

**Item 1 – Cover Page**

**BROCHURE FOR**

**ADVANTUS CAPITAL MANAGEMENT INC.  
401 NORTH ROBERT STREET  
ST. PAUL, MN 55101**

**FIRM BROCHURE DATED AS OF MARCH 28, 2014  
PART 2A OF FORM ADV**

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This brochure provides information about the qualifications and business practices of Advantus Capital Management, Inc. If you have questions about the contents of this brochure, please contact us at 651-665-4814 or at vicki.bailey@advantuscapital.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Advantus Capital Management, Inc. also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Registration of an Investment Adviser does not imply a certain level of skill or training.

## **Item 2 – Material Changes**

The following is a summary of the material changes to this brochure since Advantus' annual update dated March 29, 2013.

1. Item 4 – “Derivative instruments and strategies for hedging purposes” has been added to the list of Advantus services provided
2. Item 5 – fee information for Alternative Assets has been added to the fee schedule
3. Item 11 – revised to include references to Limited Access Person (as defined in the Code of Ethics)

Advantus may further provide other ongoing disclosure information about material changes as necessary. Advantus will provide you with a new brochure as necessary based on material changes or new information at any time without charge.

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#### **Item 4 – Advisory Business**

Advantus has been in business since 1984. Advantus was formerly known as MIMLIC Asset Management, Inc. Securian Financial Group owns 100 percent of Advantus. Securian Financial Group is 100 percent owned by Securian Holding Company, Inc. and Securian Holding Company is owned by Minnesota Mutual Companies, Inc.

Advantus offers discretionary and non-discretionary management of assets for registered investment companies, insurance companies and other institutional investors primarily with respect to:

- Fixed income investments including, but not limited to, government, mortgage-backed (including government or government agency mortgage loan pools or private mortgage loan pools, collateralized mortgage obligations, commercial mortgage-backed securities, mortgage pass-throughs), asset-backed, and corporate securities
- Real estate equity securities including investments in real estate investment trusts, real estate operating companies and real estate related companies
- Equity securities that track indices such as the S&P 500 Index
- Equity securities that focus on higher dividend yields
- Strategies that focus on managing volatility
- Alternative assets, including mezzanine debt, venture capital, distressed debt and private equity
- Selection of sub-advisers to manage other asset types
- Private placement investments
- Derivative instruments and strategies for hedging purposes

Advantus specializes in the investment types noted above. In addition to the advisory services provided above, Advantus originates and services commercial mortgage loans for clients. Advantus also may act as a loan servicing agent for commercial mortgage loans arranged by Advantus. Advantus does not consider its whole loan origination or servicing activities to be advisory services.

Advantus tailors its advisory services to the particular needs of its clients, taking into account the goals of each client. Advantus accepts limited mandates from clients in particular asset classes identified or mandates limited by criteria such as duration, industry or credit quality. Some clients may limit the discretionary authority of Advantus, and may impose restrictions on investing in certain securities or types of securities. For example, certain clients impose sale restrictions limiting losses that can be taken by Advantus without discussion with the client.

Advantus does not participate in wrap fee programs. Advantus does not provide class action monitoring or filing services for its clients unless it has agreed to so in writing.

The amount of client assets Advantus managed as of December 31, 2013 was \$27,774,794,326. The breakdown between discretionary and non-discretionary assets was:

- Discretionary: \$21,490,951,886                      Non-Discretionary: \$6,283,842,440

## Item 5 – Fees and Compensation

Advantus is paid based on assets under management (“AUM”). Our fee schedules may provide for “breakpoints” at which the percentage is reduced if AUM exceeds certain agreed upon amounts. Typically fees are paid quarterly in arrears and are based on the market value of the assets as of the end of each quarter as determined by Advantus in accordance with Advantus’ valuation policies and procedures. Advantus may charge a fixed fee or a minimum fee. Our fees are negotiable, and are generally paid according to the following schedule:

### Fee Schedule:

#### I. For Discretionary Institutional Accounts of the following types:

1. Real Estate Securities (minimum size \$10,000,000)

First \$25 Million	.70%
Next \$25 Million	.65%
Next \$50 Million	.60%
Over \$100 Million	Negotiable
2. Index 500 (minimum size \$20,000,000)

First \$100 Million	.10%
Over \$100 Million	Negotiable
3. Strategic Dividend Income (minimum size \$10,000,000)

First \$25 Million	.70%
Next \$25 Million	.65%
Next \$50 Million	.60%
Over \$100 Million	Negotiable
4. Full Duration Fixed Income (minimum size \$10,000,000)

First \$50 Million	.35%
Next \$75 Million	.25%
Over \$100 Million	.20%
5. Core Plus Fixed Income (minimum size \$10,000,000)

First \$25 Million	.40%
Next \$75 Million	.30%
Over \$100 Million	.25%
6. Intermediate Duration Fixed Income (minimum size \$10,000,000)

First \$50 Million	.35%
Next \$75 Million	.25%
Over \$100 Million	.20%

7. Mortgage Securities (minimum size \$10,000,000)
 

First \$50 Million	.35%
Next \$75 Million	.25%
Over \$100 Million	.20%
  
8. Ultra Short Duration (minimum size \$10,000,000)
 

First \$50 Million	.25%
Next \$50 Million	.20%
Over \$100 Million	.15%
  
9. Long Duration (minimum size \$20,000,000)
 

First \$50 Million	.35%
Next \$75 Million	.25%
Over \$100 Million	.20%
  
10. Managed Volatility Overlay Strategy (minimum size \$100,000,000)
 

First \$200 Million	.25%
Over \$200 Million	Negotiable
  
11. Managed Volatility Strategy (minimum size \$50,000,000)
 

First \$25 Million	.70%
Next \$25 Million	.65%
Next \$50 Million	.60%
Over \$100 Million	Negotiable
  
- II. For Non-Affiliated Insurance Company Core Clients
 

First \$50 Million	.25
Over \$50 Million	Negotiable
  
- III. For Non-Affiliated Private Placement and Non-Core Clients
 

First \$50 Million	.25%
Over \$50 Million	Negotiable
  
- IV. For Non-Affiliated Alternative Assets
 

During Investment Period	.50% (based on total committed capital)
After Investment Period	.50% (based on market value of assets managed)

Advantus' fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which may be incurred by clients. Clients may also incur certain charges imposed by custodians, brokers, and other third parties such as transfer taxes, wire transfer and electronic fund fees, underlying fund fees and expenses, and other fees and taxes on brokerage accounts and securities transactions. Item 12 further describes the factors that Advantus considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (e.g., commissions).

Each client selects its own custodian. Custodial fees charged by the client's custodian are paid directly by the client to the custodian and such fees are negotiated between the client and its selected custodian. If Advantus is authorized to invest client assets in mutual funds or ETFs, these funds and ETFs may have additional fees associated with the management of those assets. These mutual funds and ETFs are not managed by Advantus and any fees and expenses charged by these funds or ETFs are reflected in the valuation of such assets.

Advantus may provide accounting services to some insurance company clients. Such fees are negotiated and are dependent upon the nature and extent of the services requested by each client.

Advantus does not deduct fees from clients' assets. Advantus generally does not permit clients to pay fees in advance.

Neither Advantus nor any of its supervised persons accepts compensation for the sale of securities or other investment products, including asset based sales charges or service fees from the sale of mutual funds. Certain sales associates may receive a commission on sales based on the dollar amount of new assets under management for new and existing clients, including certain mutual funds managed by Advantus. Portfolio managers may receive revenue sharing as part of their compensation based on unaffiliated assets they manage.

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

At the present time, Advantus does not manage assets for clients with performance based fees.

#### **Item 7 – Types of Clients**

Advantus manages assets for institutional investors such as insurance companies, pension plans, public funds, union plans, commingled investment vehicles, foundations, endowments, corporations and other legal entities, and registered investment companies. Advantus also acts as a sub-adviser for registered investment companies. Advantus has established minimum account sizes for the strategies it manages, as set forth in Item 5.

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

##### **ADVANTUS METHODS OF ANALYSIS AND INVESTMENT STRATEGIES**

The foundation of the methods of analysis for all Advantus strategies is based on proprietary research generated by our internal research team. Critical to this method is the belief that a bottom-up, fundamental research process is the most effective way to create the foundation for consistent, reliable and long-term results.

