

**Item 1 – Cover Page**

**Santander Asset Management, LLC**

**GAM Tower B-2 Tabonuco Street**

**2nd Floor**

**Guaynabo, PR 00968**

**(787) 759-5340**

**March 31, 2014**

This Brochure provides information about the qualifications and business practices of Santander Asset Management, LLC (hereinafter the “Firm”). If you have any questions about the contents of this Brochure, please contact us at (787) 759-5340. 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.

The Firm is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

Additional information about the Firm also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. The CRD number for the Firm is 109399.

## Item 2 – Material Changes

This Brochure is a document prepared pursuant to the SEC’s requirements and rules, and is required to be updated at least annually. We will ensure that you receive a copy of this Brochure with a summary of any materials changes within 120 days of the close of our business’ fiscal year, December 31<sup>st</sup>. Also, a complete copy of the updated Brochure may be requested by contacting Ms. Omara Méndez, the Firm’s Chief Compliance Officer, at (787) 759-5340.

This Brochure was last updated on January 16, 2014 to reflect the change of ownership of the Firm, as described in Item 4, and to reflect the Firm’s retention as investment manager to a sub-fund of an open-end collective investment vehicle organized as a SICAV under Luxembourg law, as described with more detail in Items 5 and 7.

Additional material changes to this Brochure since its last annual amendment on March 28, 2013 are:

Item 5 “Fees and Compensation” – our Fee Schedule was updated.

Item 7 “Types of Clients” – we updated our requirements for opening or maintaining accounts.

Item 8 “Methods of Analysis, Investment Strategies and Risk of Loss” – we highlighted the discussions of material risks involved in the significant investment strategy used by the Firm.

Item 10 “Other Financial Industry Activities and Affiliations” – the explanation of business relationships that the Firm has with other advisers, and with related persons, that are material to the Firm’s advisory business or our clients, is updated and expanded.

Item 11 “Code of Ethics, Participation in Client Transactions and Personal Trading” – we expanded discussion of clients’ transactions in which the Firm or a related person participate or have interests.

Item 12 “Brokerage Practices” – we described the Firm’s practice to permit clients to direct brokerage.

Item 15 “Custody” – this Item is updated, since the Firm may be deemed to have definitional custody under the Custody Rule applicable to advisers.

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## Item 4 – Advisory Business

*A. Description of the Firm and principal owners.* The Firm is a wholly-owned subsidiary of SAM Puerto Rico Holdings, Inc. (hereinafter “SAM PR Holding”), a corporation duly organized and validly existing under the laws of the Commonwealth of Puerto Rico, which in turn is a wholly-owned subsidiary of SAM Investment Holdings Limited (Jersey) (“SAM Holdings Jersey”), a privately held company organized under the laws of Jersey, United Kingdom. SAM Holdings Jersey is owned in part (50%) by SAM UK Investment Holdings Limited, which is owned directly and indirectly by Banco Santander S.A., a public company traded on the New York Stock Exchange. SAM Holdings Jersey is also owned in part (50%) by Sherbrooke Acquisition Corp SPC., a segregated portfolio company incorporated in the Cayman Islands, controlled jointly by Warburg Pincus, LLC and General Atlantic, LLC.

Please refer to Item 10 for information on affiliated entities with which the Firm has material relationships.

*B. Types of advisory services.* The Firm has been providing advisory services since November 1999. The Firm currently serves as the investment adviser to the First Puerto Rico Family of Funds (the “PR Funds”), a series of non diversified, open-end and closed-end registered investment companies that were created under the Puerto Rico Investment Companies Act of 1954 and organized under the laws of the Commonwealth of Puerto Rico, that are exclusive for Puerto Rico residents.

The Firm also provides customized continuous investment management services to investors in separately managed accounts and acts also as an investment manager to a sub-fund of an open-end collective investment vehicle organized as a société d'investissement à capital variable (“SICAV”) under Luxembourg law. Please refer to Items 5 and 7 for information on the SICAV.

The Firm is primarily engaged in fixed income management. The primary objective of all of the Firm’s engagements is to first understand each client's needs and constraints, and then build portfolios that aim to provide superior returns for given levels of acceptable risk. In its fixed income management, the Firm specializes in the following areas: Governments securities (Treasuries and Government Sponsor Entities (GSEs), municipal obligations (MO), mortgage-backed securities (“MBS”), investment-grade corporate securities, and asset-backed securities (“ABS”).

The Firm only manages client accounts on a discretionary basis. The Firm also utilizes a sub-adviser for a wide range of investment objectives, including both U.S. domestic equity

and fixed income objectives. A client may impose reasonable restrictions on the investments to be made by the Firm or a sub-adviser.

At present, the Firm has sub-advisory relationship in place with Eagle Asset Management, Inc. (hereinafter “Eagle”) an unaffiliated investment adviser. The Firm does not utilize any of the PR Funds as investments within separately managed accounts. In general terms, PR Fund mandates have minimal, if any, overlap with the separate accounts advised by the Firm. The Firm never utilizes its discretion to invest separate account client assets in the PR Funds.

*C. Client assets.* The Firm only manages client accounts on a discretionary basis. As of February 28, 2014, the Firm managed \$2,918MM on a discretionary basis.

## **Item 5 – Fees and Compensation**

### *A. Fees for Management of the PR Funds:*

With respect to management of the PR Funds, the Firm’s advisory fee ranges from 0.40% to 0.75%. In addition to acting as investment manager, the Firm also provides administrative services for the PR Funds, as described in Item 10 of the Brochure. Administrative fees range from 0.07% to 0.13%.

