

**FORM ADV Part 2A Firm Brochure as of March 31, 2014**

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**Hancock Capital Investment Management, LLC**

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This brochure provides information about the qualifications and business practices of Hancock Capital Investment Management, LLC. If you have any questions about the contents of this brochure, please contact us at (617) 572-0693 or [jasonpratt@jhancock.com](mailto:jasonpratt@jhancock.com).

Hancock Capital Investment Management, LLC is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training.

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 the investment adviser also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

The date of Hancock Capital Investment Management, LLC's (HCIM) last annual update of its brochure was June 18, 2013. The following are the material changes to the brochure since the last annual update:

- **All Items—Commercial Real Estate Mortgage Investments.** The brochure has been updated to reflect HCIM's expansion of its investment management service offerings to include commercial real estate mortgage loans and bonds. Since HCIM did not previously provide commercial real estate mortgage investment management services to third party clients, the content of this brochure is materially different from prior filings in almost every section. In addition, prior disclosures needed to be reorganized to distinguish between disclosures related to the new commercial real estate mortgage strategies and those disclosures related to private placement strategies.
- **Item 4. Advisory Business.** HCIM updated its assets under management.

HCIM will ensure that its advisory clients receive subsequent brochures, together with a summary of any material changes, within 120 days of the close of HCIM's fiscal year. HCIM may further provide other ongoing disclosure information about material changes as required. HCIM will provide you with a new brochure as necessary based on material changes or new information at any time without charge.

Currently, HCIM's brochure may be requested by contacting Jason Pratt, Chief Compliance Officer at (617) 572-0693 or [jasonpratt@jhancock.com](mailto:jasonpratt@jhancock.com). Additional information about HCIM is also available via the SEC's web site [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Hancock Capital Investment Management, LLC

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## **Item 4 – Advisory Business**

### **A. The Company**

Hancock Capital Investment Management, LLC (“HCIM”) is a direct wholly-owned subsidiary of John Hancock Subsidiaries LLC and an indirect wholly-owned subsidiary of John Hancock Life Insurance Company (U.S.A.) (“John Hancock”). John Hancock is an indirect wholly-owned subsidiary of Manulife Financial Corporation, a Canadian-based global financial services group and publicly-held corporation that trades under the symbol ‘MFC’ on the Toronto Stock Exchange, the New York Stock Exchange and Philippine Stock Exchange, and under ‘945’ on the Stock Exchange of Hong Kong.

HCIM was formed as a Delaware limited liability company on October 5, 2007 and was registered as an investment adviser under the Investment Advisers Act of 1940, as amended, on December 5, 2007. Effective December 31, 2007, HCIM began to assume investment management responsibility from John Hancock Life Insurance Company (“JHLICO”) for investment advisory services being provided to clients by JHLICO’s Bond and Corporate Finance Group. JHLICO was merged into John Hancock on December 31, 2009. Today, HCIM’s advisory services are provided through two distinct investment groups. The two groups are aligned with John Hancock’s Bond and Corporate Finance Group and Real Estate Finance Group. Separate from their HCIM roles, the investment professionals in each group also have similar investment roles for John Hancock and its affiliated insurance companies. The officers and directors of HCIM are primarily comprised of United States-based employees of John Hancock. Where appropriate, HCIM has disclosed in this brochure the primary material conflicts of interest that may arise from the overlap in investment responsibilities.

### **B. Advisory Services**

HCIM manages advisory client portfolios with varied mandates. HCIM’s investment strategies for its clients may include making investments in public and private securities, including corporate bonds at various quality levels, structured finance obligations, equity and mezzanine securities (i.e., subordinated debt generally with equity features such as warrants or common stock), and commercial real estate mortgage loans and bonds. Depending on the specific strategy, HCIM’s investment approach is based on in-depth credit and equity analysis, a thorough underwriting process, and disciplined pricing of securities and other assets. HCIM has the option to use derivatives within certain client mandates to manage or hedge interest rate and currency risk and to manage duration. To the extent a HCIM affiliate is hired as a sub-adviser to a HCIM account, HCIM is also responsible for the on-going supervision and regular monitoring of the investment activities and competence of the affiliated investment manager.

*Bond and Corporate Finance Group*—HCIM’s Bond and Corporate Finance Group provides investment management services to separate accounts and private funds related investments in public and private market fixed income and other securities. Certain members of this Group focus on providing investment management services with respect to certain mezzanine and equity securities (i.e., subordinated debt generally with equity features such as warrants or

common stock). These mezzanine investment management services are provided primarily to HCIM-advised private mezzanine investment funds.

*Real Estate Finance Group*—HCIM’s Real Estate Finance Group offers separate account and fund strategies for the origination, acquisition, and servicing of commercial real estate mortgage loans and bonds (office, retail, industrial, multi-family, parking garages, manufactured housing communities, self-storage, and other commercial properties). Services include loan sourcing, credit underwriting, and ongoing active portfolio management, as well as ongoing loan servicing.

### **C. Meeting Investment Objectives**

HCIM works with each of its advisory clients to develop investment advisory services and guidelines based upon the client’s investment objectives. Advisory services are documented in a written investment advisory agreement, limited partnership agreement, limited liability agreement, indenture or other similar agreement and include:

- evaluating prospective investment opportunities contemplated in the agreement
- making decisions regarding the purchase and disposition of investments
- structuring and negotiating investments
- working with legal counsel to prepare documentation
- monitoring investments

HCIM manages client portfolios with varied mandates. In most cases, the investment guidelines (including restrictions on investing in certain types of investments or other limits) are negotiated at the time the account or fund is established. Some clients may amend, or be asked by HCIM to amend, guidelines as their needs change, as specific financial conditions at a portfolio company develop, or in response to a change in market conditions.

### **D. Wrap Fee Program**

HCIM does not participate in any wrap fee programs.

### **E. Client Assets**

As of 12/31/2014, HCIM had \$5,254,657,032 in assets under management (“AUM”). These assets are managed on a discretionary basis. HCIM does not currently manage any assets on a non-discretionary basis.

The above AUM amount differs from HCIM’s “regulatory assets under management” which is used in Form ADV Part 1A. Form ADV Part 1A requires investment advisors to report their “regulatory assets under management”. To calculate “regulatory assets under management” an advisor is required to include in the assets for private fund advisory clients the amount of any uncalled commitment pursuant to which a person is obligated to acquire an interest in, or make a capital contribution to, the private fund.

## Item 5 – Fees and Compensation

### A. & B. Overview

As further described below, HCIM is compensated under several different fee structures, depending on the client and the investment strategy. All fees are subject to negotiation and the manner in which they are charged is documented in a written agreement with the client.

In certain cases, clients may select to have fees billed directly or deducted from client assets by the custodian. For other clients, HCIM has the fees deducted from income or proceeds that would otherwise have been available to be distributed by the custodian. HCIM generally bills fees directly on a quarterly or semi-annual basis to all clients, except for the collateralized debt obligation (“CDO”) private fund clients which are deducted semi-annually by the client’s trustee. Unless otherwise agreed to in a client’s written agreement with HCIM, upon termination of any client account, any prepaid, unearned fees would be promptly refunded, and any earned, unpaid fees would be due and payable. Such fees would be calculated on a pro-rated basis according to the number of days elapsed during the billing period.

HCIM’s fees are exclusive of expenses which may be incurred by the client as documented in a written agreement with the client. If any such expenses are paid by HCIM, the client shall reimburse HCIM for those expenses.

The following describes the types of fee arrangements under which HCIM is compensated.

#### **Fee Arrangements for Private Placement & Bond Investments Strategies—Mezzanine & CDOs**

*Asset-based Management Fees*—HCIM may receive management fees for providing investment advisory services to private fund clients. Depending on the private fund client, these fees are payable quarterly in advance, or quarterly or semi-annually in arrears. Any payment made in advance for a period other than a full quarterly period would be adjusted on a prorated basis according to the number of days elapsed. These fees are individually negotiated and range in size from 0.05% to 1.5% per annum of:

- a private fund client's assets under management or,
- a private fund client's outstanding principal amount of securities or,
- a private fund client’s funding commitment or capital invested, subject in some cases to adjustment according to predetermined formulas.

