in high-yield securities (commonly referred to as “junk bonds”) are sometimes considered speculative as they present a greater risk of loss than higher quality securities. Such securities may, under certain circumstances, be less liquid than higher

rated securities. These securities pay investors a premium (a high interest rate or yield) because of the increased risk of loss. These securities can also be subject to greater price volatility. In times of unusual or adverse market, economic or political conditions, these securities may experience higher than normal default rates.

Please see below under “Additional Material Risks” regarding the following risks:

- Convertible Securities Risk
- Currency Risk
- Debt Securities Risk
- Distressed Securities Risk
- Floating and Variable Rate Debt Risk
- Foreign Securities Risk
- Liquidity Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Money Market/Short-Term Securities Risk
- Valuation Risk

## **CONVERTIBLE**

### *Investment Strategies*

This strategy takes a flexible approach by investing in a broad range of securities of a variety of companies and industries. This strategy seeks to identify securities that offer asymmetric return potential. Diversification is a key risk control mechanism.

This strategy primarily consists of “convertible securities” such as bonds, debentures, corporate notes, and preferred stocks or other securities that are convertible into common stock or the cash value of a stock or a basket or index of equity securities. The balance of the assets may be invested or held in non-convertible debt, equity securities that do not pay regular dividends, U.S. Government securities, and cash or cash equivalents. A convertible security is a security issued by a company that the investor can “convert” for shares at a pre-set price.

The strategy may invest in debt securities that are rated investment grade and below investment grade or, if unrated, that we determine to be of equivalent quality.

The strategy may also be comprised of “synthetic” convertible securities, which are derivative positions composed of two or more securities whose investment characteristics, taken together, resemble those of traditional convertible securities. Unlike traditional convertible securities whose conversion values are based on the common stock of the issuer of the convertible security, “synthetic” and “exchangeable” convertible securities are preferred stocks or debt obligations of an issuer which are structured with an embedded equity component whose conversion value is based on the value of the common stock of one or more different issuers or a particular benchmark (which may include indices, baskets of domestic stocks, commodities, a foreign issuer or basket of foreign stocks, or a company whose stock is not yet publicly traded). The

value of a synthetic convertible is the sum of the values of its preferred stock or debt obligation component and its convertible component.

The strategy may include foreign securities, which are securities issued by companies organized outside the U.S. and traded primarily in markets outside the U.S.

### *Material Risks*

*Convertible Securities Risk.* Convertible securities may be subordinate to other securities. In part, the total return for a convertible security depends upon performance of the underlying stock into which it can be converted. Also, issuers of convertible securities are often not as strong financially as those issuing securities with higher credit ratings, are more likely to encounter financial difficulties and typically are more vulnerable to changes in the economy, such as a recession or a sustained period of rising interest rates, which could affect their ability to make interest and principal payments. If an issuer stops making interest and/or principal payments, the strategy could lose its entire investment.

*Synthetic Convertible Securities Risk.* The values of a synthetic convertible and a true convertible security may respond differently to market fluctuations. In addition, in purchasing a synthetic convertible security, the strategy may have counterparty (including counterparty credit) risk with respect to the financial institution or investment bank that offers the instrument. Purchasing a synthetic convertible security may provide greater flexibility than purchasing a traditional convertible security.

*High-Yield Securities Risk.* Investments in high-yield securities (commonly referred to as “junk bonds”) are sometimes considered speculative as they present a greater risk of loss than higher quality securities. Such securities may, under certain circumstances, be less liquid than higher rated securities. These securities pay investors a premium (a high interest rate or yield) because of the increased risk of loss. These securities can also be subject to greater price volatility. In times of unusual or adverse market, economic or political conditions, these securities may experience higher than normal default rates.

Please see below under “Additional Material Risks” regarding the following risks:

- Debt Securities Risk
- Distressed Securities Risk
- Equity Securities Risk
- Foreign Securities Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Valuation Risk

## **FLOATING RATE HIGH YIELD**

### *Investment Strategies*

The strategy focuses its investments in variable or floating rate loans and other floating rate debt securities on high-yield investments in loan participation interests (bank debt). This strategy may also purchase fixed-income debt and short-term instruments. Investments will be predominantly rated below investment grade or unrated.

### *Material Risks*

*Loan Participation Interest Risk.* There may not be a readily available market for loan participation interests, which in some cases could result in the strategy disposing of such interests at a substantial discount from face value or holding such interests until maturity. In addition, there is also the credit risk of the underlying corporate borrower as well as the lending institution or other participant from whom the strategy purchased the loan participation interests.

*High-Yield Securities Risk.* Investments in high-yield securities (commonly referred to as “junk bonds”) are sometimes considered speculative as they present a greater risk of loss than higher quality securities. Such securities may, under certain circumstances, be less liquid than higher rated securities. These securities pay investors a premium (a high interest rate or yield) because of the increased risk of loss. These securities can also be subject to greater price volatility. In times of unusual or adverse market, economic or political conditions, these securities may experience higher than normal default rates.

Please see below under “Additional Material Risks” regarding the following risks:

- Debt Securities Risk
- Distressed Securities Risk
- Floating and Variable Rate Debt Risk
- Liquidity Risk
- Loss of Money Risk
- Management Risk
- Market Changes Risk
- Money Market/Short-Term Securities Risk
- Valuation Risk

### **Additional Material Risks.**

**The additional material risks set forth below in alphabetical order relate to all investment strategies.**

*Loss of Money Risk.* Before considering an investment in the strategy, you should understand that you could lose money.

*Management Risk.* The investment strategies, practices and risk analysis that we use may not produce the desired results.

*Market Changes Risk.* The value of the strategy’s investments may change because of broad changes in the markets in which the strategy invests, which could cause the strategy to underperform other funds with similar objectives.

**The additional material risks set forth below in alphabetical order relate to more than one investment strategy as set forth in the relevant strategy section.**

*Build America Bonds Risk.* The Build America Bond (“BAB”) market is smaller and less diverse than the broader municipal securities market. In addition, BABs are a form of municipal financing and bonds issued after December 31, 2010 do not qualify as BABs because the BAB enabling legislation expired on December 31, 2010. It is difficult to predict the extent to which a market for such bonds will develop, meaning that BABs may experience greater illiquidity than other types of municipal securities. There can be no assurance that BABs will be actively traded. In addition, illiquidity may have a negative effect on the value of the bonds.

*Closed-End Funds Risk.* Closed-end funds are investment companies that generally do not continuously offer their shares for sale. Rather, closed-end funds typically trade on a secondary market, such as the New York Stock Exchange or the NASDAQ Stock Market, Inc. Closed-end funds are subject to management risk because the adviser to the closed-end fund may be unsuccessful in meeting the fund's investment objective. Moreover, investments in a closed-end fund generally reflect the risks of the closed-end fund's underlying portfolio securities. Closed-end funds may also trade at a discount or premium to their NAV and may trade at a larger discount or smaller premium subsequent to purchase by a Fund. Closed-end funds may trade infrequently and with small volume, which may make it difficult for a portfolio to buy and sell shares. Closed-end funds are subject to management fees and other expenses that may increase their cost versus the costs of owning the underlying securities. Since closed-end funds trade on exchanges, a Fund may also incur brokerage expenses and commissions when it buys or sells closed-end fund shares.

*Convertible Securities Risk.* Convertible securities may be subordinate to other securities. In part, the total return for a convertible security depends upon performance of the underlying stock into which it can be converted. Also, issuers of convertible securities are often not as strong financially as those issuing securities with higher credit ratings, are more likely to encounter financial difficulties and typically are more vulnerable to changes in the economy, such as a recession or a sustained period of rising interest rates, which could affect their ability to make interest and principal payments. If an issuer stops making interest and/or principal payments, the strategy could lose its entire investment.