The success of each Advantus investment strategy requires the ability to rapidly evaluate and capitalize on investment opportunities available in the market. This is achieved in an environment of open architecture and communication among all investment professionals including portfolio management,

research, trading, and client service. The constant assessment of relative value across sectors and securities creates an ongoing dialogue, enabling an immediate response to opportunities as they arise. These relative value assessments involve a thorough understanding of the risks inherent in the investments made by each strategy's team.

Advantus' significant investment strategies can broadly be separated into Fixed Income Strategies, Equity Strategies and Balanced Strategies. The Fixed Income Strategies include Money Market, Ultra Short Duration, Intermediate Duration, Full Duration, Long Duration, Core Plus, Mortgage Securities, Insurance Core and Private Placement. The Equity Strategies include Equity Index, Real Estate Securities, Strategic Dividend Income and Alternative Assets. The Balanced Strategies includes Managed Volatility and Managed Volatility Overlay.

Investing in any of our strategies involves risk of loss that clients should be prepared to bear.

The information contained in this brochure cannot disclose every potential risk associated with an investment strategy, or all of the risks applicable to a particular account. It is instead a general description of the nature and risks of the strategies and securities and other instruments that clients may consider. In addition, clients of any pooled investment vehicle for which Advantus provides management services should carefully review the prospectuses for additional information about risks associated with those products. Advantus does provide non investment advisory services to clients and this brochure does not describe risks associated with those non-investment advisory services.

## **FIXED INCOME STRATEGIES**

The Fixed Income Strategies involve the active management of security selection, portfolio duration, structure, quality, and sector allocation. The Fixed Income Strategies distinguish themselves by utilizing proprietary fundamental research, particularly at the security level. Our fundamental analysis incorporates business cycle analysis and macro economic and market assessment.

Investment opportunities are identified in conjunction with the research teams, which analyze the securities through rigorous fundamental bottom-up research. Advantus begins by analyzing the credit quality and cash flow characteristics of candidate securities, paying particular attention to the business model and industry dynamics for companies.

Advantus' analysis focuses on identifying the catalyst that is likely to narrow spreads or improve the credit quality of a security relative to its respective universe of securities. Advantus evaluates such opportunities across sectors and time.

## **Material Risks Applicable to the Fixed Income Strategies**

The Fixed Income Strategies managed by Advantus involve the following material risks:

- Credit Risk
- Income Risk
- Interest Rate Risk
- Liquidity Risk
- Restricted Securities Risk



## **Description of Advantus Fixed Income Strategies and Risks Associated With Each Strategy**

As used in this section, the following definitions apply – “Mortgage-backed securities” include, among other security types, government or government agency mortgage loan pools or private mortgage loan pools, collateralized mortgage obligations, commercial mortgage-backed securities, mortgage pass-throughs and stripped mortgage-backed securities. “Asset-backed securities” are securities secured by various pools of consumer and non-consumer assets including, but not limited to consumer loans, manufactured housing and shipping containers.

The Fixed Income Strategies offered by Advantus are:

### ***Money Market***

The Money Market Strategy invests in A-1/P-1 rated short-term commercial paper, A-1/P-1 rated municipal securities maturing in less than 397 days, and A-1/P-1 rated asset-backed securities. The strategy also invests in government securities including agency securities, and short term corporate securities with an A-1/P-1 equivalent issuer rating. The strategy may also invest a small percentage of assets in similar securities with a rating no less than A-2/P-2. Accounts in this strategy which are subject to Rule 2a-7 are managed in accordance with all of the requirements of Rule 2a-7. The average days to maturity ranges from 30 to 60 days. In addition to the risks mentioned above for all fixed income strategies, the Money Market Strategy has the following additional risks – Investment Company Risk, Non-Government Securities Risk and Inflation Risk.

### ***Ultra Short Duration***

The Ultra Short Duration Strategy focuses primarily on U.S. Government and agency securities, investment grade corporate bonds, investment grade asset-backed securities, investment grade residential and commercial mortgage-backed securities, and investment grade municipal securities. This style typically has an average duration of approximately one year. In addition to the risks mentioned above for all fixed income strategies, the Ultra Short Duration Strategy has the following additional risks – Extension Risk, Non-Government Securities Risk, Prepayment Risk and Short Term Trading Risk.

### ***Intermediate Duration***

The Intermediate Duration Strategy focuses primarily on U.S. Government and agency securities and investment grade corporate bonds. The strategy also invests, to a lesser extent, in investment grade residential and commercial mortgage-backed securities, investment grade asset-backed securities, and investment grade municipal securities. This style typically has an average duration between 3 and 4.5 years. This style invests in securities rated A- or better. Exchange traded futures can be used to manage duration for the strategy. In addition to the risks mentioned above for all fixed income strategies, the Intermediate Duration Strategy has the following additional risks – Extension Risk, Non-Government Securities Risk, Prepayment Risk and Short Term Trading Risk.

### ***Full Duration***

The Full Duration Strategy focuses primarily on investment grade debt securities. These securities include U.S. Government and agency securities, corporate bonds, commercial and residential mortgage-backed securities and asset-backed securities and municipal securities. This style typically

has an average duration between 4 and 5.5 years. Exchange traded futures can be used to manage duration for this strategy. In addition to the risks mentioned above for all fixed income strategies, the Full Duration Strategy has the following additional risks – Extension Risk, Non-Government Securities Risk, Prepayment Risk and Short Term Trading Risk.

### ***Long Duration***

The Long Duration Strategy focuses primarily on U.S. Government and agency securities, investment grade corporate bonds and investment grade municipal securities. The style also invests, to a lesser extent, in investment grade commercial and residential mortgage backed securities, and investment grade asset backed securities. This style typically has an average duration between 9.5 and 16 years. Exchanged traded futures can be used to manage duration for the strategy. In addition to the risks mentioned above for all fixed income strategies, the Long Duration Strategy has the following additional risks – Extension Risk, Non-Government Securities Risk, Prepayment Risk and Short Term Trading Risk.

### ***Core Plus***

The Core Plus Strategy focuses primarily on U.S. Government and agency securities, investment grade corporate bonds, investment grade mortgage-backed securities, investment grade asset-backed securities, and investment grade municipal securities. This style may also invest up to 20 percent of its total assets in below investment grade securities. This style typically has an average duration between 4 and 5.5 years. Exchange traded futures can be used to manage duration for this strategy. In addition to the risks mentioned above for all fixed income strategies, the Core Plus Strategy has the following additional risks – Extension Risk, Non-Government Securities Risk, Prepayment Risk and Short Term Trading Risk.

### ***Mortgage Securities***

The Mortgage Securities Strategy focuses primarily on investment grade commercial and residential mortgage-backed securities and typically invests at least 80% of its total assets in such securities. This strategy typically invests in a higher proportion of asset backed securities compared to other competing strategies, which may invest exclusively in government guaranteed mortgages. The style typically has an average duration of between 0 and 5 years. Exchange traded futures can be used to manage duration for the strategy. In addition to the risks mentioned above for all fixed income strategies, the Mortgage Securities Strategy has the following additional risks – Concentration Risk, Extension Risk, Non-Government Securities Risk, Prepayment Risk and Short Term Trading Risk.

### ***Insurance Core***

The Insurance Core Strategy is a bottom-up, value-oriented, fixed income investment strategy for insurance company clients and is tailored to each client's needs. The strategy also has a top-down component that evaluates sector and industry weightings and relative value. The bias is to hold the security over the long term and emphasize investment income. The strategy focuses primarily on investment grade debt securities which include U.S. and Canadian government securities, municipal securities, corporate bonds (including private placements which are discussed in more detail in the following *Private Placement* section), mortgage-backed securities and asset-backed securities. Advantus manages portfolios within this strategy on both a discretionary and non-discretionary basis. In addition to the risks mentioned above for all fixed income strategies, the Insurance Core Strategy

has the following additional risks – Extension Risk, Non-Government Securities Risk and Prepayment Risk. This Strategy also has Private Placement Risk if the account invests in private placements.