Advisory fees and administrative fees are indirectly paid entirely by shareholders on a monthly basis, and are charged as a percentage of each Fund’s average daily/weekly net assets (including assets purchased with the proceeds of leverage) plus the proceeds of any outstanding commercial paper or other debt securities, and the proceeds from borrowing from banks or other financial institutions. The Firm pays a portion of these fees to sub-advisers on a monthly basis, based on the market value of the weekly assets. The fees billed by the Firm to the PR Funds and by the sub-advisers to the Firm are payable in arrears.

In addition to the above-stated fees, other charges indirectly paid by shareholders include custodial, transfer agent, sub-transfer agent, and distribution fees. Such fees and expenses are described in each Fund's prospectus.

During the first two years of operations of each of the PR Funds, and annually thereafter in each contract renewal, the Firm has agreed to reduce its investment advisory fee, and if necessary, reimburse PR Funds expenses, in the event that total annual operating expenses (including the investment advisory fees but excluding interest, taxes, brokerage commissions and extraordinary expenses) for the said fiscal years of operations, exceed an

established percentage of such PR Funds' average value of the net assets. Thereafter, the Firm may waive or reimburse advisory fees voluntarily from time to time. Under the Investment Advisory Agreement between the Firm and each of the PR Funds, any reduction in the Firm's advisory fees as a result of the Firm's fee waivers may be recovered by the Firm within the two fiscal years following such fee waiver if overall Fund expenses fall below the percentage limitation.

The overall management of the business and affairs of funds under the PR Funds are vested with its Board of Directors (with a majority of independent directors). The Board of Directors selects and oversees the investment adviser, the Firm. The Board also approves all significant agreements of the PR Funds, including the PR Funds' agreements with the Firm, as advisor, and administrator, PR Funds agreements with custodians, and transfer agents, and the Firm's agreements with sub-advisers. The Firm's affiliate company, Santander Securities LLC ("SSL"), has been appointed as the distributor of the PR Funds.

The advisory contract between the Firm and the PR Funds may be terminable without penalty (i) by any of the particular PR Funds or by the Firm on sixty (60) days' written notice to the other party; (ii) by the vote of holders of a majority of the outstanding shares of common stocks of any of the particular PR Funds; or (iii) at any time by the unanimous vote of the independent directors.

*B. Fees for Management of Separate Accounts:*

While all fees are negotiable at the Firm's discretion, and will typically vary depending on a number of factors, the standard fee schedule for separate accounts, based on a percentage of assets under management is the following:

**Equity Income, All Cap and Large Cap Fee Schedule:**

0.75% on assets under \$10,000,000  
0.60% on assets between \$10,000,000 and \$50,000,000  
0.50% on assets greater than \$50,000,000

**Small Cap and Mid Cap Equity Fee Schedule:**

0.95% on assets under \$10,000,000  
0.90% on assets between \$10,000,000 and \$25,000,000  
0.85% on assets between \$25,000,000 and \$75,000,000  
0.80% on assets between \$75,000,000 and \$150,000,000  
0.75% on assets greater than \$150,000,000

**Fixed Income Fee Schedule:**

0.50% on assets under \$500,000

0.40% on assets between \$500,000 and \$2,000,000  
0.35% on assets between \$2,000,000 and \$10,000,000  
0.285% on assets between \$10,000,000 and \$50,000,000  
0.25% on assets greater than \$50,000,000

The above referenced fee schedule replaces older schedules. Existing clients who contracted with the Firm under a previous fee schedule will continue to be billed under that agreement.

The Firm's management fees are calculated as a percentage of assets under management. Fees may be paid quarterly, semi-annually or annually, depending on the contractual relationship. Fees may be paid after investment advisory services are provided (i.e., in arrears) or paid in advance (i.e., pre-paid). If investment advisory service fees are paid in advance, then early termination of a client account will result in a proportionate (i.e., pro-rata) return of such pre-paid fees which are not earned. In the case where a client's account is managed by a sub-adviser, the Firm pays a portion of the above fee to the sub-adviser. The Firm will invoice a client for advisory fees incurred.

The Firm may negotiate its management fee arrangement, thereby resulting in lower management fees, depending on a number of factors including, but not limited to: the type of client, the relationship of the client with the affiliates of the Firm, the size of the account, whether the client wishes to impose particular restrictions on the Firm's discretionary investment authority, and other business considerations. Moreover, the Firm may, on occasion, make exception to annual management fee minimums or minimum account sizes based upon the specific circumstances of an account.

The separate account Investment Management Agreement may be terminated by either party upon written notice within the timeframe established pursuant to the provisions of the agreement. There is no penalty for a client terminating its account.

The Firm's fees are exclusive of brokerage commissions (markups/markdowns in the case of fixed income securities), transaction fees, and other related costs and expenses which are incurred by the client. Clients may incur certain charges imposed by custodians, brokers, and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Please refer to Item 12 of this brochure for information on the Firm's brokerage practices.

While it is not anticipated that mutual funds will be included in client portfolios, clients may choose to include in their brokerage accounts money market mutual funds managed

by the Firm to 'sweep' unused cash balances until they can be appropriately invested. Clients should recognize that all fees paid to the Firm for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee.

*C. Fee for SICAV investment management:*

The Firm also serves as investment manager for one of the sub-funds of an investment company which has been organized under Luxembourg law as a société anonyme qualifying as a société d'investissement à capital variable ("SICAV"), for which its affiliate Santander Asset Management Luxembourg S.A. acts as managing company, and operates as an open-end collective investment vehicle. As manager, the Firm receives a portion of the management fee paid by investors. The management fee paid by investors to Santander Asset Management Luxembourg S.A. is:

- 1.00% for the Class A Shares
  - 0.50% for the Class B Shares
- of the average total net assets of the Shares

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

The Firm does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client). All fees are calculated as described above and are not charged on the basis of income or capital gains or capital appreciation of the funds or any portion of the funds of an advisory client. The Firm does not engage in side-by side management (simultaneous management of accounts that are charged a performance-based fee and accounts that are charged another type of fee).

## **Item 7 – Types of Clients**

The Firm provides investment management services to the PR Funds as well as various institutional clients, which include state government entities within different industries (such as insurance companies and university endowments), corporations and corporate pension plans. The Firm also serves as investment manager for one of the sub-funds of a SICAV organized under Luxembourg law, which invests in fixed income, money market and cash instruments.



The Firm generally imposes a minimum dollar amount of \$20,000,000 of assets for institutional separate accounts; however, smaller accounts may be accepted at the Firm's discretion. For accounts with equity objectives, for which the Firm uses Eagle as sub-adviser, the Firm generally accepts accounts with a minimum dollar amount of \$2,000,000.

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

### **A. Methods of Analysis and Investment Process**

The Firm's investment decision process for its fixed income management service utilizes a top/down-bottom/up total rate of return approach, whereby the Firm seeks to maximize a portfolio's rate of return with the least amount of risk. The process begins by identifying such macroeconomic factors as monetary policy and the economic cycle in order to make decisions regarding duration, term, structure of interest rates and sector exposures, all while keeping in mind that specific mandates of accounts and investment companies must be respected at all times. After these trends and sector exposures are identified, the Firm focuses on finding an assortment of individual securities that are attractive on a relative value basis and that may outperform similar securities within each sector. The Firm will then model different mixtures of securities, given a variety of interest rate and credit spreads scenarios, to obtain a portfolio that seeks to optimize potential rate of return, while maintaining an acceptable level of risk.

Once the investment strategy is implemented, the Firm Investment Team (hereinafter "the team") meets on a regular basis in order to analyze and discuss recent developments and to make decisions with regards to the current and future investment strategy. Notwithstanding, portfolios are monitored by the team on a daily basis in order to take advantage of any inefficiencies or investment opportunities that may arise. Throughout the whole investment decision process, the team always remains focused with regards to specific investment objectives and risk constraints of each mandate. When ideas, market conditions, or a combination require major strategy re-evaluations, the topic is escalated to the Investment Committee, composed by managers of the Firm, which meets on a quarterly basis or ad hoc, as needed (the "Investment Committee").

The Firm has a team approach with regards to investment strategy, but the Chief Investment Officer has decision making power with regards to strategy, and also makes the final investment decisions and executions in the strategy being implemented. During periodic investment meetings, the portfolio managers along with the portfolio analysts discuss investment strategies and input and ideas are obtained from the analysts.

PR Funds shareholders should be aware that the PR Funds are managed according to each of the PR Funds' specific investment objectives, policies, and restrictions, and are not tailored for particular investors. Investors and potential investors in the PR Funds are requested to refer to the applicable prospectus for complete information on each of the PR Funds.

*B. Size and Depth of Research Staff*

The Firm research, portfolio management, and trading are all carried out by the team. The Firm believes this allows for better flow of ideas, better client focus, and more efficient implementation. It also allows for better personnel backup, in case of illness, vacations, or staffing changes. The Firm utilizes various third-party research providers, which it believes provides benefits such as cost efficiency and a wide array of investment thesis and opinions. The Firm does not maintain "soft dollar" arrangements with any brokerage firm with which it conducts business.

As part of its investment process the Firm conducts research in a variety of ways. Research is conducted primarily through Bloomberg, Excel-based analytical models, CMS Bond Edge, Reuters and third party publications (i.e. broker dealers or media publications). Data is obtained from different sources in order to perform comprehensive macroeconomic and security analyses. The data obtained from such analyses is discussed by team members in order to make decisions regarding investment strategy and individual security selection. Economic and market commentary from Wall Street brokerage firms is widely distributed and read by all team members. However, first-hand analysis and a thorough understanding of an instrument's analytical structure are required prior to purchase.

*C. Risks of Loss*

Investing in securities involves risk of loss of all or part of the investment that clients should be able to understand and bear.

The Firm views risk management as a function of portfolio design and review. We seek a portfolio design relative to its benchmark that will add value to our clients within the expected economic and market conditions, and apply a review process to ensure consistency and evaluate the design principles.

The particular risks applicable to a client account will depend on the nature of the account, its investment strategy or strategies and the types of securities held. The following explanation presents the material risks involved with significant investment strategies that

the Firm uses. These risk factors do not purport to be a complete list or explanation of the risks associated with the portfolio investments or investments in the PR Funds.

### *Risks in significant investment strategies*

All investments present the risk of loss of principal – the risk that the value of securities, when sold or otherwise disposed of, may be less than the price paid for the securities. Even when the value of the securities when sold is greater than the price paid, there is the risk that the appreciation will be less than inflation. In other words, the purchasing power of the proceeds may be less than the purchasing power of the original investment.

In addition, clients should also be prepared to bear ‘regulatory risk’, which is the risk that changes in laws and regulations or an increase in taxes may reduce the attractiveness of investments or change the competitive landscape for a business, sector or market as a whole, and thereby may materially affect the clients’ returns.

The primary investment objective utilized by the Firm is fixed-income. There are many factors that may affect the risk and return profile of a fixed income portfolio. The most prominent factors are described below.

- Credit risk -

With respect to fixed income securities, credit risk is the uncertainty of the repayment of principal and interest, stemming from an issuer's failure to fulfill or meet its contractual obligation.

Investors are also subject to credit risk coming from the Firm’s selection of service providers, such as lenders, borrowers, broker-dealers and derivatives counterparties. ‘Counterparty risk’ is a particular type of credit risk coming from such service provider’s potential failure to meet its contractual obligations.

- Interest-rate risk -

When interest rates decline, the market value of fixed-income securities tends to increase. A fundamental risk of these securities, however, is that their market value will fall if interest rates rise. The volatility of a security’s market value will differ depending upon the security’s duration, the issuer and the type of instrument. In addition, in the case of the PR Funds, since the value of a fixed-income portfolio will generally decrease when interest rates rise, the PR Fund’s net asset value may likewise decrease.