*Currency Risk.* The value of a client's assets may be affected favorably or unfavorably by the changes in currency rates and exchange control regulations. Some currency exchange costs may be incurred by clients when a strategy changes investments from one country to another. Currency exchange rates may fluctuate significantly over short periods of time. They generally are determined by the forces of supply and demand in the respective markets and the relative merits of investments in different countries, actual or perceived changes in interest rates and other complex factors, as seen from an international perspective. Currency exchange rates can also be affected unpredictably by intervention by governments or central banks (or the failure to intervene) or by currency controls or political developments.

*Debt Securities Risk.* The risks of investing in debt securities include (without limitation): (i) credit risk -- the issuer may not repay the loan created by the issuance of that debt security; (ii) maturity risk -- a debt security with a longer maturity may fluctuate in value more than one with a shorter maturity; (iii) market risk -- low demand for debt securities may have a negative impact on their price; (iv) interest rate risk -- when interest rates go up, the value of a debt

security goes down, and when interest rates go down, the value of a debt security goes up; (v) selection risk -- the securities that we select may underperform the market or other securities selected by other funds; and (vi) call risk -- during a period of falling interest rates, the issuer may redeem a security by repaying it early, which may reduce the strategy's income, if the proceeds are reinvested at lower interest rates.

*Derivatives Risk.* The strategy may lose money using derivatives. The use of derivatives may increase the volatility of the value of the strategy's assets and may involve a small investment of cash relative to the magnitude of risk assumed. The principal risk of forward commitments is that the security may be worth less when it is issued or received than the price the strategy agreed to pay when it made the commitment. The principal risks of swap agreements are that they may be difficult to value and may be susceptible to liquidity and credit risk. The principal risk of futures contracts is that they may result in losses in excess of the amount invested in the futures contract, which may be unlimited. The principal risk of options transactions is that they may increase the volatility of the value of the strategy's assets and may involve a small investment of cash relative to the magnitude of the risk assumed. Derivatives may also be subject to counterparty risk, that is, the risk that the other party in the transaction will not fulfill its contractual obligations. Certain derivatives transactions may require the posting of initial and/or variation margin (including, but not limited to, futures, forward settling mortgage transactions, and swaps), which is at risk of loss if the market moves against a portfolio's position. If a portfolio does not provide the required margin within the prescribed time, its position may be liquidated at a loss, and the portfolio will be liable for any resulting deficit in its account.

*Distressed Securities Risk.* Investments in distressed securities are subject to substantial risks in addition to the risks of investing in other types of high-yield securities. Distressed securities are speculative and involve substantial risk that principal will not be repaid. Generally, the strategy will not receive interest payments on such securities and may incur costs to protect its investment. In addition, the strategy's ability to sell distressed securities and any securities received in exchange for such securities may be restricted.

*Equity Securities Risk.* Investments in common stocks and other equity securities are particularly subject to the risk of changing economic, stock market, industry and company conditions and the risks inherent in our ability to anticipate changes that can adversely affect the value of the strategy's holdings. Opportunity for greater gain often comes with greater risk of loss.

*Floating and Variable Rate Debt Risk.* Floating and variable rate debt, which includes floating rate loans, provide for a periodic adjustment in the interest rate paid. The rate adjustment intervals may be regular and range from daily up to annually, or may be based on an event, such as a change in the prime rate. Although certain floating rate loans are collateralized, there is no guarantee that the value of the collateral will be sufficient to repay the loan. In times of unusual or adverse market, economic or political conditions, floating rate loans may experience higher than normal default rates. Floating and variable rate debt may be subject to greater liquidity risk than other debt instruments, meaning that there may be limitations on the strategy's ability to sell the instruments at any given time. The presence of a floor (which typically is based on LIBOR) in floating rate and variable rate debt instruments may result in coupon payments that remain unchanged when interest rates rise. While floors ensure a minimum yield, they can also act as an anchor until the reference rate of the floating rate and variable rate debt instrument breaches the

level established by the floor. So long as the underlying reference stays below the floor, floating rate and variable rate debt instruments with this feature will behave more like conventional bonds in that coupon payments will remain unchanged. Such instruments also may lose value.

*Foreign Securities Risk.* Investments in foreign securities are subject to risks that differ from those of U.S. issuers. These risks may include: fluctuating currency values; less liquid trading markets; greater price volatility; political and economic instability; less publicly available information about issuers; changes in U.S. or foreign tax or currency laws; and changes in monetary policy. Foreign securities may be more difficult to sell than U.S. securities. These risks may be greater in emerging market countries than in more developed countries.

Investments in foreign securities may involve difficulties in receiving or interpreting financial and economic information, imposition of taxes, higher brokerage and custodian fees, currency rate fluctuations or exchange controls or other government restrictions, including seizure or nationalization of foreign deposits or assets. There may also be difficulty in invoking legal protections across borders. Some of these risks may cause the strategy's value to be more volatile than that of a U.S. only strategy. The strategy may also incur higher expenses and costs when making foreign investments, which could affect the strategy's total return. The risks of foreign securities are likely to be greater in emerging market countries than in foreign countries with developed securities markets and more advanced regulatory regimes. Among other things, emerging market countries may have economic structures that are less mature and political systems that are less stable. Moreover, emerging market countries may have less developed securities markets, high inflation, and rapidly changing interest and currency exchange rates. Exchange rate movements can be large and can endure for extended periods of time, affecting either favorably or unfavorably the value of the strategy's assets.

*High Yield Municipal Bonds Risk.* High yield municipal bonds may be subject to increased liquidity risk as compared to other high yield debt securities. There may be little or no active trading market for certain high yield municipal bonds, which may make it difficult for the strategy to sell such securities at or near their perceived value. In such cases, the value of a high yield municipal bond may decline dramatically, even during periods of declining interest rates. The high yield municipal bonds in which the strategy intends to invest may be more likely to pay interest that is includable in taxable income for purposes of the federal alternative minimum tax than other municipal bonds.

The strategy may invest more heavily in bonds from certain cities, states or regions than others, which may increase the strategy's exposure to losses resulting from economic, political, or regulatory occurrences impacting these particular cities, states or regions.

Investments in high-yield securities (commonly referred to as "junk bonds") are sometimes considered speculative as they present a greater risk of loss than higher quality securities. Such securities may, under certain circumstances, be less liquid than higher rated securities. These securities pay investors a premium (a high interest rate or yield) because of the increased risk of loss. These securities can also be subject to greater price volatility. In times of unusual or adverse market, economic or political conditions, these securities may experience higher than normal default rates.



*High-Yield Securities Risk.* Investments in high yield securities (commonly referred to as “junk bonds”) are sometimes considered speculative as they present a greater risk of loss than higher quality securities. Such securities may, under certain circumstances, be less liquid than higher rated securities. These securities pay investors a premium (a high interest rate or yield) because of the increased risk of loss. These securities can also be subject to greater price volatility. In times of unusual or adverse market, economic or political conditions, these securities may experience higher than normal default rates.

*Leverage Risk.* Leverage, including borrowing, will cause the value of an account to be more volatile than if the account did not use leverage. This is because leverage tends to exaggerate the effect of any increase or decrease in the value of the account’s portfolio securities. We may engage in transactions or purchase instruments that give rise to forms of leverage. These transactions and instruments may include, among others, the use of short sales. The use of leverage may cause an account to liquidate portfolio positions when it would not be advantageous to do so in order to satisfy its obligations. Certain types of leveraging transactions, such as short sales that are not “against the box,” could theoretically be subject to unlimited losses in cases where the account, for any reason, is unable to close out the transaction.