### ***Private Placement***

The Private Placement Strategy invests primarily in investment-grade U.S. and foreign private placement securities that are almost exclusively U.S. dollar denominated for discretionary and non-discretionary clients. A private placement security is not registered under federal or state securities laws and can only be purchased or sold in a transaction exempt from registration. Private placements are offered to a limited number of potential investors who meet certain eligibility criteria to enable the transaction to qualify under securities law registration exemptions. Private placement securities are most often corporate bonds, but investments can also be made in other security types including, but not limited to, project finance, credit tenant leases and leveraged leases. In selecting securities for this strategy, Advantus seeks the best relative value that the private placement market has to offer, generally preferring fixed rate, current pay bonds. Advantus analyzes competing securities within an industry to determine if the offering exhibits relative value over public securities of comparable companies. Other factors analyzed include financial strength, management experience, industry leadership position, covenants, structure, assets offered as security for the obligation, and seniority of the issue. Because of the illiquidity associated with private placement securities, the strategy is primarily suitable to a buy and hold investors. In addition to the risks for Fixed Income Strategies discussed above, the Private Placement Strategy has the following additional risk – Private Placement Risk.

## **EQUITY STRATEGIES**

The Advantus Equity Strategies include the Equity Index, Real Estate Securities and Strategic Dividend Income Strategies, which invest primarily in public securities, and the Alternative Assets Strategy, which invests primarily in non-public securities.

### **Description of Advantus Equity Strategies and Risks Associated With Each Strategy**

#### ***Equity Index***

The Equity Index Strategy invests its assets in all of the common stocks included in a designated benchmark index. These indices consist of stocks chosen for certain characteristics including market size, liquidity and industry group representation. The strategy attempts to achieve a 100% correlation with the designated index by holding all names of the index at index weight. Index futures are used to equitize shareholder activity and minimize turnover. The Equity Index Strategy involves the following material risks:

- Index Performance Risk
- Market Risk
- Portfolio Risk
- Company Risk
- Sector Risk

#### ***Real Estate Securities***

The Real Estate Securities Strategy invests primarily in common and preferred stock of public REITs and real estate related securities and typically invests at least 80% of assets in these securities. The

strategy will, on occasion, use levered ETFs of real estate securities to increase or decrease market exposure. The strategy may also invest in foreign securities. Analysis is comprised of both quantitative and qualitative aspects.

The strategy invests in real estate securities and real estate related securities. “Real estate securities” include securities issued by companies that receive at least 50% of their gross revenue from the leasing, construction, ownership, management, financing or sale of residential, commercial or industrial real estate. “Real estate related securities” include securities issued by companies primarily engaged in businesses that sell or offer products or services that are closely related to the real estate industry. The strategy does not invest directly in real estate.

Most of the strategy’s holdings consist of securities issued by Real Estate Investment Trusts (REITs) or Real Estate Operating Companies (REOCs) that are listed on a securities exchange or traded over-the-counter. The strategy may invest in securities of companies of any size capitalization. In selecting securities, Advantus considers factors such as a company’s financial condition, financial performance, quality of management, policies and strategies, real estate properties and competitive market condition.

**The Real Estate Securities Strategy involves the following material risks:**

- Company Risk
- Concentration Risk
- Foreign Securities Risk
- Income Risk
- Interest Rate Risk
- Limited Universe Risk
- Liquidity Risk
- Market Risk
- Portfolio Risk
- Real Estate Risk
- REIT/REOC-Related Risk

***Strategic Dividend Income***

The Advantus Strategic Dividend Income Strategy primarily invests in dividend-paying common stocks, preferred stocks, convertible securities, and other equity-related securities. Typically, fifty percent or more of total assets will be invested in REITs, complemented with investments in securities in utilities, oil and gas, infrastructure, and other high-yielding components of the broader equity market. The strategy can use investments such as commodities (in the form of ETFs), Treasury inflation notes (and ETFs of TIPs), volatility ETFs, and volatility futures contracts to manage inflation and volatility risk. In addition, the strategy may write covered calls to increase income and reduce volatility. In selecting securities, Advantus considers factors such as a company’s dividend payments, financial condition, financial performance, quality of management, policies and strategies, company assets and investments, and competitive market condition.

**The Strategic Dividend Income Strategy involves the following material risks:**

- Call Option Risk

- Company Risk
- Concentration Risk
- ETF Risk
- Exchange-Traded Note Risk
- Foreign Securities Risk
- Large-Cap, Mid-Cap and Small Companies Risk
- Market Risk
- MLP Risk
- Preferred Stock Risk
- Real Estate Risk
- TIPS Risk

### ***Alternative Assets***

The Alternative Assets Strategy invests in limited partnership interests and member interests of limited partnerships, limited liability companies and other similar entities (“alternative assets”) which in turn invest or purchase interests in venture, buyout, mezzanine, distressed debt and infrastructure investments. The strategy focuses on the selection of general partners that manage these alternative equity assets. Advantus maintains a diversified base of contacts within the general partner community and makes investments after assessing the general partner’s track record and/or market expertise. The strategy is also focused on diversification on the basis of underlying company investments, sector, vintage (the year the initial funds for the alternative asset were raised) and general partner. The strategy also invests in fund of funds and secondary funds.

### **The Alternative Assets Strategy involves the following material risks:**

- General Partner Selection Risk
- Alternative Assets Liquidity Risk
- Vintage Year Risk
- Capital Loss Risk

## **BALANCED STRATEGIES**

### ***Managed Volatility Strategy***

The Advantus Managed Volatility Strategy seeks to maximize risk-adjusted total return relative to an identified benchmark index comprised of 60% S&P 500 Index and 40% Barclays U.S. Corporate Index. This strategy invests directly in underlying securities and other investment companies while using hedging techniques to manage portfolio risk and volatility. The strategy achieves its equity exposure by investing primarily in S&P 500 Index funds and exchange traded futures. The strategy’s fixed income allocation is achieved primarily by purchasing individual fixed income securities that are primarily investment-grade corporate bonds and have other characteristics similar to the fixed income securities included in the Barclays U.S. Corporate Index.

The strategy will invest in derivative instruments, primarily S&P 500 futures contracts, to manage the strategy’s overall volatility. In periods when Advantus expects higher volatility in the equity market, as measured by the S&P 500, Advantus will seek to reduce the overall volatility of its portfolio by either selling S&P 500 futures contracts (taking short positions in such contracts) or reducing its long

positions in S&P 500 futures contracts. During periods of lower expected volatility in the equity market, Advantus will seek to increase its equity exposure by purchasing S&P 500 futures contracts (increasing its long positions or reducing its short positions in such contracts).

To further manage the overall volatility of an account in this strategy, Advantus may also invest long or short in any of the following: exchange-traded funds (ETFs) or exchange traded notes (ETNs) on equity indices; options on equities, ETFs, equity indices or equity index futures; total return swaps; and volatility (VIX) futures contracts.

**The Advantus Managed Volatility Strategy involves the following material risks:**

- Acquired Fund Risk
- Allocation Risk
- Company Risk
- Credit Risk
- Derivatives Risk
- ETF Risk
- ETN Risk
- Income Risk
- Index Performance Risk
- Interest Rate Risk
- Investment Company Risk
- Large Company Risk
- Leveraging Risk
- Liquidity Risk
- Managed Volatility Strategy Risk
- Market Risk
- Portfolio Risk
- Short Position Risk
- Short-Term Trading Risk

***Managed Volatility Overlay Strategy***

The Advantus Managed Volatility Overlay Strategy seeks to manage the volatility of an underlying account using a risk management overlay strategy. Advantus would not typically manage the underlying assets except as noted below. Advantus invests a portion of the assets for portfolios in this strategy in an attempt to manage the volatility of the strategy's returns. The risk management overlay strategy utilizes investments in derivative securities, primarily involving but not limited to, investments in exchange-traded futures. In order to maintain its derivatives positions in the risk overlay strategy, a portfolio utilizing this strategy may, from time to time, be required to sell certain portfolio assets.

To further manage the overall volatility of portfolios in this strategy, Advantus may also invest long or short in any of the following: exchange-traded funds (ETFs) or exchange traded notes (ETNs) on equity indices; options on equities, ETFs, equity indices or equity index futures; total return swaps; and volatility (VIX) futures contracts.

**The Advantus Managed Volatility Overlay Strategy involves the following material risks:**

- Acquired Fund Risk
- Allocation Risk
- Derivatives Risk
- Index Performance Risk
- Investment Company Risk
- Leveraging Risk
- Liquidity Risk
- Managed Volatility Strategy Risk
- Market Risk
- Portfolio Risk
- Short Position Risk
- Short-Term Trading Risk

**Description of Identified Risks**

The following describes the risks associated with the strategies identified above.