- Liquidity risk -

Generally characterized by the level of trading activity, liquidity is the ability to negotiate an asset and convert it to cash quickly without affecting its price. Consequently, liquidity risk is the uncertainty stemming from the lack of marketability of an investment.

- Concentration risk -

Concentration risk is the risk derived from investing a relatively high percentage of assets in a particular group of obligations. PR Funds have a substantial portion of their assets in Puerto Rico securities due to legal requirements applicable to the Funds. As a result, PR Funds are less diversified geographically than funds investing across different assets and therefore have greater exposure to adverse economic, regulatory and political changes in Puerto Rico.

- Prepayment risk -

Prepayment risk is the chance that a fixed income security will be paid off early. If interest rates fall, an issuer of an obligation may decide to pay off its debt. The account will be required to reinvest at perhaps lower interest rates.

- Leverage -

Leverage causes increased volatility in the price and magnifies the impact of adverse market changes.

For the PR Funds, while the use of leverage provides the opportunity for increased net income, it can create special risks, including higher volatility of the net asset value, market value and dividend rate of the shares of the Funds. Since any decline in the value of the Funds' investments will be borne entirely by holders of shares, the effect of leverage in a declining market would result in a greater decrease in net asset value per share than if the Funds were not leveraged, which likely would be reflected in a decline in the market price of the Funds shares.

In separate managed accounts, the Firm generally does not use leverage. However, in the event that the Firm determines that leverage is appropriate in its investment program for separate managed accounts, the Firm, following the client investment policy guideline, may use borrowed funds and/or investments in certain types of options, such as puts, calls and warrants, which may be purchased for a fraction of the price of the underlying securities while giving the purchaser the full benefit of movement in the market of those underlying

securities. While such strategies and techniques increase the opportunity to achieve higher returns on the amounts invested, they also increase the risk of loss. To the extent the Firm purchases securities for a client account with borrowed funds, its net assets will tend to increase or decrease at a greater rate than if borrowed funds are not used. The level of interest rates generally, and the rates at which such funds may be borrowed in particular, could affect the operating results of an account. If the interest expense on borrowings were to exceed the net return on the investments made with borrowed funds, the Firm's use of leverage would result in a lower rate of return than if an account was not leveraged.

If the amount of borrowings outstanding for a client account at any one time is large in relation to such account's capital, fluctuations in the market value of the account will have disproportionately large effects in relation to the account's capital and the possibilities for profit and the risk of loss will therefore be increased. Any investment gains made with the additional monies borrowed will generally cause the net asset value of a client account to rise more rapidly than would otherwise be the case. Conversely, if the investment performance of the additional monies borrowed fails to cover their cost to a client account, the net asset value of the account will generally decline faster than would otherwise be the case.

Certain of the Firm's trading and investment activities may be subject to U.S. Federal Reserve Board ("FRB") margin requirements, which are computed daily. At present, the FRB's Regulation T permits a broker to lend no more than 50% of the purchase price of "margin stock" bought by a customer. When the market value of a particular open position changes to a point where the margin on deposit does not satisfy maintenance margin requirements, a "margin call" on the customer is made. If the customer does not deposit additional funds with the broker to meet the margin call within a reasonable time, the customer's position may be closed out. In the event of a precipitous drop in the value of the assets managed by the Firm, the Firm might not be able to liquidate assets quickly enough to pay off the margin debt and might suffer mandatory liquidation of positions in a declining market at relatively low prices, incurring substantial losses. With respect to the Firm's trading activities on behalf of a client account, the account, and not the Firm, will be subject to margin calls.

Overall, the use of leverage, while providing the opportunity for a higher return on investments, also increases the volatility of such investments and the risk of loss. Clients should be aware that an investment program utilizing leverage is inherently more speculative, with a greater potential for losses, than a program that does not utilize leverage.

- Examples of risk per asset-type

Most of the assets held in the separate managed accounts are held in liquid asset classes, such as US Agency Pass-Through MBS (mortgage-backed securities), US Municipal and US Agency Benchmark bonds. The Firm may also invest in U.S.-dollar-denominated investment grade corporate debt securities of domestic or foreign issuers.

Bonds issued by the U.S. government have generally less risk of default than those issued by corporations and municipalities. However, the overall return on government bonds tends to be less than these other types of fixed-income securities.

Municipal obligations share the attributes of debt/fixed income securities in general, but are generally issued by states, municipalities and other political subdivisions, agencies, authorities and instrumentalities of states and multi-state agencies or authorities. Municipal obligations are subject to credit and market risk, and at times may be less liquid than other debt/fixed income securities. Additionally, municipal obligations rated below investment grade (*i.e.*, high yield municipal obligations) may not be as liquid as higher-rated municipal obligations. Investment grade refers to fixed-income securities rated BBB or better by Standard & Poor's or Baa or better by Moody's. Reduced liquidity in the secondary market may have an adverse impact on the market price of a municipal obligation and on the ability to sell a municipal obligation in response to changes or anticipated changes in economic conditions.

The Firm also invests in a variety of types of asset-backed securities ("ABS"), including (but not limited to) residential mortgage backed securities, commercial mortgage-backed securities and collateralized debt obligations. The Firm may invest in any tranche of an ABS, including unrated tranches. ABS are primarily exposed to the performance and credit risk of the underlying collateral, as opposed to corporate bonds in which creditworthiness is derived from the earning power of the issuing company. There is no established, liquid secondary market for many of the ABS the Firm may purchase. The lack of such an established, liquid secondary market may have an adverse effect on the market value of such ABS and the Firm's ability to sell them. Further, ABS may be subject to certain transfer restrictions that may further restrict liquidity.

Asset-backed securities and mortgage-backed securities are also subject to interest-rate risk. Rising interest rates might cause loan principal prepayments to slow, resulting in less available principal to invest at prevailing higher rates. Conversely, rate decreases might accelerate prepayments, leaving more dollars to invest at lower rates.

Convertible securities and preferred stock combine the fixed-income characteristics of bonds with some of the potential for capital appreciation of equities and, thus, may be

subject to greater risk than pure fixed-income instruments. Unlike bonds, preferred stock and some convertible securities do not have a fixed par value at maturity, and in this respect may be considered riskier than bonds. Convertible securities may include convertible bonds, convertible preferred stocks and other fixed-income instruments that have conversion features.

Investments in high-yield bonds and convertible securities are subject to the client's authorization, as set forth in the Investment Management Agreement. Such investments may be subject to greater risks than other fixed-income investments. The lower rating of high-yield bonds (less than investment grade) reflects a greater possibility that the financial condition of the issuer or adverse changes in general economic conditions may impair the ability of the issuer to pay income and principal. Periods of rising interest rates or economic downturns may cause highly leveraged issuers to experience financial stress, and thus markets for their securities may become more volatile. Moreover, to the extent that no established secondary market exists, there may be thin trading of high-yield bonds, which increases the potential for volatility.

Corporate debt securities in which the Firm may invest may be fixed, floating or variable, and may vary inversely with respect to a reference rate. Debt securities may be acquired with warrants attached. These securities are subject to credit risks, interest rate risks, liquidity and other market risks. Investments in securities of foreign issuers may be affected by uncertainties in political developments, changes in government policies, changes in taxation, restrictions on foreign investment and currency repatriation, and other developments in the laws and regulations of the countries in which the investment may be made.

Subject to certain limitations imposed by law, the PR Funds may invest in certain derivative instruments, which are securities or contracts that provide for payments based on or "derived" from the performance of an underlying asset, index or other economic benchmark. Derivatives include options, futures contracts, forward contracts, forward commitment and when-issued securities transactions, forward foreign currency exchange contracts and interest rate, mortgage and currency swaps. Transactions in derivative instruments can be, but are not necessarily, riskier than investments in conventional stocks, bonds and money market instruments. The Firm has claimed an exclusion from the definition of the term "commodity pool operator" under the Commodity Exchange Act (the "CEA") and, therefore, is not subject to registration or regulation as a pool operator under the CEA. The PR Funds will not be subject to any limits imposed by the Commodity Futures Trading Commission on investments made by the Firm in futures contracts and options on such contracts.

More information about the risks of any particular market sector can be reviewed in representative mutual fund prospectuses managing assets within each applicable sector. For equity and other fixed income strategies not managed by the Firm, managed account clients are provided with the sub-adviser Brochure explaining material risks of the sub-adviser's significant investment strategies.

## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of the Firm or the integrity of the Firm's management. There is no legal or disciplinary event to report.

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

### *A. Other Financial Industry Activities*

#### **Administration of funds**

The Firm, as administrator of the PR Funds, performs, or arranges for the performance of, certain administrative services (i.e., services other than investment advice and related portfolio activities) necessary for the operation of the PR Funds. These administrative services include, among other things, providing facilities and personnel to the PR Funds in the performance of certain services including the daily/weekly determination of the net asset value per share of common stocks of the PR Funds, based upon among other things, the pricing of PR Funds' portfolio securities, maintaining and preserving the books and records of the PR Funds, assisting in the preparation and filing of the PR Funds' income tax returns, assisting in the preparation, printing and dissemination of reports and other communications to shareholders, and providing regulatory compliance services.

Funds advisory and administrative services for the PR Funds also include the initial set-up of mutual funds, execution of funds transactions (leverage, buying and selling on behalf of the fund), generating, reviewing financial information for each individual fund, reports to regulators and to external auditors, coordination of meetings and materials for Quarterly Board of Directors Meetings or Monthly Committee Meetings, reconciliations with custodian and operations transactions.

#### **Shareholder services support**



Shareholder services and support related to the PR Funds are managed directly by the PR Funds' distributor, SSL. The Firm's direct responsibilities relating to shareholder services and support include assisting SSL in the preparation of quarterly fund information fact sheets and general marketing materials for the PR Funds.

Other responsibilities of the Firm with respect to shareholders of the PR Funds include:

- a. ***Annual shareholders meetings:*** The Firm is responsible for the overall preparation and coordination of shareholder meetings for each of the PR Funds. Among the Firm's responsibilities and duties in connection with each annual shareholder meeting are: (i) assisting legal counsel in the preparation of a proxy statement, (ii) assisting in the coordination of the mailing of the proxy statement, (iii) preparing presentation materials discussing annual performance and financial results of each fund and (iv) causing the Firm's senior management and investment management team to be available to present and discuss the business of each fund at the annual shareholder meeting.
- b. ***Marketing and wholesaling efforts:*** The Firm cooperates with SSL (the distributor) in the preparation of marketing materials for the open end investment companies of the PR Funds in an attempt to reach out to a larger number of financial consultants that will be able to offer our products to a larger asset base. The Firm efforts also include supporting wholesaler efforts by SSL with the objective of creating greater awareness of the PR Funds advised by the Firm and ultimately maintain existing and future shareholders well informed.
- c. ***Financial Statements:*** The Firm assists in the preparation of the financial statements of the PR Funds that are audited by Deloitte & Touche. In addition, the Firm is responsible for drafting, together with the Chairman of the Board of Directors of the PR Funds, the letter to shareholders that forms part of the annual report to shareholders of each of the PR Funds.
- d. ***Prospectus reviews:*** Periodically, the Firm works together with legal counsel in updating the prospectus for each of the open end funds.

### **Servicing Agent**

The Firm also provides servicing to a number of clients advised by Eagle in Puerto Rico. As servicing agent, the Firm serves as initial contact and liaison for clients for inquiries they may have related to their accounts, receive requests for and coordinates objective changes, coordinates and maintains a schedule of performance review meetings with Eagle clients,

holds meetings in person to discuss performance, with quarterly performance reports prepared by Eagle, and keeps Eagle clients advised on news and marketing materials related to Eagle. As per the agreement between the Firm and Eagle, Eagle pays the Firm a portion of the management fee calculated under Eagle's contractual fee schedule with its clients in exchange for the Firm acting as servicing agent for its Puerto Rico accounts. The Firm's fee is a component of the total investment advisory fee paid by an investor to Eagle in the specific advisory service. Since the Firm selects Eagle as sub-adviser for certain clients, an apparent conflict of interest exists. However, through the years, Eagle has consistently met the Firm's procedures and guidelines as to the selection and evaluation of sub-advisors, and Eagle has proven to add value to the clients' accounts.

*B. Other Financial Industry Affiliations*

Affiliates with which the Firm has arrangements that are material to the Firm's clients are:

- Santander Asset Management Luxembourg, S.A. (as described in Items 5 and 7)
- SSL
- Banco Santander Puerto Rico

Certain of the Firm's management persons also serve as directors and/or officers of Banco Santander Puerto Rico, Santander Financial Services Inc., Santander Overseas Bank Inc., Santander Insurance Agency Inc., Universia Puerto Rico, and SSL.

SSL is a full-service broker-dealer operation engaging in three principal areas of business: retail and institutional sales, trading and investment banking. While the Firm remains operationally independent of the vast majority of its affiliates, the Firm maintains arrangements that are material to its advisory business with SSL, through the use of SSL, in its capacity as distributor, as broker-dealer, and as an executing counterparty for certain PR Funds transactions. SSL may also be member of an underwriting syndicate from which the Firm purchases new issue bonds. The Firm also maintains margin accounts for the PR Funds with the clearing agent of SSL.

Banco Santander Puerto Rico ("BSPR") is an affiliate of the Firm. The Trust Department of BSPR provides certain services for the PR Funds, including transfer agency, dividend disbursing agency, paying agency and shareholder servicing agency. In addition, some of our PR Funds use BSPR to purchase overnight time deposit, based on market value.

In addition, the Firm maintain contractual services agreements with (1) SSL for administrative services including accounting, marketing, compliance, and information technology; and (2) Banco Santander Puerto Rico for administrative services including

supply purchases, comptrollership, legal, auditing, insurance brokerage, business continuity planning, information technology, operations, etc.

*C. Potential Conflict of Interests*

As a result of the use of SSL as a broker-dealer, and as an executing counterparty for certain PR Funds transactions, the interests of the affiliated party may conflict with those of the PR Funds as to the price and other terms of the transaction in which they engage. Such transactions will be carried out on an arms' length basis and will be subject to procedures adopted by the Board of Directors of the relevant Fund and particularly, by the independent directors, in an effort to address potential conflicts of interest that may arise from such transactions. The Firm maintains written procedures with respect to PR Funds portfolio transactions involving affiliated persons, which are designed to meet regulatory requirements and minimize any potential conflict arising from these relationships.

With respect to the Firm as adviser to the PR Funds, the Firm may have a conflict of interest in formulating a recommendation to the Fund as to whether, and to what extent, it should use leverage. In periods during which a particular Fund is utilizing leverage, the advisory fee payable to the Firm will be higher than when it is not doing so because the fee is calculated as a percentage of average net assets (including the proceeds of leverage).

All transactions with affiliates will be subject to procedures adopted by the Board of Directors and, particularly, the Independent Directors of the Board, in an effort to address potential conflicts of interest. There is no assurance that the procedures will be effective. Information about the transactions involving affiliates of the PR Funds and conflicts of interests can be reviewed in the applicable prospectus for complete information.

## **Item 11 – Code of Ethics, Participation in Client Transactions and Personal Trading**

*A. Code of Ethics and Personal Trading*

The Firm has adopted a Code of Ethics expressing the firm's commitment to ethical conduct. The Firm's Code of Ethics describes the Firm's fiduciary duties and responsibilities to clients and sets forth its practice of supervising the personal securities transactions of employees with access to client information. Persons related with the Firm may buy or sell securities for their personal accounts identical or different than those recommended by the Firm to clients. It is the expressed policy of the Firm that no employee, trustees, directors and officers of the Firm shall prefer his or her own interest to

that of an advisory client or make personal investment decisions based on investment decisions of advisory clients.

To supervise compliance with its Code of Ethics, the Firm requires that anyone associated with the Firm's advisory practice with access to advisory recommendations, portfolio holdings or trades, provide annual securities holding reports and periodic transaction reports to the Firm's Chief Compliance Officer. Subject to certain exempted transactions, the Firm also requires such access persons to receive approval from the Chief Compliance Officer or his designee prior to any investment in their personal brokerage account.

The Firm's Code of Ethics further includes its policy prohibiting the use of material non-public information and protecting the confidentiality of client information. The Firm requires that all individuals must act in accordance with all applicable Federal and Puerto Rico securities laws governing registered investment advisory practices. Any individual not in observance of the above may be subject to discipline.

The Firm will provide a complete copy of its Code of Ethics to any client or prospective client upon request.

*B. Participation in Client Transactions*

It is the Firm's policy that the firm will not affect any principal or agency cross securities transactions for institutional or separately managed client accounts. The Firm will also not cross trades between these client accounts.

SSL acts as underwriter and market maker of the PR Funds (closed end funds). As underwriter, SSL agrees to initially sell, on a firm-commitment basis, an amount agreed per underwriting agreement. To the extent that said amount is sold, SSL may offer, on a best-efforts basis, additional shares at the initial closing or at subsequent closings. The offering of PR Funds' shares is conducted in accordance with applicable rules. Neither SSL nor any of the Funds' other affiliates will sell shares to any discretionary account of the Firm without the prior written approval of the client.

It is anticipated that certain transactions, including secondary market transactions, will take place in which affiliates of the PR Funds (including SSL) may be the primary or only dealer in a particular portfolio security being purchased or sold by the PR Funds. In that event, independent sources for valuation or liquidity of the security may be limited or nonexistent. The Funds may invest a substantial portion of its assets in those securities. The Funds also may make investments in securities issued by, or make deposits with, an

affiliated party. The Firm has previously obtained the consent of the Board of Directors of each Fund prior to engagement in these transactions.

In addition, a Fund may purchase obligations issued by other investment companies advised by the Firm, which are affiliates of the particular Fund.

As a result of such affiliated transactions and other dealings, the interests of the affiliated party may conflict with those of the Fund as to the price and other terms of the transaction in which they engage.<sup>1</sup> Such portfolio transactions will be carried out on an arms' length basis and will be subject to procedures adopted by the Board of Directors of the particular Fund and particularly, by the independent directors, in an effort to address potential conflicts of interest that may arise from such transactions. Information about the transactions involving affiliates of the PR Funds can be reviewed in the applicable prospectus for complete information and disclosures.

## **Item 12 – Brokerage Practices**

### ***A. Best Execution***

It is the Firm's policy, in placing each transaction for a client, to seek "best execution." "Best execution" means obtaining best available price and most favorable execution with respect to portfolio transactions. Best execution is not measured solely by reference to commission rates or price. As part of this analysis, the Firm will also consider whether the transaction represents the best qualitative execution.

The Firm will endeavor to select those brokers or dealers which will provide the best services at the lowest commission rates possible. In instances where the Firm is aware that the same security is offered by more than one broker/dealer at the same price, the Firm will take into consideration the reasonableness of the commissions based on the broker's ability to provide professional services, competitive rates, and other services which will help the Firm in providing investment management services to clients.

The Firm only places client trades with approved counterparties. Transaction allocation to specific counterparties is determined through a competitive process where the best competitive bid/offer among a group of broker dealers that have demonstrated depth and knowledge in the specific asset class is chosen:

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<sup>1</sup> PR Funds are not registered under the Investment Company Act of 1940, and therefore, are not subject to the restrictions contained therein regarding, among other things, transactions between a Fund on the one hand and the Investment Adviser and its affiliates, including SSL, on the other hand.

- When dealing in US securities, the Firm typically requests no less than 3 competitive bids/offers (on a regular basis, between 5 and 10 offers/bids are requested) and the most competitive bid/offer is chosen.
- When dealing in PR securities, the Firm typically requests at least 3 competitive bids/offers. Due to the limited number of market participants in Puerto Rico the Firm normally cannot obtain a larger numbers of bids/offers, as typically done when dealing with US securities. The selection of the most competitive bid is the same as described above, where the most competitive bid/offer is selected.

The Firm may at times invest client assets in new issue municipal bonds due to favorable pricing opportunities. As such, the Firm's broker dealer execution selection will be limited to the broker dealers who are syndicate members of the new issue. As disclosed under Item 10 of this brochure, this may also include situations where affiliates of the Firm are syndicate members. While the Firm will make every effort to attain best execution on these transactions, the Firm's ability to get multiple quotes will be limited. When secondary municipal bond offerings are utilized in client accounts, the Firm as a matter of policy will seek the best execution possible taking into account current market conditions and other alternative investment opportunities. With respect to sale transactions, under normal market conditions, a competitive bidding process is utilized for those securities deemed to be liquid by the Firm Investment Committee. Execution via a negotiated sale is permitted for all other instances. In the event that two or more brokers competitively bid identical price levels, the Firm will go back to each and request a re-bid. If all brokers again return identical new bids, then a broker is selected randomly.

The Firm does not have, nor anticipate entering into, any soft dollar relationships.

In exercising investment discretion over client accounts, or in responding to specific client instructions, the Firm places orders with broker-dealers to execute transactions for the accounts. When trading errors occur for which the Firm is responsible, the Firm's policy is to make the client whole by correcting the error (i.e. to restore the client's account to the position it would have been in if the error had not occurred). The process of correction may result in cash shortfalls which the Firm is responsible for covering.

*B. Allocation of Aggregated Securities Transactions Between the PR Funds and Other Advisory Business*

In general terms, the PR Funds mandates have minimal, if any, overlap with the separate managed accounts and therefore very few, if any, allocation issues occur between the two

investment advisory businesses. Allocation issues that do occur are subject to the Firm's Global Order Control Procedure described below.

The distribution of purchases and sales securities in global orders for client accounts managed by the Firm are executed based on a capacity report that indicates, previous to placement of the transaction, the capacity of each client account to purchase or sell securities by geographical sector, credit rating, and/or tax treatment based on the Fund or client's specific mandates and restrictions ("Capacity Reports"). Capacity Reports are prepared by the Firm weekly and on the first day of each month.

In addition to the Capacity Report, the Firm's Portfolio Management team constantly reviews the investment portfolios for each client account in search of opportunities to get better returns without adversely affecting the overall risk level. At the time when deemed necessary to enter into transactions of purchase and/or sale of the same values in more than one client account (including the PR Funds), the procedure for global orders allocation is applied as described and values are assigned in pro rata based on needs.

Before making any purchase or sale of securities, the Firm's Portfolio Management team completes a rigorous analysis based on the current Capacity Report in order to determine the specific needs (and capacity) of each client. After completing the analysis, the Portfolio Management area allocates completed transactions pro rata.

### *C. Directed Brokerage*

Pursuant to the investment management agreements with clients, the Firm shall have full and complete discretion to establish and execute through accounts with one or more securities broker/dealer firms as the Firm may select. The Firm permits the client to direct the Firm in writing to execute transactions with one or more specific brokers at such commission rate or rates as may be agreed to by the client and such brokers. If client directs the Firm to use a specific broker, however, the client may not receive rates as low as it might otherwise obtain if the Firm had discretion to select broker-dealers other than those chosen by the client, as the Firm may be unable to negotiate terms and conditions (including, but not limited to, commission rates) relating to the services provided by such broker. For example, in a directed brokerage account, the client may pay higher brokerage commissions because the Firm may not be able to aggregate orders to reduce transactions costs or obtain volume discounts, or the client may receive less favorable prices. This may also result in a disparity in commission charges among clients.

## **Item 13 – Review of Accounts**

### Reviews:

Client transactions are reviewed daily by the Firm. In addition, the Firm reviews each client account periodically to ensure that accounts adhere to their investment strategy and that account performance is consistent with the client's policy. Additional account reviews may be triggered by any of the following events:

- a specific client request;
- a change in client goals and objectives;
- an imbalance in a portfolio asset allocation; and
- market/economic conditions.

The Firm also reviews accounts managed by the sub-advisers on a monthly basis, including the monitoring of the investment performance, and adherence to investment policy. The Investment Committee receives quarterly reports on the performance and operations of the PR Funds and managed account clients prepare by the sub-adviser.

### Reports:

The client receives a portfolio valuation statement from the Firm and any utilized sub-advisor. The Firm/sub-advisor statement contains the cash balance, type, name, amount of each security, the market value of the account and a performance report.

The PR Funds provide investors, directly or via intermediaries, various type of communications including but not limited to, a website, fact sheets, annual reports that contain recent information on a PR Fund's portfolio, performance, and investment goals and policies, and written prospectuses describing, among other things, a PR Fund's objective, its investment methods, information on how to purchase and redeem shares, information about the investment adviser, the level of risk a PR Fund is willing to assume in pursuit of its objective, the risks associated with the particular PR Fund and a PR Fund's fees and expenses.

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

The Firm has an arrangement with SSL under which financial consultants who refer institutional clients to the Firm will receive a fee based on a portion of the management fees earned by the Firm under the investment management agreement. Clients should be aware that the Firm pays a portion of its management fee to the affiliated registered



representative for referring the account to the Firm. The registered representative receives a larger fee from the Firm in the initial year than in subsequent years.

## **Item 15 – Custody**

The Firm has access to or authority over, cash and securities for purposes other than issuing trading instructions for the PR Funds. For example, the Firm has authority to cause a custodian to transfer cash from a PR Funds' account in payment of services, including the Firm's advisory fees. Although the Firm does not physically hold the securities and other assets of the Funds, the Firm is deemed to have custody of the Funds' assets. Fund investors do not receive account statements from any custodians; rather, the Funds are subject to an annual audit and the audited financial statements are distributed to each Fund investor.

For separate managed account, no securities or other assets are physically held by the Firm or an affiliate of the Firm. Clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. The Firm urges the client to carefully review such statements and compare such official custodial records to the account statements that the Firm may provide to the client and notify the Firm immediately if there are any significant discrepancies. The Firm's statements may vary slightly from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **Item 16 – Investment Discretion**

As discussed in Item 12 of this Brochure, the Firm exercises discretion regarding the amount and which securities to be bought or sold for client accounts, as well as broker or dealer to be used and commission rates paid. All managed clients are required to execute an investment advisory services agreement, either directly with the Firm or with Eagle to provide discretionary investment advisory services. The investment advisory services agreement will grant the Firm or Eagle sufficient authority to act as a discretionary investment manager, including granting the Firm or Eagle the authority to execute trades. As discussed in Item 4, above, the Firm or the sub-adviser will accept reasonable limitations on its authority through client guideline restrictions, provided that the restrictions are essentially consistent with the Firm and/or Eagle investment process.

## **Item 17 – Voting Client Securities**

The SEC has adopted Rule 206(4)-6 under the Advisers Act. Under this rule, a registered investment adviser that exercises voting authority over client securities is required to implement proxy voting policies and describe those policies to its clients. Although some matters that may be voted on by the Firm might not be considered conventional "proxy votes" for issuers of listed equity securities, nevertheless the Firm applies the basic requirements of Rule 206(4)-6 when it votes clients' proxies.

Generally, as a fixed income manager, there would be few instances where proxies are required to be voted. In these instances, the Firm may have the authority to vote on matters relating to, or give approval/consent to amendments proposed by a proxy vote. The Firm's policy is to vote proxies in the best interest of its clients with a view to maximize value for clients. However, due to the nature of the fixed income investments that the Firm invests clients' assets in, proxy voting occurs very infrequently and typically only as a result of a proposed bond restructuring that the Firm is requested to approve by the issuer. As such, the Firm endeavors to vote proxies in the manner that it determines in good faith will be the most likely to cause the investments to increase the most or decline the least in value. Additional information about the Firm Proxy Policy and related practices and how a client's proxies were voted is available upon written request to the Firm.

Clients should note that the Firm will neither advise nor act on behalf of the client in legal proceedings involving companies whose securities are held or previously were held in the clients account(s), including, but not limited to, the filing of proofs of claim in class action settlements. If directed by the client, the Firm will transmit copies of class action notices to the client or a third party. Upon such direction, the Firm will make commercially reasonable efforts to forward such notices in a timely manner.

The sub-advisers retained by the Firm for management of equity mandates are responsible for the voting of all proxies and corporate actions related to assets which they sub-advise.

## **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about any financial conditions that are reasonably likely to impair the investment adviser's ability to meet their contractual commitments to their clients. The Firm has no financial commitment that impairs its ability to meet

contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.