*Liquidity Risk.* Securities purchased by the strategy 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. The value of illiquid securities may reflect a discount from the market price of comparable securities for which a liquid market exists, and accordingly may have a negative effect on the value of the strategy’s assets. To meet client requests to withdraw assets, the strategy may be forced to sell securities at an unfavorable time and/or under unfavorable conditions.

*Loan Participation Interest Risk.* There may not be a readily available market for loan participation interests, which in some cases could result in the strategy disposing of such interests at a substantial discount from face value or holding such interests until maturity. In addition, there is also the credit risk of the underlying corporate borrower as well as the lending institution or other participant from whom the strategy purchased the loan participation interests.

*Money Market/Short-Term Securities Risk.* To the extent the strategy holds cash or invests in short-term securities, there is no assurance that the strategy will achieve its investment objective.

*Mortgage-Backed/Asset-Backed Securities Risk.* Prepayment risk is associated with mortgage-backed and asset-backed securities. If interest rates fall, the underlying debt may be repaid ahead of schedule, reducing the value of the strategy’s investments. If interest rates rise, there may be fewer prepayments, which would cause the average bond maturity to rise, increasing the potential for the strategy to lose money. The value of these securities may be significantly affected by changes in interest rates, the market’s perception of issuers, and the creditworthiness of the parties involved. The ability of a strategy to successfully utilize these instruments may depend on our ability to forecast interest rates and other economic factors correctly. These securities may have a structure that makes their reaction to interest rate changes and other factors difficult to predict, making their value highly volatile.

*Mortgage Dollar Roll Transaction Risk.* Mortgage dollar roll transactions are subject to certain risks, including the risk that securities returned to the strategy at the end of the roll, while substantially similar, may be inferior to what was initially sold to the counterparty.

*Municipal Securities Risk.* Municipal securities risks include the ability of the issuer to repay the obligation, the relative lack of information about certain issuers, and the possibility of future tax and legislative changes that could affect the market for and value of municipal securities. These risks include: (i) General Obligation Bonds Risk -- timely payments depend on the issuer's credit quality, ability to raise tax revenues and ability to maintain an adequate tax base; (ii) Revenue Bonds (including Industrial Development Bonds) Risk -- these payments depend on the money earned by the particular facility or class of facilities, or the amount of revenues derived from another source, and may be negatively impacted by the general credit of the user of the facility; (iii) Private Activity Bonds Risk -- Municipalities and other public authorities issue private activity bonds to finance development of industrial facilities for use by a private enterprise; the private enterprise pays the principal and interest on the bond, and the issuer does not pledge its full faith, credit and taxing power for repayment; (iv) Moral Obligation Bonds Risk -- moral obligation bonds are generally issued by special purpose public authorities of a state or municipality; if the issuer is unable to meet its obligations, repayment of these bonds becomes a moral commitment, but not a legal obligation, of the state or municipality; (v) Municipal Notes Risk -- municipal notes are shorter-term municipal debt obligations that pay interest that is, in the opinion of bond counsel, generally excludable from gross income for federal income tax purposes (except that the interest may be includable in taxable income for purposes of the federal alternative minimum tax) and that have a maturity that is generally one year or less; if there is a shortfall in the anticipated proceeds, the notes may not be fully repaid and the strategy may lose money; and (vi) Municipal Lease Obligations Risk -- in a municipal lease obligation, the issuer agrees to make payments when due on the lease obligation; although the issuer does not pledge its unlimited taxing power for payment of the lease obligation, the lease obligation is secured by the leased property.

Municipalities continue to experience economic and financial difficulties in the current economic environment. The ability of a municipal issuer to make payments and the value of municipal securities can be affected by uncertainties in the municipal securities market. Such uncertainties could cause increased volatility in the municipal securities market and could have a negative impact on the strategy's performance.

To be tax exempt, municipal bonds must meet certain regulatory requirements. If a municipal bond fails to meet such requirements, the interest received by the strategy from its investment in such bonds may be taxable. It is possible that interest on a municipal bond may be declared taxable after the issuance of the bond, and this determination may apply retroactively to the date of the issuance of the bond, which could cause a portion of prior distributions made by the strategy to be taxable in the year of receipt.

*Non-SEC Registered Investment Funds Risk.* The investment strategies and risks associated with the non-SEC registered investment funds that we manage are described in the offering memoranda for those funds that are provided to investors.

*Short Selling Risk.* If a security sold short increases in price, the strategy may have to cover its short position at a higher price than the short sale price, resulting in a loss. The strategy may have substantial short positions and must borrow those securities to make delivery to the buyer. The strategy may not be able to borrow a security that it needs to deliver or it may not be able to close out a short position at an acceptable price and may have to sell related long positions before it had intended to do so. Thus, we may not be able to successfully implement the short sale strategy due to limited availability of desired securities or for other reasons.

The strategy also may be required to pay a premium and other transaction costs, which would increase the cost of the security sold short. The amount of any gain will be decreased, and the amount of any loss increased, by the amount of the premium, dividends, interest or expenses the strategy may be required to pay in connection with the short sale.

Until the strategy replaces a borrowed security, it is required to maintain a segregated account of cash or liquid assets with a broker or custodian to cover the strategy's short position. Generally, securities held in a segregated account cannot be sold unless they are replaced with other liquid assets. The strategy's ability to access the pledged collateral may also be impaired in the event the broker fails to comply with the terms of the contract. In such instances, the strategy may not be able to substitute or sell the pledged collateral. Additionally, the strategy must maintain sufficient liquid assets (less any additional collateral pledged to the broker), marked-to-market daily, to cover the short sale obligations. This may limit the strategy's investment flexibility, as well as its ability to meet withdrawal requests or other current obligations.

Because losses on short sales arise from increases in the value of the security sold short, such losses are theoretically unlimited. By contrast, a loss on a long position arises from decreases in the value of the security and is limited by the fact that a security's value cannot go below zero.

By investing the proceeds received from selling securities short, the strategy could be deemed to be employing a form of leverage, which creates special risks. The use of leverage may increase the strategy's exposure to long positions and make any change in the value of the strategy's assets greater than it would be without the use of leverage. This could result in increased volatility of returns. There is no guarantee that the strategy will use leverage, or if it does, that the leveraging strategy will be successful.

Regulatory authorities in the United States or other countries may prohibit or restrict our ability to fully implement the short-selling strategy, either generally, or with respect to certain industries or countries, which may impact the strategy's ability to fully implement its investment strategies.

*To-Be-Announced Securities (TBAs) Risk.* The principal risks are that the value of the to-be-announced security may decline prior to when the strategy receives the security. The Federal Reserve Bank of New York's Treasury Market Practices Groups ("TMPG") recently recommended that market participants exchange two-way variation margin on a regular basis to mitigate counterparty credit and systemic risks. TMPG's recommendation required the execution of a written master agreement between the parties, which would provide for all aspects of the margining regime, including collateral eligibility, timing and frequency of margin calls and exchanges, threshold, and valuation. TMPG's recommendation went into effect as of January 1, 2014. While the counterparty credit risk is significantly mitigated, these new margin

and documentation requirements increase the cost of TBA trades, including costs associated with wiring of cash to meet variation margin calls and interest expense required to be paid on variation margin posted in your favor. Your collateral may be commingled by a counterparty with the collateral of other customers of the counterparty. In the event of insolvency or bankruptcy of a counterparty, the extent to which you may recover your money or property may be governed by specified legislation or local rules.

*Valuation Risk.* There is no central place or exchange for fixed-income securities trading. Fixed-income securities generally trade on an “over-the-counter” market, which may be anywhere in the world where the buyer and seller can settle on a price. Due to the lack of centralized information and trading, the valuation of fixed-income securities may carry more risk than that of common stock.