**Acquired Fund Risk** – is the risk that performance of the account is closely related to the risks associated with the securities and other investments held by an investment company, such as the S&P 500 Fund, in which the strategy invests (an “Acquired Fund”) and that the ability of the strategy to achieve its investment objective will depend upon the ability of the Acquired Fund to achieve its investment objectives.

**Allocation Risk** – is the risk that a strategy could lose money as a result of less than optimal or poor asset allocation decisions as to how its assets are allocated or reallocated.

**Alternative Assets Liquidity Risk** - is the risk that a client may be unable to sell or have a less timely sale because of restrictions on sales and transfers agreed to at the time of making the investment.

**Call Option Risk** – are the risks associated with writing call options which include that the writer of an option has no control over the time when it may be required to fulfill its obligation as a writer of the option. If an account writes a covered call option, during the option’s life the account gives up the opportunity to profit from increases in the market value of the security covering the call option above the sum of the premium and the strike price of the call, but retains the risk of loss should the price of the underlying security decline.

**Capital Loss Risk** – is the risk that a client may incur losses because of the risky nature of the underlying investments and lack of viable exit strategies for particular investments of the partnership or fund.

**Company Risk** – is the risk that individual securities may perform differently than the overall market. This may be a result of specific factors such as changes in corporate profitability due to the success or failure of specific products or management strategies, amount of leverage on the company’s balance sheet or it may be due to changes in investor perceptions regarding a company.

**Concentration Risk** – is the risk that performance may be more susceptible to a single economic, regulatory or technological occurrence than an investment portfolio that does not concentrate its investments in a single industry.

**Credit Risk** – is the risk that an issuer of a debt security, asset-backed or mortgage-backed security (or an underlying obligor) or other fixed income obligation will not make payments on the security or obligation when due, or that the other party to a contract will default on its obligation. There is also the risk that an issuer could suffer adverse changes in financial condition that could lower the credit quality of a security. This could lead to greater volatility in the price of the security and in the performance of an account. Also, a change in the quality rating of a debt security or other fixed income obligation can affect the security's or obligation's liquidity and make it more difficult to sell. Some strategies attempt to minimize the credit risk by investing in primarily investment grade obligations. However, all securities and obligations, especially those in the lower investment grade rating categories, have credit risk. In adverse economic or other circumstances, issuers of these lower credit quality securities and obligations are more likely to have difficulty making principal and interest payments than issuers of higher credit quality securities and obligations. If an account purchases unrated securities and obligations, it will depend on Advantus' analysis of credit risk more heavily than usual.

*Lower-rated securities.* Securities rated below the top four ratings (below Aaa to Baa3 for Moody's and AAA to BBB- for Standard & Poor's) generally have more credit risk than higher-rated securities and have greater potential to become distressed or to default. In general, issuers of high yield, fixed-income securities are not as strong financially as those issuing securities with higher credit ratings. The prices of high yield, fixed-income securities fluctuate more than higher-quality securities. Prices are especially sensitive to developments affecting the issuer's business and to changes in the ratings assigned by rating agencies. Prices of corporate high yield securities are often closely linked with the issuer's stock prices and typically rise and fall in response to factors that affect stock prices. In addition, the entire high yield securities market can experience sudden and sharp price swings due to many events such as changes in economic conditions, stock market activity, large sustained sales by major investors, a high-profile default, or other factors. High yield securities generally are less liquid than higher-quality securities. Many of these securities do not trade frequently and when they do, their prices may be significantly higher or lower than expected. At times, it may be difficult to sell these securities promptly at an acceptable price, which may limit the ability to sell securities in response to specific economic events.

**Derivatives Risk** – is the risk associated with investing in a financial contract whose value depends on, or is derived from, the value of an underlying currency, security, reference rate, or index. Typically derivatives are used as a substitute for taking a position in the underlying asset and/or as part of a strategy designed to reduce exposure to other risks, such as interest rate, currency risk or volatility risk. A strategy may also invest in derivatives such as exchange traded futures contracts to remain fully invested, to reduce transaction costs, or to manage volatility in its portfolio. Derivatives may also be used for leverage, in which case their use would likely accentuate a particular risk beyond the cash investment required for the derivative instrument. Use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments. Derivatives involve costs, and can create economic leverage in an



account which may result in significant volatility and cause the account to participate in losses (as well as enable gains) in an amount that significantly exceeds the Fund's initial investment. Certain derivatives have the potential for unlimited loss, regardless of the size of the initial investment. Other risks include illiquidity, mispricing or improper valuation of the derivative instrument, and imperfect correlation between the value of the derivative and the underlying instrument so that the strategy may not realize the intended benefits. Their successful use will usually depend on the manager's ability to accurately estimate movements in the market relating to the underlying instrument. Should a market or markets, or prices of particular classes of investments move in an unexpected manner, especially in unusual or extreme market conditions, an account may not achieve the anticipated benefits of the derivatives transaction, and it may realize losses, which could be significant. If the portfolio manager is not successful in using such derivative instruments, the account's performance may be worse than if the manager did not use such derivative instruments at all. To the extent that the account uses such instruments for hedging purposes, there is the risk of imperfect correlation between movements in the value of the derivative instrument and the value of underlying investment or other asset being hedged. There is also the risk, especially under extreme market conditions, that an instrument, which usually would operate as a hedge, provides no hedging benefits at all. Use of these instruments could also result in a loss if the exchange on which the instruments are traded or a counterparty to the transaction (with respect to OTC instruments, including swap agreements) does not perform as promised, including because of such exchange or counterparty's bankruptcy or insolvency. This risk may be heightened during volatile market conditions. Other risks include the inability to close out a position because trading becomes illiquid (particularly in the OTC markets) or the availability of counterparties becomes limited for a period of time.

In addition, the presence of speculators in a particular derivatives market could lead to price distortions. To the extent that a position cannot be closed out because of market illiquidity, the account may not be able to prevent further losses of value in its derivatives holdings and the liquidity of the account may be impaired to the extent that it has a substantial portion of its otherwise liquid assets marked as segregated to cover its obligations under such derivative instruments. The account may also be required to take or make delivery of an underlying instrument that the manager would otherwise have attempted to avoid. Some derivatives can be particularly sensitive to changes in interest rates or other market prices. While a strategy may intend to use derivative strategies on a regular basis, it is not obligated to actively engage in these transactions, generally or in any particular kind of derivative, if the portfolio manager elects not to do so due to availability, cost or other factors.

**ETF Risk** – is the risk that an account that invests in exchange traded funds (ETFs) may be subject to additional risks that do not apply to conventional mutual funds, including the risks that the market price of an ETF's shares may trade at a discount to its NAV per share, an active secondary trading market may not develop or be maintained, and trading may be halted by, or the ETF may be delisted from, the exchange on which they trade, which may impact the ability to sell shares of the ETF. The lack of liquidity in a particular ETF could result in it being more volatile than the ETF's underlying portfolio of securities. ETFs are also subject to the risks of the underlying securities or sectors the ETF is designed to track and there are brokerage commissions paid in connection with buying or selling ETF shares. In addition, ETFs have management fees and other expenses. Each investor in an ETF will bear its pro rata portion of these expenses and therefore the account's return may be lower than if it invested directly in securities.

**Exchange-Traded Notes Risk** – is the risk that an account that invests in exchange traded notes (ETNs) which are unsecured debt obligations of banks or other financial institutions, may lose some or all of its investment if the issuer of the ETN files bankruptcy and defaults on its obligations or takes other actions that impact the value of the ETN. An ETN's return is linked to a market index or other benchmark minus applicable fees. Like ETFs, ETNs are traded on exchanges, provide market exposure and are subject to market risk. Unlike ETFs, however, ETNs do not buy or hold assets to replicate or approximate the underlying index, and are subject to the credit risk of the issuer. The value of an ETN may drop, despite no change in the underlying index, due to a downgrade in the issuer's credit rating.

**Extension Risk** – is the risk that rising interest rates could cause property owners to prepay their mortgages more slowly than expected, resulting in slower prepayments of mortgage-related securities.