*Performance-Based Fees*—In addition to asset-based management fees, private fund clients may also pay performance-based fees, which are commonly referred to as “carried interest,” to the general partner of the respective fund. The general partner of certain private fund clients is a related party of HCIM. In these circumstances, the general partner earns 20% of the profits generated by the respective fund after the limited partners’ capital has been returned, together with a preferred return on such capital. Carried interest amounts are paid according to a predetermined waterfall distribution.

*Other Arrangements*—For one separately managed mezzanine account, HCIM’s fees include an annual management fee of 1.5% of the invested capital (subject in certain cases to adjustment according to predetermined formulas) payable quarterly in advance. In addition, a HCIM affiliate is also entitled to a carried interest performance fee of 20% of the client’s profits after the account has received back its contributed capital, together with a preferred return on such capital. The fees were individually negotiated and are charged directly to the client in accordance with a fee agreement.

For certain of the CDO private fund clients, HCIM may receive a contingent portfolio advisory fee if the equity investors have received a specified rate of return as agreed upon in writing in the investment management agreement(s). These fees range from 0.15% to 0.25% of the outstanding amount of the notes issued by the CDO private fund client, plus, for some clients, the amount of the equity.

#### **Fee Arrangements for Private Placement & Bond Investment Strategies—Other Private Placement & Bond Portfolios**

HCIM receives management fees for performance of investment advisory services. These fees are individually negotiated with a client and range from .11% to 1.5% per annum based on market value. Depending on the agreement with the client, these fees may be calculated monthly or quarterly by HCIM or a client’s representative based on market values established by HCIM or other person.

#### **Fee Arrangements for Real Estate Finance Investments Strategies**

As further described below, HCIM fees related to commercial real estate mortgage strategies are subject to negotiation, and the manner in which they are charged is documented in a written agreement with the advisory client. Generally, the advisory client will pay to HCIM a management fee (which may also include but is not limited to a mandatory origination and portfolio management component, as well as a servicing fee component) each calendar quarter, in arrears, as compensation for services performed or provided under the written agreement, based on the average value of the advisory client’s account as of the last day of each month or quarter for each calendar quarter.

### **C. Other Types of Fees or Expenses**

In addition to management and performance fees paid to HCIM (as described in Items 5A & 5B), advisory clients will also be responsible for fees and expenses incurred in connection with such investments, which may include but are not limited to custodian, transaction, and brokerage fees and expenses.

*Private Placements and Bond Investments*—Item 12 further describes the factors that HCIM considers in selecting or recommending broker-dealers for client securities transactions and determining the reasonableness of their compensation (e.g., commissions).

In addition, certain of the private fund clients are responsible for paying expenses associated with organizing and maintaining the respective fund and the sale of the interests to the limited partners (including placement fees). Fees and expenses associated with establishing and maintaining the funds may include (i) the costs associated with evaluating, acquiring, monitoring, and disposing of investments, (ii) costs associated with the respective fund's advisory committee meetings and meetings of the limited partners, (iii) costs of preparing financial, tax, and other reports to the limited partners, (iv) all banking charges, taxes, and insurance payments, and (v) all legal, accounting, custodial, and consulting fees incurred in connection with the business and management of the respective fund. In the case of organizational expenses, the limited partnership agreements typically include a cap on the amount of organizational fees to be borne by the fund, with any remainder being treated as a credit to future management fees, if any.

Certain of the private fund clients have used either an affiliated placement agent or a third party placement agent to market and sell the fund interests to limited partners. Additionally, a private fund client uses an affiliate that is registered as an exempt market dealer in Canada to distribute the private investment fund in the Canadian exempt securities market. As noted above, these fees are treated as fund expenses, however, the fund receives a complete offset to the management fees paid by the fund to HCIM for such placement fees.

*Real Estate Finance Investments*—Subject to the terms of each client's written agreement with HCIM, the advisory client is responsible for its pro rata portion of any fees, expenses, or penalties incurred by or on behalf of the client account relating to any investment in its HCIM-managed commercial real estate mortgage loan and bond portfolio, including but not limited to all brokerage charges, recording, transfer or registration fees, filing fees, agent fees, ongoing sub-servicing fees to financial intermediaries, and any taxes payable by (or required to be withheld on behalf of) the advisory client or to which the advisory client may be subject. In addition, the advisory client is responsible for its pro rata share of any fees and expenses relating to the legal, accounting, third party advisors and consultants, due diligence and other services incurred in connection with the evaluation, structuring, and negotiation of any investment that forms part of the advisory client's HCIM-managed portfolio (whether such investment is completed or not), and any obligations incurred with respect to the mortgages in the client's portfolio. For greater certainty, in the event that HCIM or any of its affiliates incurs any otherwise unreimbursed out-of-pocket cost or expense owing to the advisory client in the course of providing services pursuant to the investment management agreement in order to preserve or enhance the value of any investment, including, without limitation, any cost or expense relating to litigation with respect to such investment or the restructuring of such investment, the advisory client will reimburse HCIM in full for its pro rata share of such cost or expense, based upon the proportion that such investment bears to the total applicable loan.

Additionally, to the extent and advisory client directs the sale of a mortgage loan or bond prior to its maturity or terminates the investment management agreement prior to the maturity of the mortgage loans or bonds in the portfolio, the client may be required to pay HCIM (or ensure HCIM is paid) an amount equal to the present value of the origination and portfolio management fee components of the management fee relating to such mortgage(s) for the remaining life of the



mortgage(s). Such sales or transfers are subject to further restrictions such as rights of first refusal and the purchaser entering into a servicing agreement with an affiliate of HCIM.

#### **D. Advance Payment of Fees**

For those advisory clients who pay their management fees quarterly in advance, to the extent the management agreement between HCIM and such client was terminated prior to the end of a fiscal quarter the management fee for such quarter would be pro-rated based on the number of remaining days in the fiscal quarter and any overpayment would be returned by HCIM to the respective advisory client. However, to the extent an management agreement between HCIM and a commercial mortgage mandate client is terminated certain future components of the management fee (such as origination and portfolio management) related to mortgage investments may be required to paid to HCIM (or otherwise arranged to be paid to HCIM) as described in the relevant investment management contract.

For certain mezzanine private fund clients, any carried interest earned by the general partner of such a fund is only paid when the fund has received cumulative proceeds from portfolio assets in excess of the sum of (i) capital contributed to acquire assets which have been disposed of, if any, (ii) impairments from portfolio assets (including those which have not been disposed of), and (iii) expenses incurred by the fund. The limited partnership agreement for each such mezzanine fund includes a term which provides that, in the event that the general partner receives carried interest in excess of a defined formula, the excess amounts will be returned to the limited partnership.

#### **E. Compensation for Sale of Securities or Other Products**

Not applicable.

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

In some cases, HCIM has entered into performance-based fee arrangements with clients, while in other cases, HCIM charges an asset-based fee. Performance based fee arrangements may create an incentive for HCIM to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. HCIM has processes in place to ensure oversight of investments for such clients, including the John Hancock approval process (see Item 8A), review of accounts (see Item 13), and extensive reporting to the Credit Committee of Manulife Financial Corporation. In addition, John Hancock has made a commitment to co-invest beside certain of these clients, which aligns its interests with that of the clients. Such performance-based fee arrangements may also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. HCIM has implemented procedures reasonably designed to ensure that all clients are treated fairly and equitably, and to prevent this conflict from influencing the allocation of investment opportunities among clients (see Item 11).

The general partner of certain of the private fund clients is entitled to receive carried interest based on the performance of the assets of such private fund clients. Certain supervised persons

of HCIM are non-managing members of these general partner entities. Such employees, as part of their compensation, receive a percentage of the carried interest earned by the general partner. These supervised persons do not receive any part of the management fee that is paid to HCIM. The allocation of carried interest to supervised persons may differ from one private fund client to another. Also, the performance of private fund clients may vary over time. These factors could create incentives for supervised persons to favor one private fund client over another. This potential conflict is managed in two primary ways: (i) for new investments, there is generally only one private fund open for new investments at a time which limits the ability of supervised persons to allocate an investment to a private fund client which would be more beneficial to them, and (ii) for existing investments, HCIM and John Hancock have processes in place to ensure oversight of investments for such clients, as noted above, including the John Hancock approval process (see Item 8A), review of accounts (see Item 13) and extensive reporting to the Credit Committee of Manulife Financial Corporation.

