

**Liberty Mutual Group Asset Management Inc.**

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**July 22, 2014**

This Brochure provides information about the qualifications and business practices of Liberty Mutual Group Asset Management Inc. (the "Adviser"). If you have any questions about the contents of this Brochure, please contact our Chief Compliance Officer at (617) 357-9500. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC" or the "Commission") or by any state securities authority.

The Adviser is an investment adviser registered with the SEC on Form ADV. Registration as an investment adviser does not imply a certain level of skill or training. Additional information about Adviser also is available on the Commission's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

When we use the terms "we," "us" and "our" in this Brochure, we are referring to the Adviser. In addition, any references to "our employees" or "our officers" refer to the Adviser's officers or employees.

## Item 2 – Material Changes

We last filed our Brochure on March 25, 2014. This Brochure contains the following material changes from the annual update filed on March 25, 2014:

- Item 4 has been updated to indicate our new trade name, Liberty Mutual Investments.
- Item 4 has been updated to reflect different discretionary and non-discretionary assets under management.

This Brochure contains the following additional material changes from the Brochure we filed on March 25, 2013:

- Cover page has been updated to reflect our new address.
- Item 8 has been updated to indicate that our Energy investment strategy utilizes a sub-adviser.
- Item 8 has been updated to describe, with more detail, potential risks related to investments in alternative assets.

Liberty Mutual Group Asset Management Inc.

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## Item 4 – Advisory Business

### Overview of our Firm

Liberty Mutual Group Asset Management Inc., which conducts business under the name Liberty Mutual Investments, (the “Adviser”) is a direct, wholly-owned subsidiary of Liberty Mutual Group Inc. (“LMGI”). LMGI is a multi-national holding company, which is not publicly traded, for a diversified group of global insurers and an indirect subsidiary of Liberty Mutual Holding Company Inc., which also is not publicly traded. The Adviser is the primary investment arm of LMGI and its insurance affiliates. The Adviser was incorporated on April 25, 2011 under the laws of the State of Delaware. Previously, our operations were conducted by the Investment Department of LMGI. Our registration with the U.S. Securities and Exchange Commission as an investment adviser was initially effective in June 2011. Our principal place of business is in Boston, Massachusetts.

The Adviser provides investment advisory and asset management services across a full range of asset classes only to LMGI's U.S.-based and non-U.S.-based affiliated companies, with the substantial majority being insurance companies. Some affiliates may retain us on a non-discretionary rather than discretionary basis in order to comply with regulatory requirements in various non-U.S. jurisdictions. Affiliated entities to which we provide advisory services are referred to herein as “clients.”

Each client portfolio is managed pursuant to an investment management agreement between the Adviser and the client, any investment guidelines attached thereto, the client's investment policy, and applicable regulations.

The scope of the advisory services provided to a client may be changed from time to time as the Adviser and the client may agree. Additionally, we offer administrative services, such as regulatory filings, insurance-statutory deposit management, accounting and financial reporting related to investments.

As of December 31, 2013, our assets under management were \$83,004,699,515, which includes \$78,412,552,958 in discretionary assets and \$4,592,146,557 in non-discretionary assets.

## Item 5 – Fees and Compensation

### Our Fees

Generally, the Adviser's fees are based upon a percentage of the value of the total assets managed for each client account. Fees are calculated using either the fair market value of the assets as determined by the Adviser or book value, depending upon the client's fee schedule. Accounts that include Alternative Investments are subject to valuation involving financial information that may only be provided on a limited or quarterly basis, which creates a lag between the investee's financial reports and the Adviser's valuation of the client's account. As a result, the portion of the fee attributable to the Alternative Investments is calculated based on the lag value.

We will provide clients with a copy of our Valuation Policy upon request and without charge.

Fees payable to the Adviser are subject to negotiation and established pursuant to each client's agreement; however, for affiliated clients, fees generally are determined based upon the cost of services provided without any profit factor included. The Adviser may waive or reduce management fees for certain clients at its sole discretion. Clients pay the Adviser's fee monthly in arrears.

Clients are subject to other fees and expenses in connection with the Adviser's services, including fees for sub-advisers, custodial services, brokerage and other transaction costs in connection with our advisory services. Please see Item 12 below for further details.

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

The Adviser does not receive performance-based fees from our clients. We do not engage in side-by-side management.

## Item 7 – Types of Clients

We provide investment advisory services only to entities that are affiliated with LMGI, which include insurance and non-insurance companies as well as LMGI's affiliated pension plan. We do not accept clients who are not affiliated with LMGI.

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

### Investment Philosophy

The Adviser's investment strategy is to seek long-term returns through disciplined security selection, portfolio diversity and an integrated approach to risk management. We select and monitor investments to balance the goals of safety, stability, liquidity, growth and after-tax total return with our clients' need to comply with insurance regulatory investment requirements. Our core investments are broadly based investment grade fixed income investments, supplemented by investments in additional asset types with the objective of further enhancing portfolio diversification and expected returns. These additional asset types include commercial mortgages and other real estate financing investments, non-investment grade bonds, syndicated bank loans, common and preferred stock, private equity, special situations, tactical opportunities, real estate and direct investments in metals and mining and energy ventures. The Adviser manages investment risk through asset liability management (including both interest rate risk and foreign currency risk), diversification, credit limits and an analytical review of investment decisions.