**Foreign Securities Risk** – is the risk that investing in foreign securities, typically involves more risks than investing in U.S. securities, and includes risks associated with political and economic developments, different legal systems or practices, trading practices, availability of information, limited markets, and currency exchange rate fluctuations and policies. Certain of these risks also may apply to securities of U.S. companies with significant foreign operations. These risks can increase the potential for losses in the strategy.

**General Partner Selection Risk** – is the risk that the strategy will select a general partner that does not perform as expected or as well as other general partners managing similar alternative equity assets.

**Income Risk** – is the risk that an account may experience a decline in its income due to falling interest rates, earnings declines or income decline within a security.

**Index Performance Risk** – is the risk that the ability to replicate the performance of a particular securities index may be affected by, among other things, changes in securities markets, the manner in which the index's sponsor calculates the applicable securities index, the amount and timing of cash flows into and out of the account, commissions, settlement fees and other expenses. An indexed account's performance may also be adversely affected if a particular stock in an index (or stocks within an industry heavily weighted by an index) performs poorly.

**Inflation Risk** – is the risk that inflation will erode the purchasing power of the value of securities held by the account or the value of dividends for the account. Fixed-rate debt and preferred equity securities may be more susceptible to this risk than floating-rate debt securities or common equity securities, whose value and dividends may increase in the future.

**Inflation-Indexed Securities Risk** – is the risk that inflation-indexed securities have a tendency to react to changes in real interest rates. Real interest rates represent nominal (stated) interest rates lowered by the anticipated effect of inflation. In general, the price of an inflation-indexed security can decrease when real interest rates increase, and can increase when real interest rates decrease. Interest payments on inflation indexed securities will fluctuate as the principal and/or interest is adjusted for inflation and can be unpredictable.

**Interest Rate Risk** – is the risk that the value of a debt security, mortgage-backed security or fixed income obligation, and in some cases equity securities such as equity REITs, will decline due to an increase in market interest rates. Generally, when interest rates rise, the value of such a security or obligation decreases. Conversely, when interest rates decline, the value such a security generally increases. Long-term fixed income obligations are generally more sensitive to interest rate changes. When market interest rates have been high or low for quite some time, an upward or downward movement in interest rates could be sudden and not well anticipated by the market or Advantus or both.

**Investment Company Risk** – is the risk that, to the extent the account invests in shares of a registered investment company, it will indirectly absorb its pro rata share of such investment company's operating expenses, including investment advisory and administrative fees, which will reduce the account's return on such investment relative to investment alternatives that do not include such expenses.

**Large-Cap, Mid-Cap and Small-Cap Companies Risk** – is the risk that to the extent an account invests in securities of large companies, the larger company is sometimes unable to attain the high growth rates of successful, smaller companies, especially during extended periods of economic expansion. To the extent an account invests in securities of mid-cap and small-cap companies, these investments may be more volatile and less liquid than the securities of large-cap companies.

**Large Company Risk** – is the risk that a portfolio of large capitalization securities may underperform the market as a whole.

**Leveraging Risk** – is the risk that certain transactions, such as transactions in derivative instruments, may give rise to leverage, causing an account to be more volatile than if it had not been leveraged.

**Limited Universe Risk** – is the risk that a more restricted investment strategy may present greater volatility, due to the limited number of issuers used for investment in the strategy than an investment in portfolio of securities selected from a greater number of issuers.

**Liquidity Risk** – is the risk that a security purchased by a strategy, including securities which Advantus determines to be liquid at the time of purchase or thereafter, may prove to be illiquid or otherwise subject to reduced liquidity due to changes in market conditions or quality ratings, or to errors in judgment.

**MLP Risk** – MLPs are subject to many risks. Holders of MLPs have limited control and voting rights on matters affecting the partnership and are exposed to a remote possibility of liability for all of the obligations of that MLP. Holders of MLPs are also exposed to the risk that they will be required to repay amounts to the MLP that are wrongfully distributed to them. In addition, the value of an account's investment in an MLP will depend largely on the MLP's treatment as a partnership for U.S. federal income tax purposes. Furthermore, MLPs may not be as liquid as other more commonly traded equity securities. The value of MLPs that are regulated by the Federal Energy Regulatory Commission ("FERC") may also be negatively impacted by regulatory action taken by and regulatory requirements of FERC.

**Managed Volatility Strategy Risk** – is the risk that Advantus may be unsuccessful in managing volatility. There is a risk that the strategy may experience a high level of volatility in its returns. The security holdings are subject to price volatility, and the strategy may not be any less volatile than the market as a whole and could be more volatile. In addition, there can be no guarantee that the strategy will achieve its goal of managing the volatility of its returns. Furthermore, while the management of volatility seeks competitive returns with more consistent volatility, the management of volatility does not ensure that the strategy will deliver competitive returns. Additionally, even if successful, the strategy's management of volatility may also generally result in the strategies returns increasing to a lesser degree than the markets, or decreasing when the values of strategies investments are stable or rising. The risk overlay may expose the strategy to losses (some of which may be sudden) to which it would not have otherwise been exposed if it invested only in equity and fixed income securities. Additionally, the derivatives used to hedge the value of securities are not identical to the securities held, and as a result, the investment in derivatives may decline in value at the same time as underlying investments.

**Market Risk** – is the risk that the value of the instruments in which an account invests may go up or down in response to the prospects of individual companies, particular industry sectors or governments and/or general economic conditions. Securities are subject to adverse trends in the overall market. Securities held by a strategy are subject to price movements due to changes in general economic conditions, the level of prevailing interest rates, investor perceptions of the market and defaults or volatility in securities not held by a strategy but that impact general market trends and conditions. Market risk may affect a single issuer or the market as a whole. In addition, market risk may affect a specific strategy. As a result, an account in such a strategy may underperform the market as a whole.

**Non-Government Securities Risk** – is the risk that payments on a non-government security will not be made when due, or the value of such security will decline, because the security is not issued or guaranteed as to principal or interest by the U.S. Government or by agencies or authorities controlled or supervised by and acting as instrumentalities of the U.S. Government. The risk of non-payment by the issuer of any non-agency security increases when markets are stressed.

**Portfolio Risk** – is the risk that an account's performance may not meet or exceed that of the market as a whole. The performance of account depends on Advantus' judgment of economic and market policies, trends in investment yields and monetary policy.

**Preferred Stock Risk** – are the risks associated with investing in a preferred stock. A preferred stock is a blend of the characteristics of a bond and common stock. It may offer the higher yield of a bond and has priority over common stock in equity ownership, but it does not have the seniority of a bond and, unlike common stock, its participation in the issuer's growth may be limited. Preferred stock has preference over common stock in the receipt of dividends or in any residual assets after payment to creditors should the issuer be dissolved. Although the dividend on a preferred stock may be set at a fixed annual rate, in some circumstances it may be changed or passed by the issuer.

**Prepayment Risk** – is the risk that falling interest rates could cause prepayments of mortgage-related securities to occur more quickly than expected. This occurs because, as interest rates fall, more property owners refinance the mortgages underlying these securities. The account reinvests the prepayments at a time when interest rates on new mortgage investments are falling, reducing the

income to the account. In addition, when interest rates fall, prices on mortgage-related securities may not rise as much as for other types of comparable debt securities because investors may anticipate an increase in mortgage prepayments.

**Private Placement Risk** – is the risk that a client may be unable to sell or have a less timely sale because of a limited buyer base for these assets as well as the risk that the value of a private placement is difficult to determine because there is not public market for these securities.

**Real Estate Risk** – is the risk that the value of an account's investments may decrease due to fluctuations in rental income, overbuilding and increased competition, casualty and condemnation losses, environmental costs and liabilities, extended vacancies of property, lack of available mortgage or other financing, government regulation and limitations, increases in property taxes, cash flow dependency, declines in real estate value, physical depreciation of buildings, inability to obtain project financing, increased operating costs and changes in general or local economic conditions.

**REIT/REOC-Related Risk** – is the risk that the value of an account's equity REIT and REOC securities will decrease because of a change in valuation of underlying real estate properties, the real estate market as a whole, the loss of a REIT's favorable tax treatment of changes to laws and rules related to REIT tax status.

**Restricted Securities Risk** – is the risk that, in connection with investments in securities whose disposition is restricted under the federal securities laws, such securities may only be resold subject to statutory or regulatory restrictions, or if the account bears the costs of registering such securities. The account may therefore be unable to dispose of such securities as quickly as, or at prices as favorable as those for, comparable but unrestricted securities.