Uncertainties in the conditions of the financial market, unreliable reference data, lack of transparency and inconsistency of valuation models and processes may lead to inaccurate asset pricing. In addition, other market participants may value securities differently. As a result, when a security or other instrument is sold in the market, the amount that the account receives may be less than the amount at which it was valued.

Valuations of the assets, which will affect the amount of fees (including, to the extent applicable, performance compensation) payable to MacKay Shields may involve uncertainties and judgmental determinations, and if such valuations prove to be incorrect, client portfolio value could be adversely affected. For example, in the case of an overvaluation of a client’s portfolio, MacKay Shields’ compensation would be greater than if the correct lower valuation had been used.

*When-Issued Securities Risk.* The principal risk of transactions involving when-issued securities is that the security will be worth less when it is issued or received than the price the strategy agreed to pay when it made the commitment.

## **DISCIPLINARY INFORMATION**

There are no legal or disciplinary events involving MacKay Shields or any senior officer of our firm that are material to our advisory business.

## **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

The following relationships or arrangements with related persons are material to our business and may create potential conflicts of interest:

### **Affiliated Broker-Dealers.**

Some of our employees, including some of our senior officers, are registered with the Financial Industry Regulatory Authority (“FINRA”) as representatives and principals of our affiliate NYLIFE Distributors, which, like MacKay Shields, is a wholly-owned subsidiary of NYL Investments Holdings. NYLIFE Distributors is registered as a broker-dealer with the SEC.

Our employees who are registered representatives of NYLIFE Distributors, and other registered representatives of NYLIFE Distributors, may sell interests in non-SEC registered investment funds to institutions and high net worth individuals. These non-SEC registered investment funds are not required to be registered with the SEC as investment companies. We manage certain of these non-SEC registered investment funds, and others are managed by affiliated investment advisers. If a registered representative of NYLIFE Distributors is responsible for the sale of interests in a private investment fund that we or an affiliate sponsors, the registered representative may receive a percentage of the management fee that is attributable to the sale.

Our employees who are registered representatives of NYLIFE Distributors may also:

- promote the sale of various SEC-registered investment companies, known as The MainStay Funds, to registered representatives of other broker-dealers, who may recommend that their clients purchase these products, and
- assist NYL Investments in making presentations to investment consultants with respect to our sub-advisory services for wrap fee programs for which NYL Investments provides advisory services.

We do not use broker-dealers that are affiliated with us in executing securities transactions for our clients.

### **Regulated Subsidiaries.**

MacKay Shields UK LLP (“MacKay UK”) is an indirect wholly-owned subsidiary of MacKay Shields that is authorized and regulated as an investment manager with the United Kingdom Financial Conduct Authority (“UK FCA”). Some of our senior employees are officers of MacKay UK and certain of those employees are designated “approved persons” by the UK FCA with respect to MacKay UK. Under an investment advisory agreement with MacKay UK, we act as sub-adviser for certain clients of MacKay UK. The compensation we receive from MacKay UK will not increase the fees or costs payable by clients of MacKay UK.

MacKay Shields Global Derivatives LLC (“MacKay Global Derivatives”) is a wholly-owned subsidiary of MacKay Shields that is registered as a commodity pool operator with the U.S. Commodity Futures Trading Commission (“CFTC”) and is a member of the National Futures Association. Some of our employees are registered as “associated persons” with the CFTC. MacKay Global Derivatives serves as commodity pool operator with respect to certain non-SEC registered funds sponsored by MacKay Shields.

### **Ownership, Management and Compensation.**

We are a wholly-owned subsidiary of NYL Investments Holdings, which in turn is a wholly-owned subsidiary of NYLIC. Our Board of Managers includes certain senior executives of NYLIC and NYL Investments in addition to the Chief Executive Officer and President of MacKay Shields.

Some of our employees are also officers and/or directors of NYLIC or other affiliated companies, directors of certain non-SEC registered funds we sponsor, as well as officers (in the

case of MacKay UK), “associated persons” (in the case of MacKay Global Derivatives) or “approved persons” (in the case of MacKay UK) of our subsidiaries. In addition, some of our senior employees serve on various committees of NYL Investments.

Certain employees may elect to have MacKay Shields allocate a portion of their long-term incentive compensation to track the investment returns one of one or more non-SEC registered investment funds that we sponsor and/or manage. Such investments will be made directly by MacKay Shields in its own name, and such employees will not have any ownership interest in such funds in connection with the long-term incentive compensation program. The portion of their long-term incentive compensation that tracks the investment returns in such non-SEC registered investment funds is subject to gains and losses based on the performance of those non-SEC registered investment funds. This creates a conflict of interest as certain employees may have an incentive to favor non-SEC registered investment funds in which a portion of their long-term incentive compensation has been invested when allocating investment opportunities. If such favoritism were to occur, it might lead to better performance results for such funds to the detriment of other accounts, which may ultimately result in higher compensation for such employees. MacKay Shields has policies and procedures in place, such as its trade allocation policy, that are designed to address these conflicts of interest.

Notwithstanding the above, we exercise independent judgment in the management of our clients’ investments.

#### **Investment Advisory Relationships Involving Affiliates.**

We act as investment manager, investment adviser or sub-adviser for:

- A portion of the general accounts of NYLIC and its affiliated insurance companies
- Accounts for which NYLIC or New York Life Trust Company, a related person, serves as Trustee Accounts with respect to which NYL Investments is a retirement plan administrator
- One or more accounts for which NYL Investments is the investment advisor
- Wrap fee programs with respect to which NYL Investments provides advisory services
- Certain series of The MainStay Funds, MainStay VP Funds Trust and MainStay Funds Trust, open-end registered investment companies for which NYL Investments is the investment adviser and administrator and NYLIFE Distributors LLC acts as principal underwriter and distributor, and MainStay DefinedTerm Municipal Opportunities Fund, a closed-end registered investment company for which NYL Investments is the investment manager
- Accounts that are investment vehicles for insurance products sponsored by NYLIC and for which NYL Investments is the adviser
- Accounts that have contractual insurance arrangements with NYLIC
- Assets of NYL Investments and NYL Investments Holdings
- Non-SEC registered investment funds for which one or more of our wholly-owned subsidiaries may act as general partner
- Non-SEC registered investment funds for which our indirect wholly-owned subsidiary, MacKay Shields UK LLP, acts as investment manager

- Non-SEC registered investment funds in which NYLIC and/or its affiliated companies, including NYL Investments Holdings and New York Life Insurance and Annuity Corporation, have a substantial interest
- Non-SEC registered investment funds in which senior officers of NYLIC, NYL Investments or our firm have investment interests

Conflicts may arise as to the allocation of investment opportunities among those clients and our other clients. We have policies and procedures in place to make sure that all of our clients are treated fairly and that no client account receives preferential treatment in the allocation of investment opportunities. See “Performance-Based Fees and Side-by-Side Management,” above and “Brokerage Practices,” below.

### **Other Arrangements with Affiliates.**

From time to time, we enter into agreements with our affiliated investment advisers, related persons or subsidiaries by which the affiliated investment adviser, related person or subsidiary utilizes the services of one or more of our employees and may pay a fee to us, or we utilize the services of one or more employees of an affiliated investment adviser, related person or subsidiary and may pay a fee to the affiliated investment adviser, related person or subsidiary. In these arrangements, the employee is subject to our supervision and supervision by the affiliated investment adviser, related person or subsidiary.