Our investment strategies are reviewed and approved by senior management who meet on a regular basis to review and consider investment activities, tactics and new investment classes. In addition, we have an experienced team of investment personnel who are responsible for managing and administering the investment portfolios of our clients.

### Investment Grade Bonds

The Adviser's investment philosophy emphasizes the avoidance of excessive risk and a portfolio structure designed to ensure consistency of investment income and cash flow over a long time horizon. Our Investment Grade Bond Group invests primarily in municipal bonds, corporate bonds, mortgaged-backed securities, U.S. Treasury bonds and agency bonds. The bonds that we purchase are intended to appropriately support the liabilities of our clients' insurance operations and to meet insurance regulatory requirements and diversification guidelines.

#### *Municipal Bonds*

We invest in municipal bonds using our own fundamental research to identify issuers possessing acceptable credit parameters. In general, we favor essential service revenue bonds over general obligation bonds. We look for issuers with a strong service territory that have a long track record of solid financial performance. When buying general obligation bonds, we prefer state over local issuers. We also look for issuers of general obligation

bonds with good demographic and economic parameters, and a strong history of conservative financial practices. When constructing our municipal bond portfolios, we seek diversification by geographic region and security type.

### *Corporate Bonds*

We invest in a broad spectrum of corporate bonds. We use our own team of credit analysts to identify issuers possessing acceptable credit parameters. We look for companies that have leading market position, preferably in an industry with high barriers to entry. We prefer companies that have a strong history of financial performance. Our corporate bond investment strategy is to be well diversified by issuer and sector.

### *Mortgage-backed Securities*

We invest in a wide range of mortgage-backed securities. Our primary focus is on mortgage-backed securities guaranteed by GNMA, FNMA, or FHLMC. We also purchase Residential Mortgage Backed Securities (RMBS) and Commercial Mortgage Backed Securities (CMBS) that are not guaranteed by an agency. We have a team of analysts that determine the creditworthiness of non-agency RMBS and CMBS. We typically purchase non-agency RMBS and CMBS with strong underwriting, low leverage, and high levels of subordination. We prefer securities that have limited call risk and extension risk such as Collateralized Mortgage Obligations.

### *U.S. Treasury and Agency Bonds*

Additionally, we may invest in agency bonds that are not directly guaranteed by the U.S. government. We may purchase U.S. government debt and agency debt guaranteed by the U.S. government based upon interest rate levels, portfolio deposit needs, and asset/liability matching needs.

## **Leveraged Finance**

Our leveraged finance philosophy is a total return, value-oriented investment process that seeks to identify undervalued companies with sustainable competitive advantages. Our total return-focused approach is premised upon our belief that the factors affecting individual companies are more important than macroeconomic factors. This investment strategy is based on a long-term view and identifies undervalued companies with sustainable competitive advantages and improving credit fundamentals. Our investment team employs a consistent approach to credit that is focused on bottom-up security selection. Our methodology also incorporates a team orientation using small groups of experienced professionals. Our underwriting process incorporates detailed credit analysis that closely analyzes factors such as financial risk, business risk and management ability and intentions. This process informs us and gives us insight into an issuer's free cash flow generation, balance sheet strength, earnings stability and management quality. The goal of our valuation work is to buy the securities of companies that will provide the best risk-adjusted total return. We incorporate our credit research and analysis to arrive at an overall risk assessment for each credit, which is compared to the spread at which the company's paper is priced in the market to determine value. Risk management is integrated into our investment process. It is a continuous, rigorous practice that incorporates compliance guidelines, diversification, ongoing credit assessment, liquidity in the marketplace and reporting tools that enable us to evaluate our overall portfolio.

## International

The objective of our investment strategy for clients based outside of the United States is to enhance after-tax total returns in a manner consistent with capital preservation, liquidity and income. We seek to achieve this objective through disciplined fundamental credit analysis, portfolio diversification, and risk management. In addition, our process is designed to meet those objectives while adhering to local country regulatory requirements, managing interest rate risk via asset/liability duration and minimizing currency risk.

These objectives are pursued by investing predominantly in fixed income assets including corporate bonds, government/agency bonds, mortgage-backed securities, asset backed securities and emerging market bonds. Investment securities are predominantly investment grade bonds; however, depending upon the country in which the client writes insurance, we may invest in below investment grade bonds, equity securities and Alternative Investments. We manage risk through diversification, credit limits and a thorough review of each investment decision.

## Public Equities

We utilize a range of public equity strategies that seek excess return over the MSCI All-Country World Index. Our investment process incorporates macroeconomic research and market valuation metrics to determine global allocation within equities. We incorporate both active and passive strategies, in-house management and sub-advised funds, and developed market and emerging market strategies. All accounts are measured against relevant benchmarks for performance. We monitor risk through tracking error and correlation measures.

## Alternative Investments

### *Traditional Private Equity*

Traditional Private Equity is a strategy that focuses on investments in operating companies. We primarily invest in venture capital funds and leveraged buyout funds. These partnerships primarily invest in the U.S. and Western Europe. The portfolios that we manage may also include, to a lesser extent, investments in operating companies through common and preferred stock. We invest in venture capital, buyouts, distressed/turnaround, mezzanine, co-investments, industry sector funds and direct investments in operating companies.

Fundamentally, we invest with what we believe to be the best management teams in industries that we believe will provide superior performance. We conduct due diligence on prospective management teams to ascertain their abilities to successfully pursue their investment strategies. This due diligence includes, but is not limited to: extensive analysis of prior performance in terms of composition and attribution, extensive reference checks, review of track record in terms of stated investment strategy, review of any management transitions both historical and expected, extensive review of deal terms and impact to expected returns. We utilize historical and prospective returns, extensive industry contacts, and economic and market factors to form an assessment.