**Sector Risk** – is the risk that the securities of companies within specific industries or sectors of the economy can periodically perform differently than the overall market.

**Short Position Risk** – is the risk that, in taking a short position in a transaction involving a derivative instrument, an account may suffer a loss because the risk assumed in such instrument significantly exceeds the amount of the initial investment, or because the account is unable to close out its short position or a counterparty to the transaction fails to perform as promised.

**Short-Term Trading Risk** – is the risk that the strategy may trade securities frequently and hold securities in its portfolio for one year or less. Frequent purchases and sales of securities will increase the account's transaction costs.

**TIPS Risk** – is the risk associated with investing in TIPS including the fact that interest payments on TIPS are unpredictable and will fluctuate as the principal and corresponding interest payments are adjusted for inflation. There can be no assurance that the Consumer Price Index (CPI) will accurately measure the real rate of inflation in the prices of goods and services. Any increases in the principal amount of TIPS will be considered taxable ordinary income, even though the Fund will not receive the principal until maturity. In addition, TIPS are subject to credit risk, interest rate risk and duration risk. Credit risk and interest rate risk are defined above. Duration risk is the risk that holding long duration

and long maturity investments will magnify certain other risks, including interest rate risk and credit risk.

**Vintage Year Risk** – is the risk that the strategy may sustain greater losses because the strategy is not sufficiently diversified across vintage year and the risk that vintages held by the strategy will perform differently than the overall market and that some vintages will perform better than other vintages.

## **Item 9 – Disciplinary Information**

Advantus has no reportable disclosures regarding legal or disciplinary events.

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

Advantus is not registered nor does it have a pending application to register as a broker dealer. Certain management persons are registered as a registered representative of an unaffiliated broker dealer, Quasar Distributors, LLC (“Quasar”), or an affiliated broker dealer, Securian Financial Services. Advantus does not execute trades for clients or itself through Quasar or Securian Financial Services.

Neither Advantus nor any its management persons are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor or an associated person of any of the foregoing entities.

Advantus serves as adviser to each of the funds of Securian Funds Trust (“Trust”), a registered investment company whose shares are currently sold only to separate accounts of two affiliated life insurance companies, Minnesota Life Insurance Company (“Minnesota Life”) and its subsidiary, Securian Life Insurance Company (“Securian Life”). These separate accounts, which issue Minnesota Life and Securian Life variable annuity and variable life insurance contracts (“Contracts”), invest in shares of the Trust only in accordance with instructions from the owners of the Contracts, who are also the Trust’s beneficial owners. Shares of the Trust may, in the future, also be sold to separate accounts of other life insurance companies or to qualified plans. These affiliations create a conflict of interest which may cause Advantus to favor the Trust over other unaffiliated accounts also managed by Advantus. Advantus seeks to manage these and other conflicts through its adoption and implementation of comprehensive written compliance policies and procedures, including its Code of Ethics as well as other policies such as Investment of Client Assets policy, GIPS policy, and Order Aggregation and Allocation policy. In addition, Advantus’ activities with respect to the Trust are overseen by various committees, including the Investment Policy Committee, GIPS Committee, Trading Committee and Internal Compliance Controls Committee. Further, the board of the Trust reviews information from Advantus on many issues affecting the Trust and also receives reports from and discusses issues on a periodic basis with its chief compliance officer on these matters. The Trust board is advised by counsel to the Trust and the independent counsel to the independent trustees.

Advantus is the sub-adviser to the Ivy VIP Real Estate Securities Portfolio, Ivy VIP Pathfinder Moderate Managed Volatility Portfolio, Ivy VIP Pathfinder Moderately Aggressive Managed Volatility Portfolio and Ivy VIP Pathfinder Moderately Conservative Managed Volatility Portfolio,

portfolios managed by Waddell & Reed Investment Management Company, and the Ivy Bond Portfolio and Ivy Real Estate Securities Portfolio, portfolios managed by Ivy Investment Management Company. Advantus and its affiliates have other relationships with Waddell & Reed and Ivy which could create an incentive for Advantus to favor these accounts in managing investments. Advantus addresses these issues in the manner discussed above with respect to the Trust. In addition, the boards of these funds review information on a periodic and ongoing basis from Advantus and these funds review reports and discuss information with its chief compliance officer.

Minnesota Life and Securian Life, as well as other affiliated entities are under common ownership with Advantus. Many of these entities have hired Advantus to manage their assets. Advantus may have an incentive to favor its affiliates' accounts over its other client accounts. Advantus addresses these issues in the manner discussed above with respect to the Trust.

Advantus also originates commercial mortgage loans for Minnesota Life, and acts as servicing agent with respect to such loans. Clients of Advantus may participate alongside Minnesota Life in loans that are originated and serviced by Advantus, and Advantus may refer its clients to Minnesota Life to purchase such ownership percentage. Advantus receives no compensation of any kind from Minnesota Life for referring potential loan owners. When originating commercial mortgage loans, Advantus considers whether a given loan is suitable for Minnesota Life, and does not consider whether a loan is suitable for ownership by any potential loan owner whether or not advisory clients of Advantus. Advantus earns fees from Minnesota Life for origination and servicing activities provided with respect to commercial mortgage loans, including from loans in which its clients may hold an ownership percentage. Minnesota Life is solely responsible for the payment of any fees related to origination services. Other clients pay Advantus a servicing fee based on their pro rata ownership percentage of the outstanding principal balance of each loan. All loan owners will be given information concerning the borrower, the loan, and the underwriting process, and other information they may review to support their own decisions with respect to whether to purchase ownership percentages in loans from Minnesota Life. Advantus does not recommend investment in loans to its clients, assess whether loan ownership interests are suitable financial opportunities for its clients, or provide any other investment advice to its clients with respect to loans as a part of its advisory services. Each Advantus client made aware of commercial mortgage loans originated by Advantus must represent to Advantus that it has made its own independent decision to purchase one or more ownership interests in the loans and its own determinations as to whether such purchase is appropriate or proper for it based upon its own judgment, and that it is not relying on any investment advice or recommendation from Advantus or Minnesota Life when purchasing such ownership percentages.

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

Advantus has adopted a Code of Ethics that applies to all supervised persons. The Code sets forth the standards of ethical conduct, seeks to prevent improper activities through trading restrictions, and includes other obligations.

The fundamental ethical principles of the Code state that supervised persons will:

- conduct themselves with integrity and distinction

- put the interests of clients first at all times
- owe a fiduciary duty to clients in the conduct of their personal security trades
- avoid conflicts of interest
- comply with all applicable Federal securities laws

The Code contains provisions regarding insider trading, gifts, and business entertainment. The Code prohibits use of material non-public information when completing personal trades and for trades made on behalf of clients. All supervised persons have a continuing obligation to comply with the Code, must certify to compliance on an annual basis, and must report any Code violations to the chief compliance officer. If there are Code violations, a range of sanctions may be enforced. Advantus will provide a copy of our Code to a client or prospective client upon request.

### **Conflicts of Interest – General**

As part of its investment advisory services, Advantus has entered into Subscription, Participation and Servicing Agreements with MCM Funding 1997-1, Inc. and MCM Funding 1998-1, Inc., both of which are affiliates of Advantus. Under the MCM program, Advantus originated commercial mortgage whole loans which were participated out to Advantus clients. The MCM Funding vehicles are the legal owners of the mortgage notes, but 100 percent of the beneficial interests in such mortgage notes are owned by one affiliated and one non-affiliated client. Advantus services the loans for the participants for which it receives an annual servicing fee.

Advantus may, from time to time, facilitate the purchase and sale of securities between two clients including any trade which might be determined to be a principal transaction. Any such transactions will be effected with full disclosure and client consent and only with the prior approval of the chief compliance officer as required by the Advantus cross trade procedures.

### **Conflicts of Interest – Investment Allocation**

Advantus and its affiliates, including any Advantus employees, may from time to time invest in the same securities that Advantus recommends to clients. Advantus may purchase such securities for its own account and its affiliated accounts in an aggregated order with clients. These transactions also may include trading in securities or other assets in a manner that differs from, or is inconsistent with, the advice given to clients. These transactions create a potential conflict of interest because Advantus may have an incentive to favor its own or its affiliated accounts over the client. For example, Advantus or Advantus employees may have an incentive to purchase or sell a security ahead of Advantus' clients in order to receive more favorable pricing. Advantus has policies and procedures in place to mitigate these conflicts, including:

- a Code of Ethics requiring Advantus supervised persons to put the interests of all clients first.
- an order aggregation and allocation policy providing that all public equity orders, all public equity securities and all new issue fixed income public and private placement securities be aggregated and pre-allocated. Advantus does not require that secondary sales or purchases of fixed income securities be aggregated. These policies are monitored by the compliance department.