From time to time, we may enter into arrangements with our affiliated investment advisers to recommend advisory clients to each other. We may also enter into arrangements with our affiliates to introduce clients to us. If we pay a cash fee to anyone for soliciting clients on our behalf or if we receive a cash fee from another investment adviser for recommending clients to it, we will comply with the requirements of the SEC’s cash solicitation rule, including the applicable disclosure requirement. Please see “Client Referrals and Other Compensation,” below.

### **Additional Information About Our Activities.**

We may recommend securities or other investments to clients, or engage in transactions on behalf of clients, where a related person has a financial interest and buy and sell the same security or investment between or among clients’ accounts. See “Code of Ethics, Participation or Interest in Client Transactions and Personal Trading,” below.

Our employees, members of their families, and our affiliates may own and transact in securities that we purchase or sell for our clients, or various classes of the same security. The investors in such issuers could have different rights, for example in the event of a default or restructuring on the part of the issuer, or as a result of a bankruptcy proceeding. These securities include long-term and short-term debt and equity and private securities, and instruments such as bank loans. The investment strategy for certain clients includes transacting in different securities of the same issuer, different tranches of the same issue or the same issue denominated in different currencies, in the client account. We may purchase a security for one client and sell the same security for another client. Potential conflicts between client accounts are addressed through our procedures

for allocating portfolio transactions and investment opportunities, as described under “Brokerage Practices,” below.

We have a Personal Investment Policy intended to regulate personal transactions in such a manner to satisfy our primary obligation of loyalty to our clients. See “Code of Ethics, Participation or Interest in Client Transactions and Personal Trading,” below.

We prohibit the use of material, non-public information (“inside information”) and maintain a restricted list of securities that may not be purchased by our employees for their own accounts or for client accounts because of the actual or possible possession of inside information. Our personnel or those of our affiliates may come into possession of inside information concerning various companies. We and our advisory affiliates have established information barrier policies that serve to limit the dissemination of such information and provide with flexibility in managing its clients’ portfolios. Nevertheless, if we or our affiliates possess such information, our ability to buy or sell securities of such issuers for our clients may be restricted, although any such restrictions are expected to be infrequent. We may also impose such restrictions in isolated instances to prevent even an appearance that such information has been used in a manner contrary to law. We are not obligated and may not be permitted to communicate any such information to or for the benefit of our clients, disclose that we are restricted from trading in a particular security or otherwise to act on the basis of any such information in providing services to clients. We may also from time to time be subject to limitations on trading in the securities of certain issuers as a result of our clients’ holdings or those of our affiliates and their clients.

The investment management and operations functions at MacKay Shields (including its subsidiaries) and our affiliates are autonomous and operate separately from each other. These functions include all decision-making on what, how and when to buy, sell or hold securities in client portfolios, the trading related to implementation of these decisions and operations. This policy is intended to limit the dissemination of inside information and to permit the investment management, trading and operations functions of each firm to operate without regard to or interference from the other. We believe this separation is in the best interest of clients of the firms as operating independently permits each firm to pursue the investment objectives of clients without reference to limitations resulting from investment activities of the other. To support this policy, we have adopted certain procedures, including a portfolio information barrier between us and these other affiliated investment firms. In the event such information is shared, appropriate controls are placed around the information in order to limit any potential conflicts of interest.

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

### **Code of Ethics.**

We have adopted a Code of Ethics (“Code”), which is designed to set forth the general fiduciary principles governing employees, require compliance with the federal securities laws, and to detect and prevent conflicts of interest.

In addition to the Code’s policies regarding personal securities trading, the Code requires our employees to follow related policies. For example, all employees are required to complete an



annual Conflict of Interest Questionnaire and to follow additional policies related to the conduct standards of our Code, including:

- Insider Trading Policy and Procedures
- Information Barrier Policy and Procedures
- Restricted List
- Watch List
- Gifts and Entertainment
- Policy on Anti-Corruption in International Business Transactions
- Personal Political Contributions Policy
- Information Security and Privacy Policy
- Policy on Selective Disclosure of Mutual Fund Portfolio Holdings, and
- CFA Code of Ethics and Standards of Professional Conduct (with respect to our employees who are Chartered Financial Analysts)

See “Other Financial Industry Activities and Affiliations,” above. We permit our personnel to engage in personal securities transactions, including buying or selling securities that we have recommended to, or purchased or sold on behalf of, clients. These transactions raise potential conflicts of interests, including when they involve securities owned or considered for purchase or sale by or on behalf of a client account. Potential conflicts of interest may arise in connection with an employee’s knowledge and timing of transactions, investment opportunities, broker selection, portfolio holdings and investments, including potential conflicts described in “Other Financial Industry Activities and Affiliations,” above. We manage these potential conflicts with client transactions by requiring that any transaction be made in compliance with our Code.

The Code imposes specific requirements concerning employees’ personal security investments:

- Employees are required to report personal securities transactions in all Covered Securities, which excludes the following:
  - direct obligations of the U.S. Government
  - shares of mutual funds for which we are not the investment adviser or sub-adviser and none of our affiliates is investment adviser or sub-adviser
  - commercial paper, certificates of deposit, and high quality short-term investments
  - shares issued by money market funds
  - shares issued by unit investment trusts that are invested exclusively in one or more mutual funds, unless those funds are affiliated funds or exchange-traded funds.
- Employees may not trade for their personal accounts while in possession of material, non-public information
- Employees may not trade for their personal accounts in securities of issuers that appear on our Restricted or Watch List
- Employees must receive prior written approval before trading in a Covered Security, which is provided through an automated system that provides feedback to an employee as to whether a request is approved or denied; authorization is effective only for the calendar day that the request was submitted and approved, except in limited situations related to foreign markets, where authorization is effective for 24 hours

- Employees may not engage in short-term trading (the purchase and sale or sale and purchase within 60 days) of any Covered Security or shares of a mutual fund for which we or our affiliates serve as investment adviser or sub-advisor
- Employees may not purchase securities in initial public offerings or in connection with private placements without the prior written approval of our General Counsel or Chief Compliance Officer
- All employees must file quarterly reports and certifications of covered trading activity
- Subject to certain exceptions, we prohibit employees from personal securities transactions in securities within seven days before or after we make a trade in such securities for a client
- Employees must report all brokerage related accounts that they or certain family members have a beneficial interest
- Employees must report any interest that they or certain family members have in shares of investment companies that we or any affiliate advises or sub-advises

In addition, our employees:

- must disclose any interest in any unaffiliated entity that does, or is seeking to do, business with us, or that otherwise presents a potential conflict of interest
- may not serve on the Board of Directors of any unaffiliated company without the approval of our General Counsel or Chief Compliance Officer

In addition, some of our employees are subject to the Code of Ethics and trading restrictions of the registered open- and closed-end funds that we advise or subadvise.

Our General Counsel or Chief Compliance Officer may grant exceptions to provisions of the Code in circumstances that present special hardship or special situations determined not to present potential harm to clients or conflicts with the spirit and intent of the Code.

Employees who violate our Code can have their personal securities trading privileges suspended, and we can impose severe sanctions for violations of the Code and the related policies listed above, including termination of employment.

We will provide a copy of our Code to any client or prospective client upon request. To request a copy, contact:

MacKay Shields LLC  
 1345 Avenue of the Americas  
 New York, NY 10105  
 Attn: Chief Compliance Officer

### **Interests of Affiliates.**

In the course of performing investment advisory services, we may also purchase or sell for our clients securities or other investment instruments in which our affiliates have a material financial interest. See “Other Financial Industry Activities and Affiliations,” above. We may also purchase or sell for our clients securities or investment instruments that clients of our affiliates

also own. These practices create conflicts of interest relating to the allocation of limited investment opportunities between affiliated and unaffiliated accounts, allocation of investment opportunities to affiliated accounts that pay a performance fee, using information regarding transactions in affiliated accounts to benefit other accounts and placing trades for affiliated accounts before or after trades for unaffiliated accounts to take advantage of (or avoid) market impact.