On occasion, HCIM or a related person is paid a closing, transaction, commitment, breakup or other fee by a non-client in connection with giving advice to clients or structuring an investment transaction in which a client may invest. In such instances, all, a portion or none of such fees may be used to offset management fees, or all, a portion or none of such fees may be retained by the related person. For one of its private fund clients, HCIM is required to reduce the management fee paid by such fund by 80% of the fund's share of any transaction, commitment, break-up or similar fees received by HCIM in connection with the investment of fund capital, net of related expenses, but is permitted to retain the remaining 20% of such fees without reducing the management fee by such amount. HCIM will determine the amount of these fees in its own discretion, subject to agreements with portfolio companies in which such private fund client invests and market norms. These fees compensate HCIM for its expertise in structuring the deal and are a negotiated term of the transaction. Although HCIM receives these fees from actual or prospective portfolio companies, the opportunity to earn these fees may create a conflict of interest between HCIM, on the one hand, and the private fund client, on the other hand, because the amounts of fees that HCIM may retain may be substantial. This conflict includes HCIM potentially having a financial incentive to select certain investments that will pay HCIM such a fee versus other investments that will not pay a fee or pay a lesser fee to HCIM. This potential conflict is managed by HCIM's investment oversight processes, as described above in this Item 6.

## **Item 7 – Types of Clients**

HCIM offers its advisory services to institutional clients, insurance companies, pension and profit sharing plans (including government plans), sovereign funds, private funds, and affiliated accounts (which includes affiliated insurance company clients). HCIM may provide services to additional types of clients. Currently, HCIM provides investment management services to private fund clients, a corporate pension plan, an affiliated corporation and an unaffiliated insurance company. HCIM's private fund clients include collateralized debt obligation vehicles as well as mezzanine funds. For purposes of this brochure, investors in private funds advised by HCIM are not considered HCIM's clients. HCIM considers each private fund to be its client.

*Bond and Corporate Finance Group*—As of the date of this brochure, HCIM’s Bond and Corporate Finance Group provides investment management services to an unaffiliated pension plan of a major U.S. corporation and to an affiliated corporation for which HCIM manages general account assets. For both of these advisory clients, HCIM continues to make new investments. The Group also provides investment management services to certain closed-end collateralized debt obligation (“CDO”) private fund advisory clients. Each CDO private fund advisory client has privately issued debt and/or equity securities. Such debt securities are secured by a collateral pool of bonds and loans, including private placement, 144A and public bonds. All of these CDO private fund clients are closed to new investors, are not making new investments, and are in run-off mode.

The Group also currently manages several private mezzanine investment funds and one mezzanine separately managed account. HCIM is the investment manager to certain private closed-end funds formed by a wholly-owned subsidiary of John Hancock. The general partner and certain investors in the general partner of such funds are related persons of HCIM. The majority of the investors in such funds are unrelated third parties. Certain of these private fund clients are making new investments, but others are not. HCIM is also the investment manager to another private fund client for which a related person of HCIM is the manager. There are two investors in such fund, one of which is an unrelated third party and the other is a HCIM affiliate with a de minimis equity interest in the fund. This private fund client is no longer making new investments. HCIM also services an unaffiliated insurance company advisory client. HCIM is no longer making new investments for this advisory client’s portfolio.

*Real Estate Finance Group*—As of the date of this brochure HCIM’s Real Estate Finance Group has not originated, managed, or serviced commercial real estate mortgages for investment advisory clients. However, the individuals of John Hancock who are involved in HCIM’s commercial real estate mortgage investments strategy have experience originating, managing, and servicing commercial real estate mortgages for the accounts of John Hancock and its affiliated insurance companies. This HCIM Group is currently marketing its commercial real estate mortgage advisory capabilities to potential advisory clients.

While HCIM does not have any specific requirements for opening or maintaining an advisory account, HCIM generally only provides investment advisory services to private funds and other institutional investors as described above. HCIM does not generally accept as investment advisory clients non-institutional individual investors.

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

### **A. Methods of Analysis**

On account of the overlap of investment process and persons between HCIM and John Hancock, as well as the nature of shared investment opportunities and co-investments, investment decisions made by HCIM on behalf of its clients are subject to John Hancock's approval process. In this process, HCIM evaluates a potential investment opportunity (including any disposition of, or amendment to, an existing investment) and decides whether it wants the applicable HCIM client to proceed with the transaction. Prior to proceeding with an investment transaction, HCIM submits its recommendation for the transaction to the appropriate credit authority of John Hancock for its review. Upon concurrence with HCIM's recommendation, the investment transaction will be completed.

### **Methods of Analysis and Investment Strategy—Private Placement and Bond Investments**

The HCIM Bond and Corporate Finance Group investment process focuses on in-depth credit and/or equity analysis of an issuer, the strength of the issuer's management team, the operating history and industry position of the borrower, the collateral in secured deals, the covenant package in a transaction and other factors, such as diversification of revenues and profits; liquidity; financial leverage; insurance coverage; and legal, regulatory, accounting and environmental risks. HCIM's investment analysts, all of whom are in-house with HCIM or a related person, use fundamental credit analysis using various sources including company annual reports and press releases, research materials prepared by others, newspapers, corporate rating and research services and industry, trade association and academic publications. Materials provided by the Federal Reserve Board and other government agencies may also be consulted. HCIM's investment approach is characterized by a long term view. Each investment is analyzed for its creditworthiness and/or potential for capital appreciation over the full term of the investment.

HCIM's current investment strategies for its Bond and Corporate Finance Group clients may include investments in public and private securities, including corporate bonds at various quality levels, structured finance obligations, equity and mezzanine securities. HCIM may employ the following investment strategies, depending on the client:

- for its fixed income strategy, HCIM focuses on (i) credit risk, investing primarily in corporate bonds that offer attractive relative value (i.e., bonds that appear to be underpriced from a fundamental perspective relative to similar or related securities), and (ii) as an additional feature for certain clients, the potential for long-term capital appreciation by investing in equity securities; and
- HCIM also manages client assets using a total return framework to outperform benchmark indices.

## **Methods of Analysis and Investment Strategy—Real Estate Finance Investments**

HCIM's Real Estate Finance Group's management of private mortgage debt portfolios include investment sourcing, credit underwriting, investment selection, loan servicing/surveillance, and active portfolio management. The investment sourcing process relies on relationships with brokers and commercial property owners to identify lending opportunities. Deal sourcing and management of loans is conducted through this Group and its regional offices. Written investment policies, risk and return parameters, portfolio allocation models, investment strategy and guidelines, and performance measures are developed in conjunction with the client. The specific strategy is tailored to the needs of the client. Some of the strategies anticipate co-investment requirements with John Hancock and its affiliated companies.

Risk is managed in-house through underwriting due diligence performed at the time of origination, as well as ongoing investment monitoring performed during the life of the loan (or during the holding period). Location and market analysis, on-site property inspections, meetings with the local on-site property management and leasing teams, analysis of the current tenants, borrower credit analysis, and property valuation analysis (including evaluation of historical and projected cash flows), assessment of improvements, and environmental and engineering reviews may be undertaken as part of the pre-lending due diligence underwriting and risk management process. Additionally, this Group also utilizes a "bond-like" internal loan rating calculation system to aid it in its underwriting process. Risk is also managed through the formal loan documentation process as well as certain insurance requirements such as property and liability insurance. During the life of the loan, portfolio surveillance is performed by in-house teams with valuation expertise, asset management, and recovery experience. Additionally, the Group focuses on consistent borrower contact to monitor loan performance.

Clients should be aware no risk management system is fail-safe, and no assurance can be given that risk frameworks employed will achieve their objectives and prevent or otherwise limit substantial losses.

### **B. & C. Risks of Investment Strategy and Types of Investments**

All investments involve the risk of loss, including (among other things), loss of principal, a reduction in earnings and the loss of future earnings. These risks include the risks described below as well as other risks of investing in the market that are not contemplated in this brochure.