- an allocation policy providing for pro-rata allocation in the event that a full order is not received. All exceptions to the pro-rata allocation policy, except for rounding and to meet certain de minimis requirements, are reviewed and approved by the compliance department. Compliance with the allocation policy is reviewed periodically by the compliance department and reported to the Trading Committee.
- a Trading Committee which receives reports of allocation and best execution on a regular basis.
- a GIPS Committee which reviews performance of accounts with similar strategies and reasons for dispersion among accounts.
- an Investment Policy Committee which reviews portfolios account strategy and risks of accounts managed by the same portfolio manager at least annually.

### **Conflicts of Interest – Personal Trading**

Access Persons, as defined in our Code of Ethics, are required to provide initial and annual reports of holdings of reportable securities and quarterly reports of transactions involving reportable securities. Access Persons, except Limited Access Persons (as defined in the Code of Ethics), are required to pre-clear most securities trades, and such trades are subject to black-out periods during which personal trades cannot be made. Access Persons, except Limited Access Persons, are not allowed to purchase a security for which there has been a client transaction within the last seven days. In addition, if there is an intra-day order pending at the time the Access Person is pre-clearing the trade, the trade will not be approved. Certain Access Persons transactions are monitored on a quarterly basis for front running and other activities that may affect client portfolios. Certain supervised persons, called Limited Access Persons, are not required to follow some of these procedures.

### **Item 12 – Brokerage Practices**

Advantus is responsible for determining what securities will be purchased and sold for certain clients and selecting the broker dealer to execute the transactions on behalf of such clients. Purchases and sales of securities for clients are made in accordance with the investment objectives, strategies and policies of each client. It is Advantus' policy to seek best execution on behalf of its clients – that is, Advantus seeks to achieve the best overall qualitative execution for a client in a particular circumstance. "Best execution" is not synonymous with the lowest brokerage commission. Consequently, in a particular transaction a client may pay a brokerage commission in excess of that which another broker might have charged for executing the same transaction. Advantus has a best execution policy which describes practices used to seek best execution and outlines how execution is monitored. The results of execution review are reported to the Trading Committee for fixed income and public equity on a semi-annual basis.

In seeking to achieve best execution, Advantus considers the full range and quality of services a broker may provide, including (among other things), the value of research provided as well as execution capability, commission rate, financial responsibility and responsiveness.

## **PUBLIC EQUITY**

For public non-index equity transactions, Advantus sets target commissions for brokers on an annual basis primarily based on the following factors:

- Analyst outreach – effort by the brokerage firm’s research staff to add value through trade ideas, updates on management meetings or property tours, industry trends or analysis, technical market updates, as well as industry conferences organized by the brokerage firm.
- Sales coverage – comprehensive and timely notice of new and available research by the brokerage firm, access to the brokerage firm’s research and trading teams as made available to Advantus by the sales coverage person.
- Deal access – for new and secondary issuance deals, timely notice of allocation request deadlines, pre-deal conference calls, and color on the progress and/or the reception of the deal in the marketplace and also, judgment of fair allocation relative to deal size, demand, etc.
- Bringing companies in – effort by the brokerage firm, who often organize management non-deal meetings and road shows to meet with shareholders, and to travel to Advantus for one-on-one meetings.
- Trader input regarding trading desk coverage can also be a consideration.

Commission targets are not hard targets, but are reflective of the services provided by each broker. They can be changed from time to time by the equity team. Targets may be adjusted because of a drop in research coverage, a personnel change in the research staff or sales coverage itself, a change in the quality of service provided, or any other development within the brokerage firm. These targets are reviewed by the Trading Committee at least annually.

For indexed equity trades, there are no targets for trading but trades are done with a limited number of brokers and two ECNs. An ECN is used when equitizing or raising cash by trading exchange traded funds and when trading announced index changes.

### ***Research and Other Soft Dollar Benefits***

Advantus may cause a client to pay a brokerage commission in excess of that which another broker might have charged for executing the same transaction if it determines that the commission paid was reasonable in relation to the value of the services provided by the broker. If Advantus generates “soft dollars” with respect to trades made on behalf of a client, Advantus will do so within the safe harbor of Section 28(e) of the Securities Exchange Act of 1934, as amended. Advantus may use soft dollar benefits to service all of its clients’ accounts and not only those that generate the benefits. Because the brokerage and research benefit all accounts, soft dollar benefits are not proportionally allocated to clients that may generate different amounts of the soft dollar benefits. When Advantus uses client brokerage commissions to obtain research or other products or services, Advantus receives a benefit because it does not have to produce or pay for the research, products or services. As a result, Advantus may have an incentive to select or recommend a broker-dealer based on its interest in receiving the research or other products or services, rather than on its clients’ interest in receiving the most favorable execution.

Advantus sometimes pays more than the lowest possible commission to obtain broker provided research or ideas (“informal soft dollar arrangements”). This is often referred to as “paying up.” This practice is also within the soft dollar parameters of Section 28(e).

The types of products provided are research used in managing the accounts, such as index changes, economic and investment strategy research, REIT industry news and research on housing and home builders.

Advantus addresses the potential conflicts of interest related to its use of soft dollars through a variety of processes and procedures. All formal soft dollar arrangements are reviewed and approved annually by the Trading Committee. The Trading Committee reviews execution on an ongoing basis. The Trading Committee reviews broker selection and approval.

The benefits from certain soft dollar arrangements such as index announcements and changes primarily benefits accounts who generate those soft dollars. Other formal soft dollar arrangements, although focused on research which benefits the accounts which generate soft dollars, is used for the benefit of other client accounts as well. Advantus does not seek to allocate the benefits to client accounts proportionately to the soft dollar credits those accounts generate. These benefits apply to affiliated as well as non-affiliated accounts.

## **FIXED INCOME**

### ***New Issues***

New issue public fixed income securities are offered by one or more brokers and trades are done with broker(s) offering the transaction. New issue private placement transactions are brought by one or more investment bankers and the transactions are done with the banker offering the transaction.

### ***Secondary Fixed Income Transactions***

There is no target allocation for fixed income brokers. No commissions are charged for fixed income trades except for fixed income futures. All fixed income futures trades are done with one broker. There are no formal soft dollar arrangements for fixed income trades. In accordance with the Advantus best execution policy, Advantus considers the value of research provided by broker dealers in selecting a broker as well as the range and quality of a broker’s services including research, execution capability, financial responsibility and responsiveness. Most trades, however, are put out for broker bid and are transacted with the broker with the best price.

Advantus does receive research from brokers. The receipt of broker provided research creates a conflict of interest as Advantus could allocate trades to brokers who provide their research to Advantus. This creates a conflict because Advantus does not have to produce or pay for this research. This creates an incentive to select or recommend a broker-dealer based on Advantus’ interest in receiving the research rather than the client’s interest in receiving most favorable execution.

Although fixed income secondary trades are generally put in competition with more than one broker and trades awarded based on best price, some trades occur without competitive bidding. These situations include trades with brokers who have an idea for a new trade, a swap of an existing position for another position, trades involving less liquid securities where, in the professional judgment of the

trader, putting dealers in competition may not lead to better execution or it is not practical or possible to put dealers in competition. Advantus also purchases securities offered to Advantus by broker dealers without putting broker dealers in competition.

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

Advantus does not receive referrals of clients from any broker dealers.

### ***Directed Brokerage***

Advantus does permit clients to direct brokerage for equity transactions. Advantus seeks to have directed brokerage trades receive the same consideration and best execution as non-directed brokerage trades. Once the trade is executed by the broker dealer selected, Advantus instructs the executing broker to “step out” the commissions to the client designated broker on the same terms as the original trade. It is possible that there may be certain situations when a client directs brokerage that Advantus may not be able to use the step out process. This situation could result in a directed brokerage client not being able to participate in an aggregated trade which could affect the price at which the directed brokerage client’s transactions would be executed and also affect the commission paid. Advantus does permit clients to direct that a specific broker or brokers be included in the fixed income transaction process, subject to best execution.