It is our policy not to favor the interest of one client over another. We address the conflicts of interest created by management of affiliated and unaffiliated accounts by having a trade allocation policy designed so that trades are allocated among client accounts in a fair and equitable manner over time. In addition, it is our policy that we will not permit cross trades between clients unless the portfolio manager instructing the trade deems it in the best interest of both clients at the time and obtains advance compliance approval of the transaction. See “Performance-Based Fees and Side-By-Side Management”, above and “Brokerage Practices”, below.

Regardless of whether they are affiliated or unaffiliated accounts, when we manage accounts according to the same investment strategy, we anticipate that those accounts will generally have the same investment opportunities and be invested in the same or similar securities with the same or similar weighting. However, there are often differences in the nature or amount of securities that we buy or sell for client accounts. See “Brokerage Practices”, below.

In addition, the investment management and operations functions at MacKay Shields and our affiliates are autonomous and operate separately from each other, including all decision-making on what, how and when to buy, sell or hold securities in client portfolios, the trading related to implementation of these decisions and operations. To support this policy, we have adopted certain procedures, including a portfolio information barrier between us and our affiliated investment firms. In the event such information is shared, appropriate controls are placed around the information in order to limit any potential conflicts of interest.

The information barrier also limits the dissemination of inside information. See “Other Financial Industry Activities and Affiliations,” above.

## **BROKERAGE PRACTICES**

### **Selection and Compensation of Broker-Dealers.**

When we select or recommend a broker-dealer for transactions in our clients’ accounts, we weigh a combination of criteria regarding the broker-dealer and the reasonableness of its compensation. The factors we may consider in selecting a broker-dealer and determining the reasonableness of its compensation include:

- The broker-dealer’s quality of executions, which includes the accuracy and timeliness of executions, clearance of transactions and error/dispute resolution
- The broker-dealer’s ongoing reliability and speed with which transactions are executed
- The broker-dealer’s integrity to handle transactions and ability to maintain the confidentiality of trading activity and information

- The broker-dealer's reputation, financial condition, disciplinary history and stability
- The broker-dealer's compensation, which includes net prices paid or received, negotiated commission rates available and other current transaction costs (for example, its brokerage commission or a mark-up or mark-down). When we evaluate the broker-dealer's compensation, we consider its ability to execute a security transaction in the desired volume, the security price or the spread between the bid and asked prices of the security, and the size of a particular security order
- The broker-dealer's ability to provide us with access to securities in underwritten offerings and in the secondary market, its willingness to commit its own capital, its trading expertise and market knowledge, and the nature and frequency of its coverage in terms of providing market outlook, quotes on specific securities and sector research
- The broker-dealer's block trading and block positioning capabilities and ability to execute difficult transactions
- The broker-dealer's responsiveness to our portfolio managers, traders and investment operations personnel
- The nature of the research created or developed by the broker-dealer, which is called "proprietary research"
- The broker-dealer's access to research that the broker-dealer itself has not created or developed, which is called "third party research"
- The value and quality of the research and other products and services other than brokerage services that we receive from the broker-dealer or that the broker-dealer pays for (either by cash payments or commission), as more fully described under "Soft Dollar Benefits", below
- Regulatory, legal and macro-economic matters that may affect the broker-dealer

When selecting broker-dealers to execute transactions, we are not required to solicit competitive bids and do not have an obligation to seek the lowest available commission cost, but rather best overall execution. In our experience, neither the lowest commission rate nor the most expeditious execution necessarily correlates to the best trade for the client.

In foreign markets, including those where we regularly purchase and sell securities for clients, commissions and other transaction costs are often higher than those charged in the United States. In addition, we may not have the ability to negotiate commissions in some of these markets. You should also note that services associated with foreign investing, including custody and administration, generally are more expensive than in the United States.

### **Research & Other Soft Dollar Benefits.**

We do not have a soft dollar program in place and we do not use client brokerage commissions to obtain third-party research from broker-dealers. However, we may receive proprietary research from broker-dealers. As such, we receive a benefit because we do not have to produce or pay for the research ourselves. As a result, we may have an incentive to select or recommend a broker-dealer based on our interest in receiving the research, rather than on our clients' interest in receiving most favorable execution of trades. The services benefit us by allowing us, at no additional cost to us to:

- supplement our own research, analysis and execution activities
- receive the views and information of individuals and research staffs of other securities firms
- gain access to persons having special expertise on certain companies, industries, areas of the economy and market factors

In general, proprietary research furnished by broker-dealers through which we trade are used for the benefit of our clients as a group and not solely or necessarily in all cases for the benefit of the particular client whose trades are handled by the broker-dealer who provides such services. We review the reasonableness of commission and other transaction costs incurred by our clients in light of the facts and circumstances we deem relevant from time to time, including information furnished by our traders.

The nature of the proprietary research we receive from broker-dealers varies from time to time but generally includes among other information: current and historical financial data concerning particular companies and their securities; information and analysis concerning portfolio strategy, securities markets and economic and industry matters; technical and statistical models and studies and data dealing with various investment opportunities, values, risks and trends; analysis and reports concerning the performance of accounts; and advice as to the value of securities, the advisability of investing in or selling securities and the availability of securities or purchasers or sellers of securities. Under no circumstances do we receive research or other benefits that is not produced or prepared by such broker-dealer (*i.e.*, third-party research).

### **Brokerage for Client Referrals.**

In selecting or recommending broker-dealers or other counterparties, we do not consider a broker-dealer or counterparty's referral of clients to us or to investment funds that we, our related persons or third parties sponsor or manage. While we may direct brokerage to broker-dealers that have consulting divisions that might refer clients or investors to us, we have no agreements to do so.

### **Directed Brokerage.**

At a client's request, we direct trades to broker-dealers or other counterparties, including futures commission merchants. The client's request may relate to all of the transactions in its account, a specific portion of transactions in its account or may require that we use our best efforts to satisfy its request.

When we satisfy a client's request to direct brokerage, we may not be able to achieve best execution of transactions for that client. Clients who direct us to execute their trades with certain broker-dealers or counterparties may lose the benefit of more favorable commission rates or more favorable executions that may be obtained, for example, when we bunch or aggregate client orders. In addition, there may be times when trading with a directed broker-dealer or counterparty occurs before or after we have completed the execution of other transactions in that security for other clients. Directing brokerage may cost clients more money.

A directed trade may be executed directly with the broker-dealer or counterparty, or may be “stepped out” to that broker-dealer or counterparty. In a step-out transaction, we bunch client-directed broker accounts with non-directed broker accounts and request that the executing broker allocate a portion of the transaction to the directed broker. In that event, the broker-dealer providing execution services would differ from a particular client’s directed broker-dealer or counterparty.

Certain clients may execute trades independently through their broker-dealers or counterparties. Although cost is only one component of best execution analysis, many directed brokerage accounts pay effective rates or fees that are higher than client accounts that do not have directed brokerage arrangements. In these instances, a client may have an arrangement with the broker-dealer or counterparty to receive a benefit that the client believes justifies the higher expenses.

### **Wrap Fee Programs.**

For clients that invest through wrap fee programs, the wrap fee charged by the sponsor firm typically covers trade and execution services. As a result, the sponsor and client typically request that transactions for clients’ accounts be executed by the sponsor of the wrap fee program (or its affiliate) or a broker-dealer designated by the sponsor firm. In the event that the sponsor or designated broker-dealer cannot provide “best execution” for a given transaction, we, as investment manager for the wrap fee program, have the option to trade away (that is, trade with a different broker-dealer), and the client may incur a commission cost. We may execute trades for other clients with similar strategies prior to placing trades with wrap sponsors.