### *Energy*

The Adviser's energy strategy is to make investments in direct working interests (non-operating) in oil and gas projects located primarily in the U.S. and Canada, as well as equity investments in other companies in the oil and gas industry, including investments in natural gas gathering and transportation pipelines. Our energy strategy seeks superior long-term, risk-adjusted returns through the generation and screening of quality opportunities, rigorous due diligence and technical evaluation, disciplined capital allocation and active investment monitoring. Fundamental tenets of this process include the cultivation of long-term relationships with

reputable partners, strong alignment of interests, active involvement at the project level and deliberate risk management. This process is executed by a third-party sub-adviser with an experienced team of investment personnel responsible for managing and administering these investments.

#### *Metals & Mining*

The Metals & Mining Group makes investments primarily in developmental stage mining companies. We invest in a range of different minerals (*e.g.*, limestone, silver, potash) in various global geographic locations. The team selects companies primarily in the development stage that we believe have high quality management teams and high quality assets. Investments are generally longer-term in nature and are comprised primarily of common equity, preferred equity and, to a lesser extent, debt instruments and royalty investments. These investments are a mix of private and publicly traded securities.

#### *Real Estate*

Our real estate investment strategy is to seek attractive absolute and relative returns that improve the risk-adjusted performance of our clients' overall investment portfolio. These investments may provide low correlations with stocks and bonds, inflation protection from property appreciation and cash flow, and lower portfolio volatility from cash flows. Our Real Estate Group identifies managers and partners that together construct a diversified, flexible and opportunistic portfolio primarily in non-core real estate investments.

#### *Special Situations*

Our Special Situations investment strategy is to make investments in higher returning assets while managing downside risk. Our Special Situations Group follows a diligent, deliberate investment approach, seeking long-term value, often with a value-added business partner, providing capital to help build the business or invest in activities that could not be accomplished by any of the partners acting alone. We make investments with flexibility as to business approach and form of capital. We engage in a due diligence process to seek to align ourselves with partners that meet our financial, structural, and philosophical needs for each investment.

#### *Tactical Opportunities*

The Tactical Opportunities investment strategy seeks to invest flexibly in a broad opportunity set of equity and debt transactions in primarily privately placed assets. These investments, which can be either direct or as part of a managed account, are often coordinated through strategic financial and operating partners in a range of businesses with a balanced focus on capital preservation and potential appreciation capture. We seek a targeted and opportunistic portfolio which is complementary to private capital efforts of the Adviser.

### **Use of Sub-Advisers**

The Adviser may from time to time determine that in order to better diversify the investments in a client account, a sub-adviser may be best suited to meet the investment objectives. It is the Adviser's policy and practice to conduct initial due diligence with respect to any sub-adviser and to monitor any selected adviser to determine and evaluate, among other factors, the portfolio management team's background, experience and philosophy; the process by which the sub-adviser makes investment decisions; how those decisions are implemented; the sub-adviser's risk management controls, parameters and evaluation process; and the adequacy and effectiveness of its operational and compliance controls and infrastructure. It is the Adviser's policy and practice to avoid investment with any sub-adviser that has failed to adopt certain minimal operational and compliance



controls and safeguards. The Adviser may then invest with the sub-adviser on behalf of the client.

The Adviser's ongoing monitoring of each sub-adviser includes discussions with the sub-adviser that may include its economic outlook, anticipated changes to strategy, processes, service providers or plans to launch new investment strategies or services that may create new conflicts of interest, and the sub-adviser's compliance program.

See Item 13, below, for further discussion of our use of sub-advisers.

### **Use of Derivatives**

The portfolio may employ various fixed income and equity derivatives including futures, options, swaps and forward contracts.

### **Our Quantitative Modeling Process**

We rely on third-party systems for many of the quantitative models used to provide input on our investment research and risk management processes. We use these models in isolation to address specific issues or in concert with each other to generate consistent valuation and risk metrics.

### **Our Investment Risk Management Process**

We manage investment risk through the establishment of investment guidelines and policies that apply at various levels within client portfolios, including at the individual client portfolio level, at the legal entity level, and at various levels of combined legal entities. In addition, a particular investment strategy that cuts across multiple portfolios may have its own guidelines.

Investment guidelines and policies generally are driven by asset liability considerations and risk tolerance. For example, asset liability management for insurance operations may involve the establishment of asset duration target ranges that are broadly consistent with liability payout patterns. In addition, assets that support liabilities generally will be denominated in the same currency as the liabilities that they support.

Risk tolerance depends on a client's ability to bear risk, which may be a function of surplus capital in the case of our regulated insurance company clients. Risk may be managed through targets and ranges for asset classes and sectors. Further refinements may include issuer exposure limits as well as diversification requirements.

One key element to managing investment risk is the ability to measure risk. Risk metrics vary by asset class, and our key fixed income metrics include effective duration, key rate duration, effective convexity and spread duration.

Although the Adviser attempts to identify, monitor and manage significant risks, these efforts do not necessarily take all risks into account. The risks associated with different assets may be correlated in unexpected ways which may result in investment losses.

### **Key Risks Associated with Our Methodology and Strategies**

Investing in the securities and other financial instruments described above involves risk of loss that clients should be prepared to bear. Our investment strategies may not achieve their performance objectives and may result in losses. Summarized below are certain important risks for our clients and prospective clients to consider. These risk factors include only risks the Adviser believes to be material, significant, or unusual based on

information currently available, and relate to particular investment strategies employed by the Adviser.

- *Economic and Market Risk*. The value of securities and other investments may move up or down, sometimes rapidly and unpredictably. Securities markets are volatile and fluctuate over time. A client account may at any point in time be worth less than its initial value.
- *Interest Rate Risk*. Debt securities can lose value because of interest rate changes. For example, debt securities tend to decrease in value if interest rates rise. Debt securities with longer maturities generally are more sensitive to interest rate changes than those with shorter maturities. In addition, short-term and long-term interest rates do not necessarily move in the same direction or by the same amount. Changes in interest rates can also cause certain types of debt obligations to become subject to prepayment risk and extension risk. These include securities such as mortgage-backed securities and bonds with embedded call or put options.
- *Spread Risk*. Portfolio returns are affected by changes in the spreads over risk-free rates of the underlying sectors and assets. In particular, a portfolio that is systematically overweighted in spread product would lose value if spreads widen. This systematic risk is dependent on the portfolio's exposure to various fixed income asset classes with varying degrees of spread risk.
- *Equity Risk*. Equity securities can lose value on either a systematic basis (such as a market decline in price to earnings (P/E) or price to book (P/B) ratios) or on an individual basis (due to an adverse event such as an unexpected decline in company earnings).
- *Currency Risk*. Assets in our client accounts may be denominated or quoted in currencies other than the base currency for the account. Accordingly, changes in exchange rates will affect the value of these client accounts. Generally, when the base currency of an account rises in value versus another currency, assets denominated in the non-base currency lose value because that currency is worth less than the base currency, and vice versa.
- *Issuer-Specific and Industry Credit Risk*. The issuer, the guarantor or the insurer of a fixed income security, or the counterparty to a contract, may be unable or unwilling to make timely principal and interest payments or to otherwise honor its obligations. Additionally, securities could lose value due to a loss of confidence in the ability of the issuer, guarantor, insurer or counterparty to pay back debt. The longer the maturity and lower the credit quality of an instrument, the more likely it is that its value will decline as a result of such a loss of confidence. From time to time, several issuers in a given industry may experience such difficulties simultaneously, making it difficult for issuers in that industry to roll over obligations, to repay creditors or to obtain liquidity in the market.
- *Liquidity/Valuation/Turnover Risk*. Assets in client accounts may, at any given time, include financial instruments that are thinly traded, for which no market exists, or that are not readily transferable under applicable securities laws. The sale of any thinly-traded or illiquid investments may be possible only at substantial discounts, if at all. Further, illiquid investments may be extremely difficult to value. Frequent investments may result in higher transaction costs.
- *Model Risk*. Some of our investment strategies and risk management processes utilize mathematical models. There is a risk that we may select models that are not well-suited to prevailing market conditions. In addition, models that have been formulated on the basis of past market data may not be predictive of future price movements. Models may also have hidden biases or exposure to broad structural or sentiment shifts.
- *Foreign Securities and Sovereign Risk*. Investing in securities of non-U.S. issuers may involve more risk than investing in securities of U.S. issuers. Foreign political, economic

and legal systems, especially in developing and emerging countries, may be less stable and more volatile than the corresponding U.S. systems. Foreign legal systems generally have fewer regulatory requirements than the U.S. legal system. Certain foreign countries may impose restrictions on the ability of their issuers to make payments of principal and interest or dividends to investors located outside the country, due to blockage of foreign currency exchanges or otherwise. Investments in foreign securities may be subject to non-U.S. withholding and other taxes. Investments in emerging markets are typically subject to greater volatility and price declines than investments in developed markets. In addition, investments in sovereign debt can involve a high degree of risk. A governmental entity's willingness or ability to repay principal and interest in a timely manner may be affected by, among other factors, its cash flow situation, the extent of its foreign reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the governmental entity's policy towards the International Monetary Fund and the political constraints to which a governmental entity may be subject.

- *"High-Yield" Bonds, Bank Loans, Unrated or Non-Investment Grade Securities Risk.* Investment in "higher yielding" debt securities, syndicated bank loans and other subordinate debt obligations, some of which may be unrated or below "investment grade," are generally not exchange-traded and, as a result, trade in the over-the-counter marketplace, which is less transparent and may have wider bid/ask spreads than the exchange-traded marketplace. High-yield securities have historically experienced greater default rates than investment-grade securities. The markets for high-yield securities and other lower-rated securities and instruments tend to be more volatile, less liquid and less active than those for higher-rated securities and instruments, which can adversely affect the price at which these securities can be sold. High-yield securities may also be subordinate to certain other outstanding securities and obligations of the issuer, which may be secured by substantially all of the issuer's assets. High-yield securities may also not be protected by financial covenants or limitations on additional indebtedness.
- *Securitized Products Risk.* Securitized products are securities that are collateralized by, or linked to the performance of, pools of assets including commercial mortgage loans, residential mortgage loans, syndicated bank loans, credit card receivables, auto loans or other assets. Securitized products carry risks in varying degrees including credit risk, concentration risk, prepayment risk, interest rate risk, geographic concentration risk, the risk of poor performance due to adverse economic conditions, and price volatility. Securitized products are often not guaranteed by any governmental entity or other party.
- *Alternative Investments Risk.* With respect to certain alternative investments, there is a material risk that investments will fail to meet return expectations. This strategy's principal risk factors include operating performance risk, management risk, economic and market risk and equity securities risk as follows:
  - *Business Risks.* Our alternative investments strategies include investments, directly or indirectly, in securities issued by privately-held companies. Operating results for these companies are difficult to predict. Such investments involve a high degree of business and financial risk, which can result in substantial losses.
  - *Investment in Junior Securities.* Our alternative investments may be among the most junior in an issuer's capital structure, and therefore subject to the greatest risk of loss. Generally, there will be no collateral to protect an investment once made.

- *Small and Middle-Market Companies*. Our alternative investments include investments in small and middle-market companies. While investments in these companies may present greater opportunities for growth, small and medium-sized companies may have more limited product lines, markets and financial resources, and may be dependent on a smaller management group. Accordingly, such companies may be more vulnerable to general economic trends and to specific changes in markets and technology.
- *Illiquidity; Lack of Current Distributions*. Many alternative investments are generally illiquid. Losses on unsuccessful investments may be realized before gains, if any, on successful investments are realized. The return of capital and the realization of gains, if any, will generally occur only upon the partial or complete disposition of an investment. Generally, there will be no readily available market for many alternative investments. As a result, alternative investments may be difficult to value.
- *Reliance on Management of Investment Funds*. Our alternative investments strategies include investments in private investment funds that are managed by investment managers unrelated to the Adviser and, therefore, investments made by such investment funds will be selected by such unrelated investment managers. We will not have an active role in the day-to-day management of those investment funds. As a result, returns from those investments will depend in large part on the performance of these unrelated investment managers and could be substantially adversely affected by the unfavorable performance of a small number of investment managers.

## Item 9 – Disciplinary Information

Our firm and our management personnel have no legal or disciplinary events to disclose in response to this item.

## Item 10 – Other Financial Industry Activities and Affiliations

### Our Relationships with Affiliates

As an indirect, wholly-owned subsidiary of Liberty Mutual Holding Company Inc., we are affiliated with many types of U.S. and non-U.S. financial services providers focusing primarily on the issuance and sale of insurance products. Some employees of the Adviser may also serve as officers or directors of companies that are affiliated with us, which may also be clients; provided, however, these employees do not receive additional compensation for such service. We may provide advisory services with respect to the general accounts of many of our affiliated insurance companies as well as with respect to certain pension plans sponsored by our affiliates. All of our assets under management are affiliated client accounts. As a result, interests of the Adviser and its affiliates may give rise to conflicts of interest of which potential clients should be aware.

### Conflicts Arising From Our Affiliations

Consistent with our fiduciary duty to our clients, we seek to put the interests of our clients ahead of our own and ahead of those of any individual employee. Our firm takes the following steps to address conflicts of interest:

- Disclose to clients the existence of all material conflicts of interest.

- Require that our employees seek prior approval of certain outside business activity so that we may ensure that any conflicts of interest in such activities are properly addressed.
- Have policies and procedures in place to consider carefully whether to accept intentionally material, non-public information about certain issuers in situations in which the receipt of such material, non-public information about a particular issuer will result in our inability to transact in securities of that issuer for our clients.

Generally, we are able to avoid receiving material, non-public information from our affiliates, and units within the Adviser are able to avoid receiving material, non-public information from one another, by maintaining information barriers as described below in Item 11. In some instances, we may create an information barrier around a small number of our employees so that material, non-public information received by such employees is not attributed to other of our employees.

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

#### **Code of Business Ethics and Conduct**

Pursuant to Rule 204A-1 under the Investment Advisers Act of 1940, as amended, all “supervised persons” of the Adviser are subject to Liberty Mutual Insurance’s Code of Business Ethics and Conduct and to our Supplemental Code of Business Ethics and Conduct Provisions specifically applicable to the Adviser (collectively, the “Code of Ethics”). The Adviser’s “supervised persons” consist of the Adviser’s officers and directors; its employees; any other person who provides advice on behalf of the Adviser and is subject to the Adviser’s supervision and control; and any other person designated as a “supervised person” by the Adviser’s Chief Compliance Officer.

The Code of Ethics includes the following standards:

- All supervised persons must conduct their business with honesty and integrity and adhere to their fiduciary obligations;
  - All supervised persons shall, at all times, comply with all applicable federal and state laws and regulations, including securities laws;
  - At all times the interests of our clients are of foremost importance;
  - All personal securities transactions must be conducted in a manner consistent with the Code of Ethics.
  - Supervised persons will not take inappropriate advantage of their position or access to information and any abuse of a supervised person’s position of trust and responsibility must be avoided;
  - All non-public information held by us, including the identity of our investments and financial transactions, must be kept confidential;
  - Independence in the investment decision-making process must be maintained at all times; and
  - All supervised persons must conduct their personal and business affairs in such a way as to avoid conflicts of interest – or even the appearance of conflicts of interests – and must disclose all potential conflicts of interest.

In addition, the Code of Ethics requires all supervised persons to report any violations of the Code of Ethics

promptly to LMGI's Chief Compliance Officer or Liberty Mutual Insurance's Compliance Helpline. LMGI's Chief Compliance Officer will inform the Adviser's Chief Compliance Officer of reports of alleged violations. All supervised persons must annually certify that they have read, understand, and agree to abide by our Code of Ethics, including the Personal Trading Policy, and our other compliance policies including our Information Barrier Policy.

The Adviser provides all supervised persons with a copy of the Code of Ethics and any amendments to it, and requires supervised persons to provide Adviser with a written acknowledgment of their receipt of the code and any amendments.

We will provide clients and prospective clients with a copy of our Code of Ethics upon request and without charge.

## **Related Policies**

As part of our Code of Ethics, we maintain a Personal Trading Policy that governs the personal trading activities of our employees and other persons who have access to non-public information regarding any clients' purchase or sale of securities, or non-public information regarding the portfolio holdings of any reportable fund, or who are involved in making securities recommendations to clients, or who have access to such recommendations that are non-public ("Access Persons"). The policy requires all Access Persons to:

- Pre-clear all personal transactions in securities (with certain exceptions) prior to execution;
- Report personal securities transactions to us on a quarterly basis (with certain exceptions);
- Provide us with a quarterly report concerning their personal securities holdings; and
- Report all brokerage accounts on an annual basis.

We also maintain an Information Barrier Policy, which is designed to govern the handling and flow of material non-public information received in the course of managing our investment portfolios to those who need to know the information for appropriate and permissible legitimate business reasons, and we maintain a list of securities in which our Access Persons may not invest personally. These policies and procedures are intended, among other things, to deter and prevent insider trading and allow us to impose appropriate restrictions on and monitor our trading activities as well as employees' and other Access Persons' personal securities transactions. All relevant employees receive annual training regarding our Personal Trading Policy and Information Barrier Policy.

Personal trading by Adviser's employees and other Access Persons may create a conflict when they are trading the same securities as we trade on behalf of our clients. The Personal Trading Policy is intended to address some of these conflicts. The Policy's reporting requirements enable our Chief Compliance Officer or his designee to determine whether the proposed trade by the Access Person conflicts with the trading activity of the client account prior to the trade occurring. If it does, the Access Person will not be allowed to transact in that security.

The accounts of our affiliates (collectively, "affiliated accounts") hold public and private debt and equity securities of a large number of issuers and may invest in some of the same companies as other client accounts but at different levels in the capital structure. These investments can result in conflicts of interest between the affiliated accounts and the interests of our clients. We and our affiliates may also have financial interests or relationships with issuers whose securities we invest in for client accounts. For example, we may invest client assets in the securities of issuers that are also the underwriters of our parent company's debt. In general, conflicts related to the securities holdings and financial interests described above are addressed by our Code of Ethics and by

certain internal processes designed to help ensure that we make investment decisions for each client independently considering the best economic interests of such client.

### **Principal Transactions, Cross Trades and Agency Cross Transactions**

We do not buy or sell securities for ourselves or maintain proprietary accounts.

#### *Principal Transactions*

The Adviser does not engage in any principal transactions. If we ever determine to do so, before each potential principal transaction we will make appropriate prior written disclosure to the client and obtain informed, written client consent in accordance with applicable law.

#### *Cross Trades*

In some instances, a security to be sold by one client account may independently be considered appropriate for purchase by another client account. We may, subject to applicable law, effect such a "cross trade" if it is in the best interests of both clients since neither client will have to bear any sales commission or other transaction costs in connection with the transaction. The Adviser will not receive any commissions or other transaction-based compensation from either client that participates in a cross trade. We do not permit client accounts governed by the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), to engage in cross trading. The Adviser will cause clients to engage in cross trades only if each client has consented in writing to participate in such transactions. When cross trades are affected, the security's price generally will be equal to the market value of the security, as determined under the Adviser's Cross Trade Policy.

#### *Agency Cross Transactions*

The Adviser does not engage in "agency cross transactions."

## **Item 12 – Brokerage Practices**

### **Factors Used in Selecting or Recommending Broker-Dealers**

Certain clients grant the Adviser full discretion and authority to make all investment decisions with respect to which broker-dealer is used, the commission rates paid, the types of securities or instruments to be bought or sold, and the amount of securities or instruments to be bought or sold. However, the Adviser allocates transactions to brokers and dealers consistent with the fiduciary duty of best execution and we maintain a list of approved trading counterparties that are used to facilitate transactions. Prior to using new brokers, and periodically on an ongoing basis, the firm conducts operational due diligence on the counterparty, and the use of brokers is monitored by the firm's Best Execution Committee. Portfolio managers are allowed to execute securities transactions only through approved broker-dealers/counterparties.

### **Execution of Trades and Use of Brokers**

We seek best execution when executing trades on behalf of clients. We operate in accordance with our Best Execution and Broker Selection Policy and seek to execute transactions in client accounts at the most favorable terms reasonably attainable under the circumstances. Factors that we may consider in selecting an approved broker to execute a particular transaction include:

- Quality of execution (accurate and timely execution, clearance and error/dispute resolution);

- Reputation, financial strength and stability;
- Willingness and ability to execute difficult transactions;
- The execution, clearance, and settlement capabilities, as well as the reputation and perceived soundness of the broker-dealer selected and other broker-dealers considered;
- Our knowledge of actual or apparent operational problems of any broker-dealer;
- Efficient access to markets;
- Overall costs of a trade (i.e., net price paid or received) including commissions, mark ups or spreads in the context our knowledge of negotiated rates currently available and other current transactions costs
- Nature of the security and the available market makers;
- Desired timing of the transaction and size of trade;
- Confidentiality of trading activity;
- Ability to place trades in difficult international market environments;
- Timeliness and accuracy of trade confirmations; and
- Research provided.

Given these factors, it is possible that our clients may pay transaction costs in excess of that which another firm might have charged for executing the same transaction. These factors may be weighed and considered differently depending on whether a fixed income or equity trade is contemplated.

### **Soft Dollars**

We use research in connection with some or all of our investment activities. We do not enter into third party or proprietary soft dollar arrangements where a broker-dealer provides research services in exchange for an expectation of receiving a certain dollar amount of commissions. Brokers provide research to the Adviser for no additional fee, which we use on behalf of all clients. In this context, we do not believe that the provision to us by broker-dealers of research results in higher execution prices or impacts our decision regarding the selection of a broker-dealer to execute a trade. We utilize a set of factors in selecting our fixed income counterparties that is described in the section above in order to achieve best execution for our clients. We have no agreements with these broker-dealers to direct trades to them based upon their provision of research or other services to us. Additionally, we subscribe to outside data sources that serve as inputs to our investment models, where we pay hard dollars for such products and services.

### **Brokerage for Client Referrals**

In selecting or recommending broker-dealers, we do not consider whether we or any of our related persons receive referrals from such broker-dealers or any other third parties.

### **Directed Brokerage**

We do not engage in directed brokerage arrangements.



## **Trade Aggregation and Allocation**

The Adviser has adopted a Trade Aggregation and Allocation Policy, guided by the principle that we allocate investment opportunities among our client accounts in a fair and equitable manner designed to treat all similarly situated clients fairly over time, taking into account their investment objectives, guidelines and restrictions, cash positions and the other factors set forth in the Policy.

The Adviser's investment operations are divided into asset class teams. If multiple asset class teams wish to purchase the same or similar securities for our clients, orders may be combined or allocated on a coordinated basis when it would produce more favorable economic terms for all clients involved.

Generally, orders are allocated on a pro rata basis; however, allocations may be adjusted under certain circumstances as set forth in the Policy. The Adviser will, through random or rotational allocation methodologies, seek to ensure that all clients, over time, have an opportunity to participate in similar investment opportunities.

In certain instances, U.S.-based insurance company client accounts that are affiliated with LMGI are managed jointly, and are treated, at the direction of such clients, as one client, or a "Client Pool," for the purposes of trade allocation, as such insurance companies share insurance risks and costs (including premiums, losses and expenses) pursuant to reinsurance pooling arrangements under the supervision of state insurance regulatory authorities. Notwithstanding these sharing arrangements, the assets allocated to an insurance company within a Client Pool are assets of that insurance company, and the pool does not constitute a separate company, partnership or fund.

Supervisors or their delegates review allocations for compliance with the Trade Aggregation and Allocation Policy. Deviations from the policy must be approved in advance by the applicable Portfolio Manager. Additionally, our Chief Compliance Officer or his designee monitors the allocations of transactions on a periodic basis and performs analysis and testing to reasonably determine that the transactions have been allocated among clients in accordance with the Policy.

## **Trade Error Policy**

If an error results in a loss, the Adviser does not make clients whole that are wholly owned subsidiaries of LMGI. This is due to the nature of the fee structure applicable to affiliates that are wholly owned by LMGI, whose fee is based on actual costs without a profit margin built in.

To the extent that the Adviser has third party clients or clients that are not wholly owned subsidiaries of LMGI, its policy is that such clients never absorb a loss due to an error caused by the Adviser and to place the client in the same position as it would have been had the error not occurred. In determining the amount of such client's loss where the trade error involves a violation of the client's investment guidelines, the Adviser may take into account that the gain or loss that the client would have experienced had the trade been made in accordance with the client's investment guidelines. If the error results in a profit, the client keeps the benefit.

We will provide clients and prospective clients with a copy of our Trade Error Policy upon request and without charge.

## **Brokerage Selection/Recommendations by Sub-advisers**

Subject to our advisory agreements, where clients have granted us discretionary authority to effect portfolio transactions and we have delegated that authority to a sub-adviser, we have also delegated to those sub-

advisers authority to select broker-dealers. As part of our ongoing due diligence and monitoring of sub-advisers pursuant to our Sub-Adviser Policy, we will review information related to sub-advisers' use of client brokerage.

## **Item 13 – Review of Accounts**

### **Periodic Review of Client Accounts**

While the underlying securities within client accounts are continually monitored, these accounts are also reviewed each quarter. Our Chief Executive Officer or his designee meets with the senior portfolio managers and teams responsible for the management of each of our investment strategies to review and discuss investment performance.

### **Risk Management Reviews**

The Adviser's Risk Management Group focuses primarily on the top three risks associated with client accounts with a fixed income focus--- interest rate, spread and issuer concentration --- as well as the risks associated with higher yielding asset classes.

- Interest rate risk and spread risk are analyzed and reported on a monthly basis.
- Issuer exposure is monitored through both pre-trade and post-trade compliance rules.
- Client exposure to asset classes with higher expected returns and risk is monitored on a quarterly basis.
- Exposure limits are measured on both an absolute basis (i.e. percent of assets) and on a relative basis (i.e. percent of surplus).

### **Additional Ongoing Review of Accounts**

Internal control functions, such as those within our Compliance Department and Global Investment Operations Team, monitor and assess data and processes relating to our management and trading. They report results of these analyses independently to senior management. Some examples of these independent reviews include:

- Pre-trade compliance review of proposed transactions to monitor consistency with guideline restrictions (for absolute restriction-based rules such as prohibited securities or counterparties);
- Post-trade compliance review;
- Periodic review of trading to examine allocation and trade errors; and
- Periodic review by management and oversight committees of various investment and trading activities, including reviews by our senior investment management team, and our Investment, Compliance, Valuation, and Best Execution Committees.

### **Reports to Clients**

We provide written periodic reports to all of our clients at a frequency determined by each client, but at least annually. Reports typically disclose holdings, transactions and other related information regarding the portfolios.

### **Review of Sub-Advisers**

The Adviser identifies, evaluates, selects and monitors sub-advisers. The sub-adviser evaluation process utilizes

both qualitative and quantitative attributes, questionnaires, detailed interviews, on-site visits, and ongoing monitoring of portfolio performance and holdings. Our investment team conducts periodic investment reviews, including a comparison of the sub-adviser's performance over quarterly, annual and multi-year terms, against relevant peer groups and benchmarks over those terms. In addition, the investment team receives and reviews monthly and quarterly reports from the sub-advisers and ensures that the sub-advisers produce and deliver written reports to the Adviser regarding the sub-advisers' activities in accordance with the sub-advisory agreements. These reports include monitoring of portfolio holdings in accordance with investment policies, guidelines and objectives of the fund, and any material violations.

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

We neither accept client referrals nor compensate for them.

#### **Item 15 – Custody**

The Adviser primarily provides investment advisory services to affiliated clients that are wholly-owned subsidiaries of LMGI. Although the Adviser has control over the assets within these accounts, the Adviser maintains these assets at a qualified custodian and relies on the SEC No Action Letter granted to CIGNA Capital Advisers (September 30, 1985). Therefore, the Adviser is not subject to Rule 206(4)-2 under the Investment Advisers Act of 1940 (the "Custody Rule"). However, the Adviser and its client accounts are subject to audit of its controls by LMGI's internal audit department, the Adviser's Compliance Department, and the external auditors for LMGI.

The Adviser does not maintain custody of the assets of any non-wholly owned affiliates at this time.

#### **Item 16 – Investment Discretion**

We manage the majority of our affiliated clients' portfolios on a discretionary basis. Our clients grant us this authority pursuant to written investment management or similar agreements. Accordingly, we have the authority to supervise and direct a client's investments without prior consultation with the client. With regard to non-discretionary client accounts, we provide only investment recommendations to the clients.

Our authority to manage client accounts is in all cases subject to the specific objectives, guidelines and limitations set forth in the applicable investment management agreement or investment advisory agreement. Investment guidelines generally set forth the universe of eligible investments. The client may restrict or prohibit transactions in certain types of securities.

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

##### **In General**

We vote securities held in our clients' accounts when our clients delegate this authority to us, which is generally set forth in our investment management agreements. For client assets that are managed through sub-advisory relationships, the contracted sub-advisers are responsible for voting those ballots and are instructed and obligated through their respective investment management agreements with us to vote proxies in the best interest of the client.

##### **Our Proxy Voting Policy**

Our Proxy Voting Policy and procedures include the responsibility to monitor corporate actions, and receive and

vote client proxies. In many cases, the Adviser utilizes an independent third party service provider to assist with proxy voting. The Adviser has reviewed, evaluated, and adopted the proxy-voting procedures and guidelines of the third-party proxy voting service. An assigned Analyst reviews the upcoming proxies on a monthly basis to ensure the recommended vote is in the best interest of our clients and does not pose a conflict of interest. In instances where an independent third party is not utilized, the Analyst will bring the vote to the Portfolio Manager for review. Portfolio Managers will base their vote on the best interests of the client.

We may occasionally be subject to material conflicts of interest in the voting of proxies due to business or personal relationships we maintain with persons having an interest in the outcome of certain votes. We, as the Adviser, and our employees, may also occasionally have business or personal relationships with the proponents of proxy proposals, participants in proxy contests, corporate directors and officers, or candidates for directorships. Any identified conflict of interest will be reported to the respective Portfolio Manager and the Chief Compliance Officer. They (along with other members of the Compliance Committee, if needed) will consult with each other to determine how to address such conflicts in a manner that is in the best interests of our clients. Any conflicts, and the manners in which they are resolved, are reported to the members of the Compliance Committee at least annually.

We seek to vote proxies on a timely basis, but we cannot guarantee that a proxy will be voted in every case, as not all ballots are received by us in advance of voting deadlines. In some cases (particularly in the case of securities issued by foreign issuers), time constraints or lack of notice may make such voting impracticable. In addition, we may abstain from voting where it serves the client's interest or abstention may be the most feasible means of resolving a conflict of interest. We may face challenges in voting foreign securities we hold for clients and will do so according to acceptable industry practices for those markets on a best-efforts basis.

In connection with clients that are subject to ERISA, we conduct proxy voting in accordance with standards of care applied to fiduciaries governed by ERISA. Proxy voting decisions are therefore centered on the economic interests of the underlying assets. The Compliance Committee meets to discuss our Proxy Voting Policy no less frequently than annually and on an *ad hoc* basis as needed.

We will provide clients with a copy of our Proxy Voting Policy or the proxy voting records for that client's securities, upon request and without charge.

## **Item 18 – Financial Information**

We have no financial commitment that impairs our ability to meet contractual and fiduciary commitments to clients and have not been the subject of any bankruptcy petition. We are not required to include a financial statement with this brochure.