### ***Aggregation of Client Orders***

Advantus aggregates purchases and sales of securities for multiple clients as described herein. Advantus will not aggregate trades unless it believes that aggregation is consistent with its duty to seek best execution and is consistent with the terms of the investment advisory agreement with each client for which trades are being aggregated. The aggregation of trades permits the trading of blocks of securities composed of assets from multiple clients’ accounts. Aggregation generally allows execution of transactions in a more timely and efficient manner, and may reduce overall execution costs and impact on the market price of the underlying securities.

For public equity, as well as public and private placement fixed income new issues, orders for purchase are generally aggregated. Aggregation is not required for secondary fixed income transactions. A portfolio manager managing accounts in a similar style may, however, aggregate orders for purchase or sale of secondary fixed income transactions. Secondary purchases and sales are done as orders are placed by portfolio managers. By not aggregating all orders for secondary fixed income transactions, clients may receive better or worse pricing or fills on transactions. This could result in some clients receiving more favorable performance.

Allocation policies provide for pro rata allocation in the event that a full order is not received. All exceptions to the pro rata allocation policy, except for rounding and to meet certain de minimis size or position requirements, are reviewed and approved by the compliance department. The firm’s overall compliance with its allocation policy is reviewed periodically by the compliance department and reported to the Trading Committee.

### **Item 13 – Review of Accounts**

All accounts are assigned to one or more portfolio managers who has (have) primary responsibility for the account. The primary portfolio manager(s) review their assigned accounts on a continuous basis. The titles of the supervised persons who conduct these reviews are as follows:

#### **Portfolio Manager**

This review by the portfolio managers involves assessing various attributes of each account, which can include portfolio guidelines, asset values, performance, portfolio structure and holdings.

At least annually, each portfolio manager presents a risk based review of his or her accounts to the Investment Policy Committee. The Investment Policy Committee consists of portfolio managers, quantitative analysts, and other executive persons. This review involves a presentation of the main goals and risks of the strategy, the outlook for the mandate, regulatory and compliance issues, and a discussion of any other risk related issues for the portfolios. In addition to these reviews, if an account with a benchmark under or outperforms its benchmark (if applicable) or peer group (if applicable), by a certain percentage, performance will be reviewed by the Investment Policy Committee on a more frequent basis.

The GIPS Committee, consisting of portfolio managers, marketing, finance, performance and quantitative analysts and executive personnel, reviews performance of accounts within composites, which are similarly managed, for dispersion on a quarterly basis.

Advantus provides written account reports to clients monthly or quarterly, depending on the particular arrangement with each client. Matters covered by the reports may include the account's portfolio guidelines and guideline compliance, asset values, performance, performance attribution, sector concentrations, yield curve exposure, portfolio structure, transactions and holdings.

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

Advantus does not receive an economic benefit from any person who is not a client for providing investment advice or other advisory services.

Neither Advantus nor a related person of Advantus directly or indirectly compensates any person who is not our supervised person for client referrals. Note that Advantus does compensate certain sales associates and portfolio managers as discussed in response to Item 5.

### **Item 15 – Custody**

Advantus' clients maintain custody arrangements through their own independent custodians. An Advantus affiliate has custody of certain commercial mortgage whole loan notes for two clients, in connection with the MCM Funding Program. The commercial mortgage notes are kept with BNY Mellon Bank, N.A., a qualified custodian. These two clients receive account statements from the

qualified custodian and the clients should carefully review those statements. Advantus does not send statements to the clients. The account is subject to a surprise audit by KPMG, LLC each year.

## **Item 16 – Investment Discretion**

Advantus manages assets on both a discretionary and non-discretionary basis. Some insurance company clients approve every trade. Some clients may not allow Advantus to invest in certain industries. Some clients also place limits on the amount of losses that can be taken on the sale of a security without prior notification and/or client approval. The authority of Advantus is set forth in the advisory agreement executed with each client or in other client instructions to Advantus.

Investment discretion is generally documented in the advisory agreement between Advantus and each client. In all cases, Advantus exercises its investment discretion in a manner consistent with the stated investment objectives, policies, guidelines, and restrictions/limitations for a particular client account.

For those accounts which are non-discretionary, Advantus is required to obtain client approval prior to each transaction. Non-discretionary accounts may therefore not receive the same opportunities as discretionary accounts to participate in transactions, or if provided opportunities, a non-discretionary account may not provide approval in time to participate in all opportunities. This could result in different performance for non-discretionary clients.

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

From time to time, when requested by clients that hold voting securities, Advantus will vote shares owned by clients. A client may also direct Advantus to vote proxies in accordance with their own guidelines. In some instances Advantus has delegated this duty to the client's custodian. In others, Advantus votes proxies directly.

Advantus has adopted policies and procedures relating to the voting of proxies (the "Proxy Voting Policies") in connection with voting securities held in client accounts, including accounts sub-advised by Advantus, that are designed to help ensure that proxies are voted in the best interests of clients in accordance with Advantus' fiduciary duties and legal and regulatory requirements. The Proxy Voting Policies do not apply to any client that has retained authority and discretion to vote its own proxies or delegated such authority and discretion to a third party; Advantus takes no responsibility for the voting of any proxies on behalf of any such client.

The guiding principle by which Advantus votes on all matters submitted to security holders is the maximization of the ultimate economic value of the securities held by its clients. This principle involves not only the immediate impact of each proposal but other considerations with respect to the security of the shareholders' investments over the long term.

It is the general policy of Advantus to vote on all matters presented to security holders in any proxy that is received by Advantus. Advantus reserves the right to abstain on any particular vote or otherwise withhold its vote on any matter if, in the judgment of Advantus, the costs associated with

voting such proxy outweigh the benefits to clients, or if circumstances make an abstention or withholding advisable and in the best interest of clients. The Proxy Voting Policies include proxy voting guidelines that describe generally how proxies will be voted with respect to the certain issues listed. However, these guidelines are just that – guidelines; they are not strict rules that must be obeyed in all cases. The Proxy Voting Policies allow Advantus to vote shares contrary to the typical vote indicated by the guidelines if such a vote is in a client's best interests.

The actual mechanical methods employed for voting proxies is dependent upon the type of client. For those clients who have hired Advantus as an adviser, and not as a sub-adviser, and who have also selected Wells Fargo Bank as their custodian, Advantus has delegated to Wells Fargo Bank the authority to vote proxies on behalf of the client. Proxies are directly sent to Wells Fargo Bank. Wells Fargo Bank votes the proxies according to the Wells Fargo Proxy Voting Policies and Procedures and Guidelines. Wells Fargo Bank employs ISS as its proxy voting agent. ISS is responsible for analyzing proxies and recommending a voting position consistent with the Wells Fargo Bank Proxy Guidelines. Advantus requests information on conflicts of interest related to Wells Fargo Bank proxy voting duties on an annual basis. Any responses from Wells Fargo Bank are reported to the Investment Policy Committee.

Certain proxy voting proposals may raise conflicts between the interest of the Advantus' clients and the interests of Advantus. The Investment Policy Committee would meet when necessary to approve a vote where a conflict of interest has been identified and the portfolio manager wishes to cast a vote not in accordance with the guidelines. Conflicts of interest are identified initially by the portfolio managers responsible for voting proxies. If a potential conflict is identified, the portfolio manager works with the compliance department to determine if a conflict is present. Conflicts are reported to the Investment Policy Committee. Steps that may be taken in a case of a conflict include following the established proxy policy, requesting that the client vote securities, delegating the vote to a third party, or disclosing the issue to the client.

For almost all other clients, including those clients whose accounts are managed by Advantus as a sub-adviser, Advantus will vote proxies according to the Advantus Proxy Guidelines.

Clients may obtain a copy of the Advantus' Proxy Voting Policy or proxy voting results upon request by calling Advantus at 1-866-330-7355 or contact us by email at [advcompliance@advantuscapital.com](mailto:advcompliance@advantuscapital.com).

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

Advantus does not require or solicit prepayment of any advisory fees. As a result, Advantus is not required to provide a balance sheet for its most recent fiscal year. Advantus is unaware of any financial condition that is reasonably likely to impair its ability to meet its commitments to its clients. Advantus has not been the subject of a bankruptcy petition during the past 10 years.