### **Derivatives.**

Certain derivatives transactions (including, but not limited to, futures, forward settling mortgage transactions, and swaps) require that clients have proper agreements in place with counterparties. It is the client’s responsibility to ensure that such agreements are in place to allow MacKay Shields to transact in such derivatives. From time to time, however, MacKay Shields may establish master agreements with counterparties pursuant to which transactions in certain derivatives may be placed on behalf of clients. For derivative transactions that require the posting of initial and/or variation margin (including, but not limited to, futures, forward settling mortgage transactions, and swaps), clients will be required to wire cash (in some cases as often as daily) to the account specified by such counterparties, which will likely result in your custodian charging you a fee for that service. Margin limits will need to be closely monitored by MacKay Shields to ensure that a transaction does not experience a default and the immediate closing-out of the position by a counterparty. Where margin is posted to your account by a counterparty, interest expense may accrue and in such cases you will be required to pay interest on such margin. In all cases where margin exists with a counterparty in your favor, MacKay Shields will make determinations on your behalf as to whether to draw down any margin, as well as the timing and the amount of such margin to be drawn down. The result is that cash management will be even more of an important aspect of portfolio management and that cash holdings may become a larger part of a client’s portfolio in order to meet any initial margin requirements and variation margin calls. Certain counterparties may impose a number of important terms and conditions, such as their ability to apply or transfer funds in your margin account(s) to other accounts that you may maintain with such counterparty or its affiliates to

reduce any deficit balance or other obligation that you may owe to such parties. Additionally, you may be required to produce certifications and other materials, such as financial statements, on a regular basis to certain counterparties in order to maintain your account. Other counterparties may impose termination and/or default triggers based on certain conditions or events. Your collateral may be commingled by a counterparty with the collateral of other customers of the counterparty. In the event of insolvency or bankruptcy of a counterparty, the extent to which you may recover your collateral may be governed by specified legislation or local rules.

### **Aggregating and Allocating Trades.**

If we believe that the purchase or sale of the same security is in the best interest of more than one client, we may aggregate the securities to be sold or purchased. We will not aggregate trades (also known as “bunching” trades) unless we believe that doing so is consistent with our duty to seek best execution for our clients. We are not obligated to aggregate trades, but if we desire to do so, we will only aggregate trades for clients whose investment advisory agreements authorize us to do so. Clients may be adversely affected when we do not aggregate trades, as seeking to place separate, non-simultaneous transactions in the same security for multiple clients may have a negative effect on market price, transaction commissions and/or trade execution.

These bunched orders may be averaged as to price and allocated to accounts in amounts according to each account's daily purchase or sale orders or on some other equitable basis.

When we allocate bunched trades to client accounts, we do not favor the interest of one client over another. However, there may be differences in the amount purchased or sold for accounts. These differences may occur for a number of reasons, including, among others:

- Specific client investment objectives
- Cash available in the account for investment
- Client-imposed investment restrictions
- Initial investment periods for new accounts
- Investment restrictions that laws or regulations impose
- Actual and anticipated cash inflows and outflows in client accounts
- Duration and/or average maturity of the client account
- Size of client account
- Deal size and trade lots
- Current industry or issuer exposure in the client account
- Other concentration limits
- Rounding to whole lots (for example, 100 shares or 10,000 bonds)
- Borrowing capacity
- Other practical limitations

We usually determine the allocation of the security among client accounts before we execute the aggregated order. When it is impractical or not feasible for us to determine the allocation methodology for participating accounts before we execute the trade, we will allocate after the

trade is executed, but in no event later than the end of the day, in a fair and equitable manner among all participating accounts based on the factors listed above.

There may be instances when there is a limited supply for a particular security or investment opportunity. In such cases, it is our general policy to make a *pro rata* allocation to accounts based on the original amounts targeted for each account. We may exclude certain accounts from such *pro rata* allocations if such allocations would result in such accounts receiving amounts that the portfolio manager believes are too small to properly manage. We cannot assure that in every instance an investment will be allocated on a *pro rata* basis, and differences may occur due to the factors mentioned above.

Our investment teams may also consider the factors listed above when determining the amount of securities to purchase or sell for each account they manage. When we cannot obtain a sufficient amount of an instrument for all accounts managed by the teams, we may allocate the original minimum target amount first to those accounts that have the most available cash. As a result, the accounts to receive an allocation of the minimum target amount generally will be the accounts with higher available cash than other accounts. The order in which the remaining accounts will receive allocations will follow that same process until there are no more available securities or instruments to be allocated. Under this allocation system, some accounts may not receive any allocations of certain securities or instruments.

Certain clients may have investment guidelines that allow us to take on more concentrated positions compared to other portfolios. Nonetheless, the teams' practice of buying and selling more securities on behalf of these accounts is based on the higher concentration levels, less diversification, borrowing capacity, and different investment objectives and risk characteristics of these accounts. We monitor the allocation policy by periodically conducting reviews of trade orders to confirm these have been allocated on an equitable basis and by comparing the performance of accounts that have the same investment strategies to satisfy ourselves that variations in performance are due to investment factors such as those listed above, and not attributable to allocation decisions.

We have independently managed investment teams investing in the same general market that may maintain procedures applied independently of the other. In most instances, the broker-dealer selling securities to these investment teams will determine the allocation to each team.

## **REVIEW OF ACCOUNTS**

We maintain independently managed portfolio management teams, each of which conducts its own research and operates autonomously, with its own portfolio managers and traders. Our portfolio managers and client services groups review client portfolios on a regular basis in light of client objectives and guidelines and in response to market events and the portfolio management team's general policies and strategies. In addition, each investment team meets regularly to consider economic, market and general investment matters not related to specific client accounts. We assign each account a primary portfolio manager and primary service contact. The number of clients assigned to a primary portfolio manager and primary client service contact varies from time to time, depending upon a variety of circumstances. No single account is the sole responsibility of any one portfolio manager or client service contact.



Portfolio managers review portfolios at least weekly to monitor consistency among clients with similar objectives and a member of the portfolio management team reviews client portfolio transactions daily.

We have several tools at our disposal to assess and monitor overall compliance of managed portfolios with their stated investment objectives. There are both manual and automated supervisory and compliance review procedures in place to monitor accounts. We have front-end and back-end compliance systems that have automated controls to help review investment transactions to confirm they are made in accordance with client investment mandates. We have also developed exception reports from our portfolio accounting system to assist in performing next day reviews.

Each quarter, all clients receive a comprehensive package that includes performance results and comparative benchmark returns, a detailed summary of quarterly purchases and sales, an asset listing, brokerage commission statement (if applicable) and a portfolio manager commentary on current investment strategy and outlook for the market and the client's portfolio.

We also report to the boards of the registered funds we subadvise. The boards of the registered funds receive a variety of written materials concerning the portfolios, including the materials made available to fund shareholders.

We also conduct telephonic or in-person meetings with clients to discuss their portfolios with them. In general, at least one portfolio manager and a client service representative participate in these meetings. The frequency of these meetings is usually included in a client's investment management agreement or guidelines with us.

Clients who request monthly reporting receive an asset list providing a market valuation of each security (produced on a trade-date basis and including accrued interest), a transaction journal and performance compared to the clients' respective benchmarks.

We also review client portfolios monthly for the purpose of reconciling our records of our clients' account holdings with those of their custodian banks. In addition, on a daily or weekly basis, we review client accounts for purposes of reconciling cash balances.

We also provide separate specialized reports as requested by individual clients.