#### **Debt Instruments**

Investments in debt instruments, whether senior or subordinated debt, public or private, secured or unsecured, or investment-grade or below investment-grade, may involve the following risks:

*Liquidity Risk*—Debt instruments may be illiquid. The risk of investing in illiquid assets is that they may be difficult for HCIM to sell for their fair market value. HCIM may purchase or otherwise acquire debt instruments for clients that are subject to restrictions on sale because they were acquired from the issuer in a "private placement". HCIM may not be able to sell these instruments publicly. Furthermore, contractual conditions or practical limitations may preclude,

delay or otherwise restrict HCIM's ability to dispose of illiquid assets for clients or reduce the proceeds that might otherwise be realized from any such disposition. In addition, the ability to buy or sell debt instruments may be reduced or cease at any time, due to general market turmoil, problems experienced by a single issuer/borrower or a market sector, or other factors.

*Interest Rate/Market Value Risk*—There is a risk that the value or yield of a debt instrument may decline if interest rates change. In general, the prices of debt instruments rise when interest rates fall, and fall when interest rates rise. Longer term obligations are usually more sensitive to interest rate changes than shorter term obligations. Depending on the timing of the purchase of such an asset and the price paid for it, changes in prevailing interest rates may increase or decrease the instrument's yield. If the debt instruments were to be marked-to-market or sold, changes in interest rates may adversely affect the value of these investments.

*Credit Risk/Market Risk*—There is a risk that a decline in an issuer/borrower's financial position may prevent it from making payments on the instruments they issue. Also, if an issuer's financial condition changes, the credit quality of the instruments may be lowered. Instruments with lower credit ratings involve a greater risk of impairment or default before maturity. Lower credit quality also could result in greater volatility in the price of the instrument which could affect the liquidity and the ability to sell the asset. An economic downturn could also disrupt the market for such instruments and adversely affect the value of such instruments and the ability of the issuer to repay principal and interest.

*Ratings Risk*—For investments in private corporate bonds and commercial real estate mortgage loans, HCIM relies on credit ratings developed by internal credit analysts for each investment because such bonds or instruments are not rated by credit rating agencies.

*Prepayment Risk*—There is a risk that issuer/borrowers may pre-pay on the bonds or loans sooner than expected, which may force HCIM to reinvest the unanticipated proceeds for a client at lower interest rates, resulting in a decline in income.

*Below Investment-Grade Debt Risks*—Below investment-grade debt obligations are subject to certain risks that are generally greater than those of investment grade securities. Issuers of such debt may be in weak financial health, their ability to pay interest and principal is uncertain and they may have a higher risk of becoming insolvent. Small changes in the issuer's creditworthiness can have more impact on the price of lower-rated bonds than would comparable changes for investment-grade bonds. Lower-rated bonds can also be harder to value and sell and their prices can be more volatile than the prices of higher-quality securities.

*Foreign Investment Risk*—Investments outside the United States may involve greater risks than investments in the United States, including lack of publicly available information, varying degrees of governmental regulation and oversight, difficulties enforcing legal rights in a foreign jurisdiction and uncertainties as to the status, interpretation and application of laws.

*Exchange Rate Risk*—There is risk associated with currency exchange rate fluctuations. Changes in exchange rates and exchange control regulations may increase or reduce the value of an asset.

## **Subordinated Debt/Loans and Preferred Equity**

In addition to certain of the risks noted above, investing in subordinated debt/loans and preferred equity involves additional risks. Such investments are highly speculative and involve a high degree of risk of credit loss. These risks are likely to increase during an economic recession. Although typically senior to common stock or other equity securities, subordinated debt and preferred equity will generally be unsecured and subordinated to substantial amounts of senior debt, all or a significant portion of which may be secured. Similarly, a subordinated loan or “second lien” loan will generally be subordinated to senior loans (both in terms of payment and collateral). In addition, these instruments may not be protected by financial covenants, such as limitations upon additional indebtedness, which typically protect such senior debt. Holders of subordinated debt/loans generally are not entitled to receive any payments in bankruptcy or liquidation or certain default scenarios until senior creditors are paid in full. Holders of preferred equity are not entitled to payments until all creditors (including trade creditors) are paid in full. In addition, the remedies available to holders of subordinated debt/loans are normally limited by restrictions benefiting senior creditors. To the extent a portfolio company or borrower cannot generate adequate cash flow to meet senior debt service, such clients may suffer a partial or total loss of capital invested.

## **Common Equity**

In addition to certain of the risks applicable to debt investments, investments in common equity are subject to the risk that the price of equity securities may decline in response to the performance and financial condition of individual issuers of equity, as well as general market and economic conditions. General market conditions could include changes in interest rates, political situations, economic growth, and market conditions.

## **Derivatives**

Derivatives may be subject to risks including but not limited to liquidity risk, interest rate risk, market risk, and credit risk.

## **Capital Competition and Other Mezzanine Mandate Risks**

HCIM competes for investments for its clients with a number of other sources of capital with similar investment objectives. As a result, there may be relatively few attractively-priced investment opportunities available at certain times. This could result in HCIM investing capital over a longer period of time and potentially have an adverse impact on performance.

Also, HCIM may acquire for its clients either debt or equity securities of companies formed for specific transactions and that have no operating histories, or of companies that are highly leveraged, with significant burdens on cash flow resulting from acquisitions, recapitalization or other debt service. Such companies’ securities and the ability of such companies to pay debts could be adversely affected by interest rate movements, changes in the general economic climate or the economic factors affecting a particular industry, changes in tax law or specific



developments within such companies. In connection with the disposition of such investments, HCIM may be required to make representations about the business and financial affairs of the company typical of those made in connection with the sale of a business. It may also be required to indemnify the purchasers of such investment to the extent that any such representations turn out to be inaccurate.

### **Other Risks Associated with Investments in Commercial Real Estate Debt Investments**

The basic risks of lending and direct ownership of commercial real estate mortgages include but are not limited to borrower default on the loan and declines in the value of the real estate collateral. Defaults can be complicated by borrower bankruptcy and other litigation including the costs and expenses associated with foreclosure which can decrease an investor's return. Declines in real estate value can result from changes in rental or occupancy rates, tenant defaults, extended periods of vacancy, increases in property taxes and operational expenses, adverse general and local economic conditions, overbuilding, deterioration in the physical condition of the asset, environmental issues at the mortgaged property, casualty, condemnation, changes in zoning laws, taxation and other governmental rules. Capital markets volatility can also impact the liquidity and valuation of both mortgage loans and the underlying properties and may include such items as changes in interest rates, availability and pricing of mortgage capital, and the return requirements used in the valuation of real estate by prospective purchasers. Increases in interest rates may also directly reduce the market value of a fixed rate loan. Commercial mortgage investments are also very dependent on the financial health, operational expertise, and management skills of the borrower. Additionally, see Item 5C for discussion of the risks of advance payments of fees when a client in the commercial real estate mortgage investments mandate directs the sale of a mortgage asset or terminates its investment management agreement prior to maturity of the mortgage investment or other mortgage portfolio investments.

## **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 HCIM or the integrity of HCIM's management. HCIM has no information applicable to this Item. Although HCIM and its affiliates may be subject to litigation from time to time in the normal course of business, there is no pending or threatened litigation or regulatory action against HCIM that is likely to affect the legality, validity or enforceability against it of any advisory agreement to which it is a party or its ability to perform advisory services for its clients.

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

### **A. Broker-Dealer Registrations**

Certain of HCIM's management persons are registered representatives of a broker-dealer, John Hancock Distributors LLC, which is an affiliate of HCIM.



## **B. Commodity and Futures Regulatory Registrations**

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

## **C. Material Relationships**

As noted in Item 4, HCIM is an indirect wholly-owned subsidiary of Manulife Financial Corporation ("MFC"). MFC is also the indirect parent company of the following related persons with whom HCIM and/or its management persons have relationships that are material to HCIM's advisory business or HCIM's clients:

- John Hancock Distributors LLC ("JHD"), a broker-dealer registered with the Securities and Exchange Commission.
- Manulife Asset Management (Hong Kong) ("MAMHK"), a company incorporated in the Hong Kong Special Administrative Region of the People's Republic of China. MAMHK is an investment adviser.
- Manulife (International) Limited ("MIL"), a company incorporated in Bermuda and having its principal place of business in Hong Kong. MIL is an insurance company.
- John Hancock Life Insurance Company (U.S.A.) ("John Hancock"), a Michigan insurance corporation.
- Declaration Management & Research LLC ("DMR"), a Delaware limited liability company. DMR is an investment adviser registered with the Securities and Exchange Commission.
- Hancock Capital Management, LLC ("HCM"), a Delaware limited liability company.
- Manulife Asset Management Limited ("MAML"), a corporation incorporated under the laws of the Province of Ontario and registered as an exempt market dealer in all Canadian provinces.

JHD and HCM have entered into a Placement Agency Agreement. As noted in Item 10A, certain of HCIM's management persons are registered representatives of JHD. HCIM does not believe such relationship creates a material conflict of interest between HCIM and its clients.

MAMHK serves as investment adviser to MIL. HCIM serves as sub-investment adviser to MIL pursuant to a sub-investment management agreement between HCIM and MAMHK. HCIM does not believe such relationship will create a material conflict of interest between HCIM and its other clients.

HCIM's principal executive officers each serve in a dual capacity as officers of HCIM and John Hancock and/or one or more of its affiliates. These persons are shared with and provide services to HCIM under a services agreement with John Hancock (which has a services agreement with one or more affiliated companies), but may spend the majority of their time on activities for John Hancock or its affiliates. These persons are subject to the control of John Hancock or its affiliates and may take actions that are different from the actions that individuals who are not employed by John Hancock or its affiliates would take. The principal activity of certain of these

persons is in each case providing investment advice or investment management services to affiliated or non-affiliated entities. These supervised persons receive a base salary and performance-based bonus which is based on a number of factors, including the performance of certain accounts of John Hancock that are independent of the investments made by HCIM on behalf of its clients, which could present a conflict of interest. For example, certain HCIM officers, acting in their capacity as John Hancock employees, may review investments for John Hancock of the type in which HCIM's clients do not invest. If that asset class were performing better than asset classes in which HCIM's clients do invest, the compensation of such supervised persons from that asset class would be higher and thus would incentivize such supervised persons to allocate more of their time and attention to that asset class.

These conflicts are mitigated by: (a) each such supervised person's responsibility to render services in the client's best interest pursuant to the investment management or other agreement and HCIM's code of ethics; (b) the John Hancock approval process (see Item 8A); and (c) the HCIM Conflict Oversight Committee.

DMR serves as sub-investment manager to HCIM with respect to its affiliated insurance company client. HCIM does not believe such relationship will create a material conflict of interest between HCIM and its other clients.

HCM, a related party of HCIM, is the managing member of the general partner entities for certain of the private fund clients. HCIM does not believe such relationship will create a material conflict of interest between HCIM and its other clients.

MAML and HCM have entered into a distribution agreement regarding the sale of certain private investment fund securities in the Canadian exempt securities market. HCIM does not believe such relationship will create a material conflict of interest between HCIM and its clients.

Please see Item 11 below for descriptions of how these relationships could create material conflicts of interest with clients and how those conflicts are addressed.

#### **D. Other Investment Advisers**

If permitted, HCIM may select other affiliated investment managers to provide investment management services to its clients. Because only affiliate investment managers would be selected by HCIM, HCIM does not believe that affiliation alone creates a material conflict of interest. See Item 10C a description of HCIM's current advisory relationship with Declaration Management & Research LLC.

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

### **A. Code of Ethics**

HCIM has adopted a Code of Ethics for all supervised persons of HCIM. The Code of Ethics describes HCIM's standards of integrity and ethical business conduct that all supervised persons must follow. The Code of Ethics includes provisions relating to general fiduciary principles and business conduct, a prohibition on insider trading, and personal securities trading procedures, among other things. The Code of Ethics is designed to ensure that personal securities transactions and outside activities of officers of HCIM will not interfere with making decisions in the best interest of clients. Under the Code of Ethics, certain classes of securities have been designated as exempt transactions, based upon a determination that they would not materially interfere with the best interests of HCIM clients. In addition, the Code of Ethics requires pre-clearance of most transactions and restricts trading in certain securities within 7 calendar days before or after client trades for certain designated access persons. Access persons are any of HCIM's supervised persons who have access to non-public information regarding any client's holdings or purchase or sale of securities, or any person who is involved in making securities recommendations to clients, or who has access to such recommendations that are nonpublic. HCIM is permitted to develop de minimis and other exemptions from the requirements of the Code for those situations that appear to involve no material opportunity for abuse and where the exemption would be otherwise permitted by applicable law. All supervised persons at HCIM must acknowledge that they have read and agree to abide by the Code of Ethics at least annually and sanctions can be imposed for non-compliance with the Code of Ethics. A copy of the Code of Ethics is available upon request by contacting the HCIM Compliance Office at 617-572-0693.

### **B., C. & D. Conflicts of Interest**

#### **Conflicts of Interest—General**

Conflicts of interest with respect to HCIM's advisory clients may arise from time to time, as described below:

- Related persons of HCIM may co-invest with one or more client accounts in commercial mortgage real estate investments or in securities of the same or similar class. In addition, HCIM or its related persons may invest the assets of a client in a commercial mortgage real estate investment or in securities of the same or similar class in which HCIM or its related persons have a pre-existing ownership interest. In appropriate circumstances a related person may, as principal, buy securities for itself from, or sell securities or other assets it owns, to a HCIM advisory client if the client (or, as applicable, its investment advisory committee or equity holders, in the case of certain private fund clients, or other authorized client representative) grants its consent.
- Mezzanine investment opportunities presented to or sourced by the Bond and Corporate Finance Group of John Hancock or HCIM may be subject to the portfolio manager's discretion to allocate a certain percentage of any such investment to certain of HCIM's

private fund advisory clients as well as a related person. The allocation entitlements for private fund advisory clients are set forth in such fund's limited partnership agreement and HCIM's Investment Allocation Process. In addition, other John Hancock accounts may participate in such investments, on the same terms and conditions as the investments made by such private fund clients, to the extent the fund does not commit all of the capital required for such investments.

- Certain advisory clients may make investments in portfolio companies in which John Hancock or its related persons already have an investment, or vice versa or both. Such situations may present conflicts of interest, particularly in cases where the client and John Hancock or its related persons have invested in different levels of a portfolio company's capital structure or at different times, which could result in John Hancock or its related persons holding securities which are senior in priority to those held by the advisory client or the same securities but at a different price. For example, in cases in which a HCIM private fund client makes an investment in a portfolio company in which a John Hancock account has a prior investment, the fund's investment may indirectly enhance the value of John Hancock's prior investment.
- From time to time, John Hancock or its affiliates may provide financing in the form of a loan to a portfolio company in which HCIM has invested on behalf of certain clients. The securities received in such transaction may be secured by the assets of the portfolio company and will generally be senior in priority to the portfolio company's existing subordinate debt or equity holders, including HCIM's advisory clients. Similarly, John Hancock or an affiliate may provide additional equity to a portfolio company and receive preferential liquidation or dividend terms over the securities held by HCIM clients. Any such financing and/or capital contribution will be at John Hancock's or its affiliates' sole discretion, and there is no guarantee that John Hancock or any of its affiliates will provide such financing and/or capital to any portfolio company.
- Conflicts may arise if an advisory client's investment in a portfolio company is used, directly or indirectly, to refinance or otherwise liquidate an investment in the portfolio company that was made by John Hancock or its related persons or another advisory client, or if an investment by John Hancock or its related person is used, directly or indirectly, to refinance or otherwise liquidate an investment by a HCIM advisory client in a portfolio company. Such conflicts of interest may include determinations of whether existing investors are being cashed out at an appropriate price and whether new investors are purchasing securities with terms that are more or less favorable than the prevailing market terms. In such cases, HCIM may have an incentive to arrange for an investment to be refinanced or liquidated upon terms that are advantageous to the John Hancock or its other related persons involved.
- Conflicts of interest may arise if a portfolio company in which a HCIM advisory client and John Hancock or its related persons have invested subsequently becomes financially troubled. For example, questions as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be refinanced may arise.

Decisions about what action should be taken in a troubled situation, including whether or not to enforce claims, whether or not to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, whether or not to provide additional capital, and the terms of any work-out, restructuring, or additional capital, may raise conflicts of interest.

- Conflicts of interest may arise if HCIM decides to sell an advisory client investment in a portfolio company in which John Hancock or its related persons hold an investment at a different level of the capital structure, or vice versa or the same security is held but it was acquired at a different time or price. Conflicts of interest may arise if HCIM decides to sell an advisory client investment in a portfolio company in which John Hancock or its related persons hold an investment and the John Hancock or related persons do not sell their investment or do not sell their investment in the same proportion as the advisory client. Similarly, conflicts of interest may arise if John Hancock or its related persons decides to sell an investment it holds in a portfolio company that is also held by an advisory client and HCIM does not sell the advisory client's investment or does not sell the investment in the same proportion as John Hancock or its related persons.
- Conflicts may arise if a commercial mortgage loan investment opportunity is originated for a client account where John Hancock or its related persons have an existing financial interest (or as a result of the loan will have a financial interest) in the real estate secured by the loan.
- In limited cases, employees of HCIM may serve on the boards of certain portfolio companies in which advisory clients invest. A HCIM employee who serves as a board member of a portfolio company will have a fiduciary duty to the stakeholders of such portfolio company as a director, and a potentially conflicting fiduciary duty to HCIM clients. While HCIM generally expects the interests of portfolio companies to be aligned with those of HCIM's clients, from time to time such interests may diverge. In those situations, any investment-related decisions impacting the applicable portfolio company will be made by HCIM through its normal investment decision-making process, without regard to the fact that a HCIM employee serves on the board of such portfolio company. In the event of such conflict, the HCIM employee serving on the board would recuse himself from voting on the matter that would conflict with the client, and in certain cases, resign.
- Management fees, carried interest allocations, performance fees and/or other compensation payable to HCIM or certain of its related persons by private fund clients are established by HCIM at the time of the establishment of the relevant vehicle and negotiated with participating investors prior to their investment. Specific details of such compensation and expenses and their method of calculation are set out in the offering materials, disclosure documents and/or governing documents of the relevant private fund client and, as indicated above, vary from private fund to private fund. Such compensation and expenses, once the relevant private fund has been established and commenced operations, are generally not negotiable. From time to time, the general partner of certain of the private fund clients may enter into "side letters" or similar

negotiated agreements with investors in the private fund clients that may provide rights and terms that vary from those granted under the terms of the limited partnership agreements, including the right to receive rebates or reductions of management fees or other compensation otherwise payable with respect to investments to HCIM. As a result, some investors may invest in the private funds on terms (including without limitation those relating to information rights) more favorable than the terms that are available to other investors. These differing terms may be based on the size of an investor's investment in a private fund or other similar commitment by the investor.

- Conflicts of interest may arise with respect to a private fund client at the time of liquidation of the fund. At the end of a fund's life, it may be in the best interests of the fund to sell the remaining securities or investments to John Hancock or its related persons in order to avoid in-kind distributions to the fund's investors.
- HCIM or its affiliates have arrangements with a number of financial intermediaries who present commercial real estate loan investment opportunities. Typically, these arrangements result in the referring institution being paid an ongoing sub-servicing fee for the duration of the loan. In these circumstances, the participating advisory clients and HCIM affiliates investing in the loan are each obligated to pay their pro rata portion of the ongoing fee. These arrangements result in others being compensated for a portion of loan servicing activities for which HCIM receives servicing compensation from its clients. However, HCIM believes these arrangements are beneficial in generating investment opportunities which would not otherwise be made available to clients or HCIM's affiliates.
- In the event of an opportunity to sell a commercial mortgage real estate loan in a client portfolio is presented to HCIM, HCIM may have a financial incentive not to arrange for the sale of the loan as a result of the ongoing origination and servicing fee components of the management fee on that particular loan.
- From time to time, HCIM or its affiliates be may restricted from making investments in certain securities, industries, companies or countries based on regulatory, contractual, or risk management reasons due to limitations imposed by John Hancock as part of its general account portfolio management. These restrictions could have resulted from actions by HCIM or an affiliate of HCIM. As a result of this, HCIM clients who have the ability to invest in such securities, industries, companies or countries may not be able to make such investment, particularly where there is a mandatory co-investment requirement. Additionally, these same limitations may also prohibit HCIM from selling or making other investment decisions regarding certain client investments when desired (see also Item 8A).
- As noted throughout this brochure, HCIM's individual portfolio managers and staff are also responsible for the day-to-day management of multiple advisory accounts (including private investment funds and separately-managed accounts) as well non-advisory affiliate accounts (including John Hancock and affiliate insurance company proprietary accounts

and insurance company separate accounts for institutional clients). Generally, the potential for material conflicts of interest exist whenever a portfolio manager and investment staff have responsibility for the day-to-day management of multiple accounts. However, the potential for such conflicts may be heightened to the extent a portfolio manager and the relevant investment staff are also responsible for managing proprietary accounts. These potential material conflicts include those relating to the allocation of investment opportunities (see Conflicts of Interest—Investment Allocation below) as well as general preferential treatment for a proprietary account because of the portfolio manager or relevant investment staff's economic and employment relationship with John Hancock and its affiliated insurance companies. To address these and other potential material conflicts of interests, HCIM has adopted a number of policies and procedures to ensure that HCIM and its supervised persons meet their duties to their investment advisory clients in a manner consistent with their legal and contractual obligations. HCIM is also required to periodically review its policies and procedures to ensure they continue to adequately address their intended purpose.

HCIM has a Conflicts Committee that is responsible for reviewing potential conflicts of interest relating to the HCIM's advisory clients and providing advice and recommendations for mitigating such conflicts. The members of the Conflicts Committee are appointed by the HCIM Board and consist of representatives from portfolio management, trading, law and compliance. The Conflicts Committee meets regularly and on an ad hoc basis, as necessary.

In addition, certain of HCIM's mezzanine private fund clients have advisory committees comprised of limited partners that are established in accordance with the terms of their limited partnership agreements. In accordance with the fund's governing documents, the general partner of each such fund refers to the advisory committee matters involving conflicts of interest between such fund and John Hancock or related person accounts or other HCIM clients that the general partner reasonably determines to be material, including in the circumstances described above, other than such matters as are explicitly contemplated by the terms of the limited partnership agreements. The advisory committee of such private fund client addresses these conflicts in accordance with its duties and obligations set forth in the respective limited partnership agreements.

### **Conflicts of Interest—Investment Allocation**

HCIM manages investment advisory accounts for its advisory clients (see Item 7 for a description of HCIM's clients). The Bond and Corporate Finance Group and Real Estate Finance Group of John Hancock manage certain proprietary accounts and accounts on behalf of certain affiliates, including John Hancock. These accounts may invest in commercial real estate mortgage loans and bonds, publicly registered bonds, private placement bonds or both, depending on their particular investment policies. In addition, some of these accounts are authorized to invest in mezzanine transactions and direct private equity investments. HCIM advisory client accounts and affiliated accounts may from time to time invest in the same investments or securities, resulting in a potential conflict of interest between HCIM's clients and HCIM's affiliates. HCIM is not required to purchase an investment for one client that they may

have purchased for another client. In certain circumstances HCIM may sell an investment for one client while purchasing the same investment for another client. This may result in a potential conflict of interest between and among HCIM's advisory clients.

*Bond and Corporate Finance Group*—HCIM has adopted an investment allocation process designed to allocate investment opportunities in a manner that is fair to all of the accounts managed by HCIM. Investments generally are allocated among proprietary, affiliated and/or client accounts of HCIM and the Bond and Corporate Finance Group of John Hancock, according to their respective investment policies, cash available to invest and investment needs, and then among advisory client accounts consistent with their respective investment policies, cash available, the overall size of the investment opportunity, any minimum investment requirements and investment needs. As set forth in the HCIM investment allocation process, with respect to mezzanine transactions, two private fund clients and John Hancock as co-investor in such funds have the right, pro rata in accordance with their respective capital commitments, to purchase up to 90% of each mezzanine investment opportunity presented and available to HCIM or the Bond and Corporate Finance Group of John Hancock. As a result of this arrangement, other HCIM clients who have the ability to invest in mezzanine transactions may not be able to invest as much as such private fund clients and John Hancock.

*Real Estate Finance Group*—Commercial real estate mortgage loans and bonds (CML) available for allocation to any HCIM advisory client account is limited by (i) the terms of the investment management contract and investment guidelines established therein between the advisory client and HCIM (including consent rights, if applicable), (ii) HCIM's CML allocation policy and procedures (including priority allocations, equitable allocations, treatment of investment horizon targets, and minimum and maximum allocation requirements), (iii) the number of other advisory clients with a similar loan demand, and (iv) the overall size of the CML demand of John Hancock and its affiliates for a particular loan type. Additionally, certain types of CMLs have been outright reserved for investment exclusively by John Hancock and its affiliate insurance companies (e.g., loans not originated by HCIM or John Hancock but by a third party and also loans and bonds with a loan term greater than 15 years). Consequently, the following factors (individually and collectively) may limit the ability of an advisory client to achieve their optimal target portfolio size in any particular time frame as well as prolong any expected time horizon for the achieving any target portfolio diversification requirements. These factors include but are not limited to (i) John Hancock and its affiliates' demand for a particular CML type or duration, (ii) the frequency of changes to John Hancock and its affiliates' demand for the same CML type (which can occur more frequently than annually), (iii) minimum and maximum advisory client account deal allocation size limitations, (iv) the number of eligible advisory client portfolios with a demand for a particular type of CML (as well future increases in the number of advisory clients eligible for a particular type of CML), and (v) market conditions (including changes to available CML supply).

### **Conflicts of Interest—Personal Trading**

HCIM's officers and supervised persons may under certain circumstances purchase and sell securities for their own accounts, including securities which might be purchased or sold for client



accounts. HCIM's Code of Ethics imposes various trading restrictions and reporting requirements on certain personal securities transactions in order to monitor for and avoid conflicts of interest with client account activity. Most proposed personal securities trades (including all private placement investments) for such officers and supervised persons (including certain household family members) must be approved by HCIM before the trade is executed. Further, no officer or supervised person involved in securities portfolio management activities (or family member) may trade in securities that are likely to be traded for a client account without requesting an exemption through HCIM's formal exemption process (or unless the type of security is exempt). Also, certain personal securities trades and holdings, direct or indirect by officers and supervised persons involved in investment advisory activities, must be reported to HCIM's Compliance Office.

## **Item 12 – Brokerage Practices**

### **A. Factors for Broker-Dealer Selection**

Generally, in the absence of a client's direction to use a particular securities broker or dealer for the execution of transactions in such client's account, HCIM's primary objective in effecting portfolio transactions is to seek to achieve best execution. "Best execution" is generally understood to mean the most favorable cost or net proceeds reasonably obtainable under the circumstances.

The factors that HCIM may consider in selecting a particular securities broker or dealer and determining the reasonableness of its commission include, without limitation: HCIM's knowledge of available broker-dealer margin/mark-ups or commissions and other typical transaction costs; the nature of the transaction; the size of the transaction; the desired timing of the transaction; the activity existing and expected in the market for the transaction; confidentiality; the execution, clearance and settlement capabilities and procedures of the broker or dealer; HCIM's opinion of the financial stability of the broker or dealer; and the willingness of the broker or dealer to commit capital as necessary for execution. Given these factors, HCIM's clients may pay transaction costs in excess of those which another broker or dealer might have charged for effecting the same transaction.

HCIM will generally purchase debt securities for client accounts from the issuer (or its agent) or a primary market maker acting as principal on a net basis with no brokerage commission paid by the client. With respect to private placements of debt and equity securities, in most cases HCIM will effect transactions for client accounts either directly with the issuer or through the broker or dealer offering the security for sale. Debt and equity securities also may be purchased for client accounts in underwritten offerings at prices that include underwriting commissions and fees. Most debt security transactions executed by HCIM in the secondary market are executed on a competitive basis, taking into account the factors discussed above.

Certain broker/dealers may provide HCIM with research or analytical data, which they make generally available to a broad array of potential investors. Such data is not taken into

consideration by HCIM in selecting broker/dealers. HCIM believes that any such data would be made available to HCIM whether or not trades are placed through a given broker/dealer.

Occasionally, transactions are directed to a particular broker or dealer when market conditions indicate that this method is likely to produce better net prices. With regard to certain private fund clients, most investments made by such funds involve private securities that are not traded or sold through a broker-dealer. From time to time a portfolio company in such a fund later may seek to raise capital through a public offering of its common stock. If HCIM elects to liquidate a fund's interest in the portfolio company in the public offering, it may be required to do so through the underwriter of the offering or a broker-dealer specified by the underwriter or the equity sponsor. In that case, HCIM will be limited in its ability to select a broker-dealer to effect the transaction. In addition, HCIM may be unable to negotiate the commissions on such trades, and the fund may pay a higher commission than it would if HCIM was free to select the executing broker. HCIM does not consider client referrals in selecting or recommending securities broker-dealers.

Generally, we do not permit clients to direct brokerage, but in the event HCIM did so, its authority with respect to brokerage discretion may be subject to conditions imposed by the advisory client. For example, HCIM's clients may retain the power to direct that certain transactions be effected through specific brokers or dealers. In such cases, HCIM may be unable to achieve the most favorable execution of directed transactions, clients may receive less favorable prices, clients may pay higher commission rates than those available through other broker-dealers, and clients may pay higher brokerage commissions because HCIM may not be able to aggregate the order with other customer orders.

## **B. Aggregation of the Purchase or Sale of Securities**

When the same security is being purchased by HCIM for two or more clients, or by HCIM and the Bond and Corporate Finance Group of John Hancock for clients and proprietary or affiliated accounts, trade orders may be aggregated. The aggregation of trades may allow HCIM to obtain better net prices and execute trades in a more timely manner. HCIM receives no additional compensation or remuneration of any kind as a result of aggregating orders. If an order is only partially filled, each account will receive a prorata share of the securities purchased or sold based on the size of its order relative to the aggregate order.

HCIM may not aggregate orders if the effect of such aggregation is not consistent with its duty to provide best execution, including obtaining the best net price.

## **Item 13 – Review of Accounts**

### **A. Frequency and Scope of Account Review**

HCIM performs periodic (generally monthly, quarterly, or annually) internal account reviews to track account performance and to prepare client reports. For each internal review, appropriate personnel of HCIM monitor or assess an account's various attributes, including custodial reports,

portfolio guidelines, asset values, performance, portfolio structure and holdings. Approximately two to four individuals participate in an account's internal review. A portfolio manager is responsible for reviewing the accounts he or she manages. Titles of portfolio managers include Managing Director, Senior Managing Director, Investment Officer, Assistant Vice President and Vice President. HCIM may also have meetings with clients. Client meetings generally cover the same topics as internal reviews. In addition, HCIM may provide supplementary information during a client meeting. This supplementary information may include relevant organizational or personnel changes concerning HCIM, information concerning aggregate assets under management of HCIM or HCIM's investment strategies.

## **B. Other Account Reviews**

With respect to certain advisory clients, in addition to the periodic review, HCIM reviews these client accounts on an as-needed-basis throughout the quarter in connection with the ongoing operations of the account and the management of its investments. Examples of situations that trigger a review of all or part of a client's account include scheduled interest payments, prepayments of principal and interest, acquisitions or dispositions of securities or other investments, receipt of physical securities and any unusual events occurring in the marketplace. In such circumstances HCIM is regularly monitoring the accounts to insure that transactions are occurring as expected and that the figures provided by third parties match its records.

## **C. Content and Frequency of Regular Client Reporting**

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

For certain private fund and separately managed advisory accounts, HCIM may also report on (depending on client type):

- each limited partner's closing capital account as of the end of the reporting period;
- the cost, reported value and a summary description of each portfolio investment owned by the fund or account at the end of reporting period, together with a schedule of cumulative distributions received by the fund or account from each such portfolio investment;
- a description of recent key events affecting the fund or account during reporting period;
- a calculation of the internal rate of return and cash on cash return to the fund or account on each portfolio investment through the end of reporting period; and
- the amount of reserves maintained by the fund or account at the end of reporting period, including the value of temporary investments.

## Item 14 – Client Referrals and Other Compensation

On occasion HCIM or a related person is paid a transaction, commitment, breakup or other fee by a non-client in connection with giving advice to clients or structuring an investment transaction in which a client may invest. In such instances, all, a portion or none of the fees may be used to offset management fees or all, a portion or none of the fees may be retained by the related person. See Item 6 for additional detail.

### A. Economic Benefit from Others for Providing Advisory Services

*Private Placement and Bond Investments*—Investors in certain mezzanine private fund clients advised by HCIM indirectly provide an economic benefit to HCIM for providing investment advice to such funds. HCIM generally receives a management fee from a fund based on a percentage of the aggregate capital commitments of the fund's limited partners or the amount of the fund's invested capital, the terms of which are set forth in such fund's limited partnership agreement. In addition, the general partner of certain funds may receive a carried interest in a fund. Please see Items 5 and 6 for additional information on the fees received by HCIM.

*Real Estate Finance Investments*—Depending on the commercial mortgage transaction, the borrower may pay other types of fees and expenses separate from principal and interest payments. HCIM's advisory clients' right to share in these fees and expenses pro-rata with other advisory clients or John Hancock and its affiliates are subject to negotiation between HCIM and each client and the right (or not) to share in these fees are documented in a written document with the advisory client. Examples of these borrower fees include:

- Loan origination or secondary market loan acquisition fees, which are charged upon the funding of an investment, and are generally based upon the amount of client capital invested. Loan origination fees may alternatively be collected and retained from borrowers on a loan along with due diligence and closing fees.
- Loan servicing, special servicing and portfolio management fees, which are generally based upon outstanding loan balances or current market values. These fees are generally paid in arrears on a quarterly or monthly basis.
- Other fees may also be collected from borrowers on loans and include payments by borrowers for requested actions such as loan assumptions, loan modifications, loan extensions, collateral substitutions, late fees and fees for other servicing tasks. In addition, revenue may be received and retained from interest from escrow activities and impounds held to the extent not paid by the borrower.

Additionally, see Item 5C for discussion of advance payments of origination and portfolio management fees when a client directs the sale of a mortgage asset or terminates its investment management agreement prior to maturity of the mortgage investment or portfolio investments.

### B. Compensation for Client Referrals

In certain circumstances, and in accordance with the applicable law, HCIM or its affiliates may (i) pay a fee to employees of John Hancock or its affiliates or other selected individuals, or

entities who introduce business to HCIM or (ii) receive a fee for introducing clients and their business to related persons or third parties. The amount of fees paid to or received from third parties is negotiated between HCIM and the person or the related HCIM affiliate.

In connection with the formation of two of the private fund clients, such fund engaged an unrelated third party placement agent to solicit limited partners for the fund. The placement agent was paid a market rate for providing this service. The placement agent is a registered broker/dealer. In connection with the formation of one of the private fund clients, an affiliated placement agent was engaged to solicit limited partners for the fund. The placement agent is a registered broker/dealer. Also for this client, an affiliated third party was engaged to distribute the private investment fund securities in the Canadian exempt securities market. The distributor is registered as an exempt market dealer in all Canadian provinces.

In each of the above cases in this Item 14B, the private fund client is responsible for paying the cost of the placement agent or distributor, as the case may be, and can call capital from the limited partners to fund such expense. The limited partners received a 100% offset for such fees to the management fees otherwise payable by the fund to HCIM. Accordingly, there is no net cost to the limited partners or the private fund client for such fees.

## **Item 15 – Custody**

In certain instances, HCIM may be deemed to have custody of client assets under Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended (the “Custody Rule”). In order to comply with the Custody Rule in those cases, qualified custodians will send quarterly or more frequent account statements directly to HCIM’s advisory clients. Advisory client should carefully review such statements and compare them to any account statements they receive from HCIM. If any discrepancies are found, clients should contact HCIM and their custodian as soon as possible.

HCIM is deemed to have custody in the case of certain private fund clients which are pooled investment vehicles because a related person of HCIM is the general partner of each of these funds. For each of these clients, an annual audit of the pooled investment vehicle is conducted by an accountant registered with and subject to inspection by the Public Company Accounting Oversight Board (PCAOB), the annual audited financial statements are prepared in accordance with U.S. generally accepted accounting principles and they are delivered to investors within 120 days of the fiscal year end. Such clients are exempt from the requirement to have a qualified custodian distribute periodic account statements because the investment vehicle is audited annually as described above. For these private fund clients, HCIM also maintains its own records with respect to cash receipts and payments, securities, ledgers and financial statements and provides the general partner of each such fund with reports that contain such information for its review. HCIM strongly encourages such clients to reconcile the statements received from third party service providers with the records prepared by HCIM.

## **Item 16 – Investment Discretion**

HCIM generally receives discretionary authority from each client to select the identity and amount of securities or other assets to be bought or sold on behalf of such client at the outset of the advisory relationship. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account. When selecting investments and determining amounts, HCIM observes the investment policies, limitations and restrictions of the clients for which it advises. Investment guidelines and restrictions must be provided to HCIM in writing. When selecting investments and determining amounts, HCIM observes the investment policies, limitations and restrictions of the clients for which it advises. Additionally, internal compliance and control policies may impose additional restrictions on the investments that may be made. See also Item 4.

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

### **A. Policies and Procedures**

HCIM accepts the authority to vote client securities and has a Proxy Voting Policy which outlines its fiduciary duty to its clients to use its best efforts to preserve or enhance the value of a client's account. It is HCIM's policy that when HCIM is given authority to vote proxies for any client account, HCIM must have full discretion and authority to vote all proxies for that account. HCIM does not accept partial voting authority nor does HCIM accept instructions from others on how to vote on specific issues. Clients may wish to retain proxy voting authority and vote their own proxies if necessary to satisfy particular social, environmental or other goals.

When HCIM is given authority to vote proxies for any account, it is HCIM's policy to vote all proxies received on behalf of HCIM's client accounts except in unusual circumstances. HCIM may abstain from voting a proxy if HCIM concludes that the effect on the account holder's economic interests or the value of the portfolio holding is insignificant. HCIM also may abstain from voting a proxy for cost reasons (e.g., costs associated with voting proxies of non-U.S. securities). In accordance with any applicable fiduciary duties, HCIM would weigh the costs and benefits of voting proxy proposals relating to non-U.S. securities and make an informed decision with respect to whether voting a given proxy proposal is prudent. HCIM's decision would consider the expected effect that such vote, either by itself or together with other votes, would have on the value of the account holder's investment and whether this expected effect would outweigh the cost of voting.

HCIM recognizes that the potential for conflicts of interest could arise in situations where HCIM officers or related persons have material business relationships or material personal/family relationships with the subject company (or with a potential acquiring or target company in the case of a takeover proxy vote). To address these potential conflicts, HCIM has proxy voting procedures reasonably designed to identify potential conflicts and a Proxy Voting Committee to address them. If a potential for conflict is identified, it is brought to the attention of the Proxy Voting Committee which uses reasonable efforts to determine what the conflict is by screening proxies against lists of companies with whom HCIM may have a material business relationship and/or reviewing any material business relationships or material personal/family relationships of

personnel involved in the proxy vote. The Proxy Voting Committee will decide how to vote the proxy in the best interests of HCIM's client(s) and document their rationale.

Clients may obtain a copy of HCIM's Proxy Voting Policy and a record of how HCIM voted the proxies for their accounts by contacting the HCIM Compliance Office at (617) 572-0693.

As an investment advisor, HCIM may be asked to decide whether to participate in a class action for assets held in the client's account. Upon mutual agreement of HCIM and the client, HCIM will file a claim in a class action.

**B. Voting Authority by Others**

Not applicable.

**Item 18 – Financial Information**

**A. Pre-Payment of Fees 6 Months or More in Advance**

Not applicable.

**B. & C. Financial Condition and Contractual Commitments**

HCIM is not aware of any financial condition that is reasonably likely to impair its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy petition at any time during the past ten years.

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