We have a policy regarding the correction of trade errors. In the event of an error, we attempt to identify, research and correct the error as soon as practicable. We will make a client whole for any losses resulting from a trade error that we have caused, while any gains realized as a result of a trade error remain in the client's account. We may net gains and losses within a client's account arising from the same or related trade error(s).

## **CLIENT REFERRALS AND OTHER COMPENSATION**

We enter into solicitation, referral and servicing agreements with affiliates and third parties under which we pay affiliates or third parties a percentage or portion of the compensation we receive on the accounts they solicit, refer or service. Please see "Other Financial Industry

Activities and Affiliations”, above, for a description of soliciting, referral and service arrangements we have with our affiliates.

If we pay a cash fee to anyone for soliciting clients on our behalf or if we receive a cash fee from another investment adviser for recommending clients to it, we comply with the requirements of the SEC’s cash solicitation rule. This rule requires a written agreement between the investment adviser and the person soliciting clients on its behalf. The rule also requires that an unaffiliated solicitor provide a disclosure document to the potential client at the time they make the solicitation. As required by the rule, we will not engage another person to solicit clients on our behalf if that person has been subject to securities regulatory or criminal action within the preceding ten years. The fact that we may share a portion or percentage of the compensation we receive for investment advisory services will not result in charging any client fees at a rate in excess of, or less than, the rate or level of advisory fees we customarily charge to our investment advisory clients for similar services to comparable accounts. In addition, we will not charge any client any other amount for the purpose of offsetting our cost of obtaining an account through a third party referral.

Some of our employees receive compensation from us for referring client accounts to us. The compensation paid to those employees comes out of the fee paid by such accounts and is not an additional charge to the account. We may also pay our affiliates compensation for introducing client accounts to us or providing services relating to our clients, which compensation does not increase the fees or costs payable by the client.

NYLIFE Distributors and unaffiliated third parties may solicit investors for certain non-SEC registered investment funds for which we act as investment adviser or for which the unaffiliated third party acts as investment adviser. We pay such placement agents a percentage or portion of the compensation we receive from the investment in the private investment fund by the investor referred by the placement agent. Please see “Other Financial Industry Activities and Affiliations”, above for a description of placement agent arrangements we have with our affiliates.

## **CUSTODY**

We or an affiliate may, among other things, act as general partner, manager, managing member, sponsor, trustee, director or in a similar capacity, to non-SEC registered investment funds for which we serve as investment adviser. Such powers may cause us to be deemed to have custody of the private investment fund’s assets for purposes of the SEC’s custody rule. Accordingly, to meet the requirements of the custody rule, non-SEC registered investment funds that we sponsor are subject to an annual audit in accordance with generally accepted accounting principles conducted by an independent public accountant registered with the Public Company Accounting Oversight Board and the audited financial statements are distributed to investors in such non-SEC registered investment funds within 120 days of the end of the funds’ fiscal year.

With respect to separate accounts, except where we have the authority to deduct our management fees, we do not have custody of funds or securities. Clients select their own qualified custodians, such as banks or broker-dealers, to maintain client funds or securities. Clients receive account statements directly from their custodians and/or from their custodian banks’ accounting

departments. Clients should carefully review those statements. In addition, clients receive account statements from us. When you receive account statements from us, we encourage you to compare them to the account statements you received from your custodian and/or custodian bank accounting department. There may be differences in market values between our account statements and the custodian's account statement for various reasons. For example, we and your custodian may use different pricing sources to value securities held in your portfolio. Other differences can be because we and the custodian may generate account statements on different dates (such as on a trade date versus settlement date basis) or may be due to the custodian's policies for handling certain assets or changes in the values of certain assets. To the extent you find such discrepancies and would like to obtain an explanation, we encourage you to call us to obtain such information.

### **INVESTMENT DISCRETION**

The investment agreement between MacKay Shields and our clients describe the level of investment discretion we have and the investment guidelines associated with those investment agreements specify the types of investments permitted for the account and often place limits on the amount of investments in issuers or industries that we can purchase for the account. Clients who have separately managed accounts with us can change these restrictions by amending their investment agreements or guidelines or by other written instructions.

Our portfolio managers, client service and operations representatives and legal and compliance personnel participate in the review of the client's guidelines before we begin managing the account.

### **VOTING CLIENT SECURITIES**

Typically, your investment management agreement will state whether or not you have authorized us to vote the securities in your account. We have adopted policies and procedures for when we have this voting authority.

We currently use Institutional Shareholder Services, Inc. ("ISS") to assist us in voting client securities. Clients who have given us authority to vote their securities also instruct us whether to vote in accordance with their own voting guidelines or in accordance with our standard guidelines for non-union clients or union clients. Clients must furnish any custom voting guidelines to us in writing. Our standard non-union or union guidelines follow ISS voting recommendations. For those clients who have given us voting authority, we instruct the client's custodian to send all ballots to ISS and we instruct ISS which guidelines to follow.

After the appropriate voting guidelines have been established for a client's account, ISS votes the client's securities in accordance with those guidelines unless a client makes a specific request with respect to a particular security held in the client's account or unless the portfolio manager believes in the case of a particular vote that it is in the best interest of the client to vote otherwise.

A client may make a specific request that we vote a proxy with respect to a particular security even if it is in a manner inconsistent with the applicable guidelines for the client's account.

Clients who wish to make such a request must send a written request to MacKay sufficiently in advance of the meeting so that there is enough time for us to instruct ISS how to vote.

In the event that a portfolio manager believes, in the case of a particular vote, that it is in the best interest of the client(s) to vote otherwise, the portfolio manager must complete a form describing the reasons for departing from the guidelines and disclosing any facts that might suggest there is a conflict. Conflicts may exist in situations where our firm is called to vote on a proxy involving an issuer or proponent of a proxy proposal regarding the issuer where our firm or our affiliate also: (1) manages the issuer's or the proponent's pension plan; (2) administers the issuer's or proponents' employee benefit plan; (3) provides brokerage, underwriting, insurance or banking services to the issuer or proponent; or (4) manages money for an employee group. Additional conflicts may arise if an executive of our firm or our affiliate has a personal or business relationship with a director or executive officer of the issuer or the proponent, a person who is a candidate to be a director of the issuer, a participant in the proxy contest or a proponent of a proxy proposal. The portfolio manager must submit the form to our Legal/Compliance Department for review. If the Legal/Compliance Department determines that no conflict exists, then we will approve the portfolio manager's voting recommendation and we will inform ISS how to vote. If our General Counsel or Chief Compliance Officer determines that a conflict exists, we will refer the matter to our Compliance Committee for consideration. Then the committee members will consider the matter and resolve the conflict as deemed appropriate under the circumstances.

In addition, for clients participating in securities lending programs, security recall provisions may interfere with, or prohibit, our ability to vote on shareholder matters. In these and similar circumstances, we may not, or may be unable to, act on specific proxy matters.

Voting on shareholder matters in foreign countries, particularly in emerging markets, may be subject to restrictions (including registration procedures that result in a holding being illiquid for a period of time and limitations that impede or make the exercise of shareholder rights impractical).

In the event the standard guidelines or any client's custom guidelines do not address how a security should be voted or state that the vote is to be determined on a "case-by-case" basis, the security is voted in accordance with ISS recommendations. If ISS does not make a recommendation, for example, in the case of privately held securities, we ask the appropriate portfolio manager to make a decision and complete the same form, with a similar review process as described above.

Clients who wish to obtain either a copy of our voting policies and procedures or information as to how ISS voted securities in their account should send a written request to:

MacKay Shields LLC  
1345 Avenue of the Americas  
New York, NY 10105  
Attention: Client Services

## **FINANCIAL INFORMATION**

This item requires disclosure of any financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients. Currently, there is no financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients.