

# BNP Paribas Investment Partners UK Ltd

## Part 2A of Form ADV

### The Brochure

5 Aldermanbury Square  
London EC2V 7BP  
United Kingdom  
<http://www.bnpparibas-ip.com>

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This brochure provides information about the qualifications and business practices of BNP Paribas Investment Partners UK Ltd (“BNPP IP UK”). If you have any questions about the contents of this brochure, please contact us at +44 20 7063 7734. 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 BNPP IP UK is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Summary of Material Changes**

On 21 July, 2010, the U.S. Securities and Exchange Commission (the "SEC") unanimously adopted changes to Form ADV, Part 2. The new Form ADV, Part 2, also known as the "Brochure", requires disclosure on distinct topics, and answers must be presented in the order of the items in the form, using the headings in the form. Our goal is to provide you with easy-to-understand "plain-English disclosure," using an easy-to-read format and definite, concrete, everyday words.

Our current Form ADV, Part 2 will be available to our existing and prospective clients 24 hours a day through the SEC's Investment Adviser Public Disclosure website. Additionally, we will annually and within 120 days of the end of our fiscal year, provide you either: (i) a copy of our Form ADV, Part 2 that includes or is accompanied by a summary of material changes; or (ii) a summary of material changes that includes an offer to provide a copy of the current Form ADV, Part 2.

We urge you to carefully review all subsequent summaries of material changes, as they will contain important information about any significant changes to our advisory services, fee structure, business practices, conflicts of interest, and disciplinary history.

### **Material Changes:**

Since our last annual filing in March 2013, we have made the following material changes to our Form ADV Part 2A:

- The Firm's ADV Part 2A has been revised to reflect updated information pertaining to our assets under management as of the end of the most recent fiscal year.
- Our Form ADV Part 2A has been revised to provide updates to the investment teams and strategies managed by our firm.
- The Firm's ADV Part 2A has been revised to reflect recent changes to the Firm's financial industry affiliations.

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## **Advisory Business**

BNP Paribas Investment Partners UK Limited (the “Firm”) is the main UK entity in the Investment Partners business line of BNP Paribas Group and as at 31 December 2013 had approximately US\$17.6 billion of assets under management. The Investment Partners business line represents the asset management arm of BNP Paribas Group globally and comprises several specialist companies (partners), each with a distinct investment philosophy and business scope.

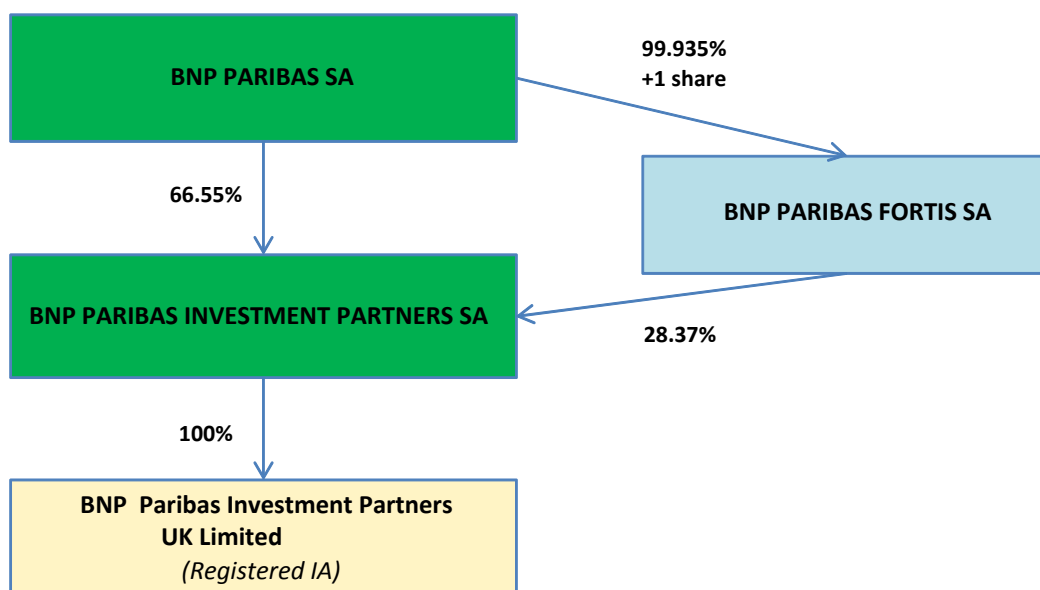
BNPP IP UK operates as the hub in the UK Investment Partners structure and has three main focus areas:

- Providing multi-expertise in investment management capability
- Providing a global sales and sales support function for the Investment Partners business line
- Providing a central services support platform for the other UK Investment Partners

BNP Paribas Investment Partners UK Limited is a 100%-owned subsidiary of BNP Paribas Investment Partners SA. Its various activities are fully integrated in the overall functional organisation of the business line. Thus, its fund management teams operate as part of the global fund management structure, while its sales and marketing teams are responsible for promoting and distributing the entire range of products on offer within BNP Paribas Investment Partners globally to their respective client base.

BNP Paribas Investment Partners is also the brand name of the Asset Management business line: it includes its main investment management company, BNP Paribas Asset Management SAS, as well as a number of international subsidiaries and affiliates.

As illustrated in the organizational chart below, BNPP IP UK is wholly owned by BNP Paribas Investment Partners S.A., which is owned by, among others, BNPP with a 66.55% interest and BNP Paribas Fortis SA (“BNPP Fortis”) with a 28.37% interest. BNPP owns 99.935% plus one share of BNPP Fortis.



BNPP is a publicly owned bank organised in France engaged in global financial activities. BNPP IP UK is part of BNPP’s asset management business, BNP Paribas Investment Partners (“BNPP IP”), within BNPP’s Investment Solutions division. BNPP IP is one of the major players in the investment management industry with a presence in many of the world’s major financial centres and assets under management and advisory totalling approx. US\$660 billion (as at 31 December 2013) for clients in over 70 countries across the globe.

## Fees and Compensation

BNPP IP UK manages portfolios of equity, balanced and fixed-income securities for institutional clients including pension funds, corporations, universities, foundations, foreign institutions and Central Banks. Where permitted by our clients, in connection with the management of portfolios we also manage exposure to foreign currencies.

Our standard fees may be negotiated in connection with certain mandates and/or modified for portfolios that have special investment constraints or unusual reporting, clearance, or other administrative requirements or unique characteristics. BNPP IP UK may impose a minimum fee for starting or maintaining an account.

Certain clients may have a portion of their separate account assets invested in commingled vehicles for which BNPP IP UK may be an adviser or sub-adviser.

Fees are generally payable quarterly, (although monthly, semi-annual and annual payment periods are also used) and are generally based upon the market value of funds managed as of the end of the preceding calendar quarter or on the average market value of funds managed within the calendar quarter. All client fees are paid in arrears.

BNPP IP UK’S fees are exclusive of brokerage commissions, transaction costs and other related costs and expenses which shall be incurred by the client. Such costs are in addition to BNPP IP

UK's fees and BNPP IP UK does not receive any portion of these costs. Please refer to the section entitled "*Brokerage Practices*" below for further information regarding the factors that BNPP IP UK considers in selecting and recommending broker-dealers for client transactions and determining the reasonableness of their compensation.

Our investment management agreements may be terminated by us or by our clients, subject to applicable notice provisions contained in the contracts.

## **Performance Based Fees and Side-by-Side Management**

Performance based fees are fees based on a share of capital gains on or capital appreciation of the assets of a client. Performance fees are in effect for certain clients of BNPP IP UK.

It should be noted that an adviser charging performance fees to some accounts faces certain conflicts because the adviser can potentially receive greater fees from its accounts having a performance-based compensation structure than from those accounts it charges a fee unrelated to performance (e.g., an asset-based fee). As a result, the adviser may have an incentive to direct the best investment ideas to, or to allocate or sequence trades in favour of, the account that pays a performance fee. BNPP IP UK is required to treat its clients fairly in relation to such conflicts of interest and will make decisions for client portfolios in accordance with its fiduciary responsibilities. Consistent with this fiduciary duty, BNPP IP UK's trading procedures seek to ensure that all clients are treated fairly and equitably and that no client account is advantaged or disadvantaged over another.

As mentioned in the section entitled "*Fees and Compensation*" above, certain clients may have a portion of their separate account assets invested in commingled vehicles for which BNPP IP UK may be an adviser or sub-adviser. Recommendations to these clients to use these affiliated commingled vehicles are made solely to enhance overall investment returns, to improve investment offerings, and to allow clients to participate in certain investment opportunities that would otherwise not be available or economic on a separate account basis. BNPP IP UK places assets of its clients in such vehicles only if the client authorises such use and receives the offering documents for those investments. Fees charged by BNPP IP UK are specified in a client's investment management agreement.

## **Types of Clients**

BNPP IP UK may provide customised investment management services to institutional clients and collective investment schemes, including but not limited to, banks, insurance companies, official institutions, and other corporations or business entities.

As discretionary manager, we review the specific circumstances, current investments and investment goals of each client. In order to assure an appropriate fit with the management style chosen, BNPP IP UK reserves the right to review each prospective client as to investment profile.

We generally impose a US\$50 million account minimum for investment management services. BNPP IP UK may negotiate minimum asset size on a case by case basis.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

### ***Multi Asset Solutions (formerly Global Balanced Solutions)***

The Multi Asset Solutions (MAS) team is the firm's specialist multi-asset team. This team includes the following sub-teams:

- i. Customised & Fiduciary Solutions
- ii. Core Portfolios & Funds
- iii. Tactical Asset Allocation (TAA) & Research
- iv. Risk Management

MAS London comprises the majority of the TAA & Research team, including the CIO and Head of TAA & Research as well as research analysts and quantitative analysts. Within MAS London, there are also a number of portfolio managers (officially reporting into the Core Portfolios & Funds sub-team) as well as two risk managers, the Head of Risk Management and an additional TAA risk manager.

The TAA & Research team define asset class views which are subsequently applied to all MAS portfolios not only those managed in London. With regard to the types of portfolios managed directly in London, these comprise:

- Absolute Return & Diversified Growth funds
- Segregated balanced mandates for UK-based clients
- Multi-management funds

With regard to Absolute Return and Diversified Growth, note that the products are currently under review following the departure of certain key staff. A new Diversified Growth fund is currently scheduled for launch in July 2014 following the recruitment of the new CIO and Head of TAA & Research. Similarly, we also aim to review our Absolute Return product over the course of 2014.

Below we describe the process that the team uses to conduct TAA research and to define a set of asset class views/ strategies. This process applies to all portfolios which incorporate TAA decisions including Absolute Return and Diversified Growth. Whilst the same views apply consistently across all portfolios, the way and the extent to which these are implemented depends on the nature of the product and specific client constraints (in the case of segregated mandates). .

### **TAA Research & Decision-Making process**

#### **Introduction**

We believe that asset allocation drives the majority of a portfolio's risk and return. As such, the Multi Asset Solutions team is entirely focused on asset allocation, rather than security selection which we believe is best left to specialist equity or fixed income managers.

We also believe that the investment universe should be as large as possible, so that more return cycles can be used, increasing the potential for higher risk-adjusted returns. Accordingly, we

allocate across all major, liquid global asset classes, including cash, government bonds, equities (globally as well as by region and market cap), investment grade bonds, high yield bonds, emerging market debt, convertible bonds, property and commodities.

Last but not least, we believe that the integration of risk management and portfolio management is the optimal way to build a multi-asset portfolio. Risk management is thus fully embedded into our process both in terms of our decision-making process as well as in the way we construct individual portfolios. As we believe that a multi-asset portfolio should be more than the sum of individual asset class positions, we run our portfolios according to a “holistic” approach. This means we seek to fully understand the portfolio’s exposures to a range of factors and to align these exposures with our key beliefs.

In terms of our research sources, the majority (around 90%) of our research is carried out in-house, due to the MAS team’s extensive resources and experience, as well as the fact that our own research is tailored to our investment process. We also use some external research, but only as input into our own research, or for idea generation efforts. We receive a range of external research (e.g., from brokers) some of which is valuable in contributing to our market outlook, and we often meet in person with the brokers whose views we find to be the most informative.

#### Research and Alpha Generation

We focus on determining our core fundamental views on individual asset classes (for example our overall equity exposure then within equities, our regional preferences etc.) with a 3 to 12 month investment horizon. We assess each asset class using a proprietary scorecard, which is a set of factors that we believe are most relevant to forecasting and evaluating returns for that asset class over a full investment cycle. Scorecards aim to provide a structured, transparent and rigorous approach to evaluating strategies and are formally reviewed during the team’s weekly investment meeting. Firstly, we update our score for each individual factor (from ‘double minus’, through neutral, to ‘double plus’); then we update our overall score for the scorecard. Crucially, this overall score is not simply an average of all the individual factors. Rather, our weighting of the factors fluctuates based on our qualitative assessment of which factors we expect to drive the asset class in the coming period. Having determined our overall score for the scorecard, we can then translate this into an asset class strategy. To illustrate how we use scorecards, below we have provided an example of our Equity scorecard:



We assign a rating to each factor, from double negative to double positive

Scorecards are formally reviewed during the team's weekly investment meeting

03 Mar 2014

Our use of scorecards ensures we always assess all factors that are most relevant to each investment decision

Equity Scorecard						
Factors	--	-	=	+	++	How
Longer-term						
Structural Factors						
Geopolitical Environment		X				Perceived market impact of geopolitics
Market Environment				X		Tax, regulatory, and corporate activity environment
Economy			X			Economic scorecard
Liquidity						
Monetary Policy				X		Perceived market impact of global monetary policy
Liquidity			X			Liquidity scorecard
Valuation		X				Valuation scorecard
Earnings Outlook				X		Profit scorecard
Shorter-term						
Economy			X			US growth surprise index
Market Factors						
Sentiment			X			Sentiment scorecard
Positioning			X			Range of positioning indicators
Momentum				X		Proprietary Mamma signal
Seasonality				X		Proprietary research
Overall Assessment				X		

Led by the scorecard 'owner', the team agrees the overall rating based on a final qualitative assessment. In this case, the overall assessment was positive.

Source : BNPP Investment Partners

Each scorecard has an assigned owner and back-up responsible for the on-going maintenance and development of the scorecard and for defining the view on the respective asset class.

In addition to our scorecard-driven views, the team can also identify shorter-term strategies which are more idea-driven in nature. As these tend to be long/short strategies (for example within equities a relative value long/short position across two countries), these types of positions are not applicable for the majority of portfolios run by Multi Asset Solutions (given their long/short nature) however they are used extensively within our Absolute Return product and, to a more limited extent, within our Diversified Growth product.

### Quantitative inputs

Our TAA process is predominantly judgemental but we do combine both qualitative and quantitative inputs within our scorecard approach. We believe that the qualitative part of our process is paramount as it safeguards the investment process from regime shifts that are not easily picked up by a pure quantitatively-driven approach. At the same time, we firmly believe in the value-added of integrating quantitative inputs into our broader qualitative approach as this should bring diversification in terms of the drivers of investment ideas. As such we have dedicated quantitative analysts within our TAA team in London, responsible for providing quantitative inputs. These are provided primarily via our internally-developed momentum factor model, MAMMA. In some cases we assign a separate risk budget to the MAMMA model however for the majority of portfolios that we run the model is used as an additional input into our fundamental asset class decisions (via our scorecard framework).

### Final decision-making

Responsibility for final asset allocation positioning across the full portfolio lies with the CIO, Head of TAA & Research. While we fully believe in the concept of scorecard owners having responsibility for particular asset classes, we also believe that a balanced portfolio should not just be the simple sum of individual strategies. In combining the individual strategies, we must ensure that the resulting directionality of the total portfolio is in line with our overall risk appetite. We thus use a “holistic” approach to ensure that we fully understand the risk factor exposures (provided by the risk managers) resulting from the individual asset class views proposed by the trade owners. Adjustments can then be made to the final asset allocation positioning if required.

### Portfolio construction & implementation

The scope for implementing tactical asset allocation positions in a fund or client portfolios may be pre-defined by the fund/client’s asset class bandwidths or derived with respect to a tracking error limit. These guidelines enable us to determine an appropriate risk budget and excess return objective for tactical asset allocation. For this purpose, we use a proprietary risk budgeting approach which incorporates the client’s specific constraints. As risk lies at the heart of our investment process, we always think first and foremost in terms of “risk allocation” before determining nominal asset class weights for tactical asset allocation positions. Using a rigorous ex-ante risk budgeting process, our aim is to allocate the same amount of risk to tactical asset allocation positions in which we hold the same level of conviction. Although we have a general approach to risk budgeting the actual process is portfolio-specific as it is tailored to the risk target and investment universe of each portfolio. Our approach is supported by an internally-developed risk and portfolio management system (LIBRA) and a dedicated team of risk managers who are fully integrated into the investment process.

Once notional position sizes have been defined for each portfolio (according to our active risk budgeting process), the necessary transactions are initiated by the portfolio managers via our proprietary risk and portfolio management system LIBRA and are sent to and executed by the firm’s independent dealing team, Dealing Services. After implementation, portfolios and individual positions are monitored on an on-going basis by our portfolio managers and our dedicated risk managers.

### On-going monitoring

Once we have decided on the strategies and set the target portfolio, our portfolio managers and risk managers work closely with the dealers to monitor trading, the administrative follow-up and the market levels of the active strategies. Our LIBRA system performs checks of the portfolio versus the constraints and versus the target portfolio when a trade is entered, during the trading process and when the process is completed. We also use LIBRA to monitor the overall positioning of the portfolio, the advice or target portfolio and the benchmark. Deviations are monitored and can be acted upon swiftly using LIBRA’s built-in trade facility. Lastly, our risk managers also perform an on-going consistency check in terms of which strategies are active for which portfolio, but also in terms of size or part of risk budget taken.

With regard to individual tactical asset allocation positions, both during and after implementation, we monitor each active position in isolation relative to its entry, profit-taking and stop-loss levels. This information is monitored within the weekly risk report maintained by the risk managers. The

report is discussed within the TAA & Research team during the weekly risk meeting and provides a detailed analysis risk across the different model portfolios that we run (subsequently applied to the management of individual funds and mandates). This includes:

- Risk decomposed per asset allocation strategy, per alpha source, per asset class
- Detailed factor exposure (12 factors)
- Concentration risks
- Commonality (comparison of actual positioning versus target risk)
- Comparison of ex-ante and ex-post risk
- Stress testing (stressed covariance matrix)
- Use of leverage (applicable only for our absolute return strategies)
- Individual profit and loss-taking review levels (as mentioned above)
- Market regime monitoring (via a number of models enabling us to monitor the evolution of the market environment assess average market correlations)

We also have a separate team within the firm, who provide independent checks on portfolios. Pre- and post- trade compliance checks on client/internal guidelines are monitored straight from Sentinel and checks of the different guidelines are performed against the portfolio data.

*Investing in securities is inherently risky.* An investment in individual securities or in a portfolio of securities could lose money. BNPP IP UK cannot give any guarantee that it will achieve its investment objectives or that any client will receive a return on or of its investment.

*Market Risk.* The investments may be subject to price volatility due to factors such as interest sensitivity, market perception, and creditworthiness of issuer and market liquidity. Stock markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Different parts of the market can react differently to these developments. The value of an individual security or particular type of security can be more volatile than the market as a whole and can perform differently from the value of the market as a whole.

*Debt Securities Risk.* Debt securities, such as notes and bonds, are subject to credit risk and interest rate risk. Credit risk is the possibility that an issuer of an instrument will be unable to make interest payments or repay principal when due. Changes in the financial strength of an issuer or changes in the credit rating of a security may affect its value. Interest rate risk is the risk that interest rates may increase, which tends to reduce the resale value of certain debt securities.

*Liquidity Risk.* The liquidity of a portfolio's investment is inherently restricted by trading volumes in the securities in which the portfolio invests. A lower level of liquidity affecting an individual security or derivative, an entire market or several overseas markets at the same time, may have an adverse bearing on the value of the portfolio's assets. More importantly, this may affect the ability of the manager to sell particular securities and derivatives quickly enough to minimise impact cost, as and when necessary to meet requirements of liquidity or to sell securities in response to triggers such as a specific economic/corporate event. Trading volumes, settlement periods and transfer procedures may restrict the liquidity of a few or all of the investments and may affect the liquidity of the investments of the portfolio.

The manager may be unable to implement purchase or sale decisions for a portfolio when the markets turn illiquid, missing some investment opportunities or limiting ability to facilitate client withdrawals. The lack of liquidity could also lead to the risk that the sale price of a security could be substantially lower than the fair value of the security.

*Government Obligations Risk.* If a government-sponsored entity is unable to meet its obligations, the performance of a mutual fund that holds securities of the entity will be adversely impacted.

*Mortgage- and Asset-Backed Securities Risk.* Mortgage- and Asset-Backed securities risk includes Market Risk, Interest Rate Risk, Credit Risk, Prepayment Risk (*i.e.*, homeowners whose mortgages collateralise the securities held by certain mutual funds may be able to prepay principal due on these mortgages, which could cause such mutual funds to reinvest the proceeds at lower yields) as well as the risk that the structure of certain mortgage-backed securities may make their reaction to interest rates and other factors difficult to predict, making their prices very volatile. Under certain adverse market conditions, mortgage- and asset-backed securities may have more limited liquidity than usual.

*Issuer Risk.* The value of a security may decline for a number of reasons, which directly relate to the issuer, such as management performance, financial leverage, decline in the value of investments held by the issuer, increase in the operational and/or financing cost of the issuer, and reduced demand for the issuer's goods and services.

*Credit and Counterparty Risk.* There is a risk that issuers or counterparts will default and fail to repay principal and interest in a timely manner or do not fulfil their obligations and commitments. If the rating of an issue, issuer or a counterpart is downgraded this may cause the value of the related assets to fall. The severity of the risk varies depending on the quality of the issuer or counterpart. The assets can be partly invested in securities issued by corporate entities, bank, financial institution and/or public sector and this poses a higher risk than investment in government securities.

*Industry or Sector Emphasis Risk.* Investing a substantial portion of assets in related industries or sectors may have greater risks because companies in these industries or sectors may share common characteristics and may react similarly to market developments.

*Non-Diversification Risk.* Non-diversified mutual funds have the ability to take larger positions in a smaller number of issuers than a diversified fund, which makes a non-diversified fund more susceptible to financial, economic or market events impacting such issuers, and a non-diversified fund's share price may be more volatile than the share price of a diversified fund.

*Management Risk.* Management risk means that your investment varies with the success and failure of BNPP IP UK's investment strategies and its analysis and determination of portfolio securities.

*Mutual Fund and ETF Trading Risk.* Where permitted by a client's investment guidelines, BNPP IP UK's portfolio managers may invest in mutual funds that are either open-end or closed-end

investment companies as well as ETFs. ETFs are investment companies that are bought and sold on a national securities exchange. Unlike mutual funds, ETFs do not necessarily trade at the net asset values of their underlying securities, which means an ETF could potentially trade above or below the value of the underlying portfolios. As such, trading in ETFs is subject to (without limitation) similar risks as those of the listed stocks. Additionally, because ETFs trade like stocks on exchanges, they are subject to trading and commission costs unlike mutual funds. Also, both mutual funds and ETFs have management fees that are part of their costs.

*REIT Securities Risk.* The performance of mortgage REITs depends on the performance of the portfolio investments of the REIT in real estate and/or mortgages. Mortgage REITs may be affected by the quality of any credit extended and by special tax rules that apply to certain investments in securitised pools of mortgages.

*Currency Risk.* Investments in foreign securities involve exposure to fluctuations in foreign currency exchange rates. Such fluctuations may reduce the value of a client's investment in a foreign security.

*Emerging Markets Risk.* Emerging markets may have obsolete financial systems and volatile currencies, and may be more sensitive than more mature markets to a variety of economic factors. Emerging market securities also may be less liquid than securities of more developed countries and could be difficult to sell, particularly during a market downturn.

*Foreign Investment Risk.* Foreign securities may be subject to more risks than domestic investments. These additional risks may potentially include lower liquidity, greater price volatility and risks related to adverse political, regulatory, market or economic developments. Foreign companies may also be subject to significantly higher levels of taxation than domestic companies, including potentially confiscatory levels of taxation, thereby reducing the earnings potential of such foreign companies.

*Leverage Risk*

Many financial instruments/positions offer clients opportunity to gain an exposure to leveraged positions that may benefit from magnified gains dependent on favourable movements in variables underlying the position. Any financial instruments/positions that offer the potential of magnified gains also pose the risk of magnified losses. As described above, leverage risk is most evident in (but not limited to) derivatives and structured products.

*Derivatives Risk.* When permitted by the investment guidelines of and regulations applicable to its clients, BNPP IP Singapore may use derivatives instruments, like Options, Futures, Warrants, Interest Rate Swaps, Forward Rate Agreements or other derivative instruments. Usage of derivatives will expose portfolios to certain risks inherent to such derivatives. Derivative products are specialized instruments that require investment techniques and risk analysis different from those associated with stocks and bonds. The use of a derivative requires an understanding not only of the underlying instrument but also of the derivative itself. There is a possibility that a loss may be sustained by a portfolio as a result of the failure of another party (usually referred to as the "counterparty") to comply with the terms of the derivatives contract. Other risks in using derivatives include the risk of mispricing or improper valuation of derivatives and the inability of

derivatives to correlate perfectly with underlying assets, interest rates and indices. Even a small price movement in the underlying instrument could have a large impact on their value. This could increase the volatility of the portfolio's performance.

Derivative products are leveraged instruments and increase the volatility of the portfolio's performance. The risks associated with the use of derivatives are different from or possibly greater than the risks associated with investing directly in securities and other traditional investments.

In the case of hedging, it is possible that derivative positions may not be perfectly in line with the underlying assets they are hedging. As a consequence, the derivative cannot be expected to perfectly hedge the risk of the underlying assets. This also increases the volatility of the portfolio's performance.

*Operational Risk.* Operational risk addresses the risk of trading and back office or administration issues that may result in a loss to a portfolio. This could be the result of oversight, ineffective securities processing procedures, computer systems problems or human error. Some markets are less regulated than most of the international markets, hence, the services related to custody and liquidation for the portfolio on such markets could be more risky.

*Valuation Risk.* This risk relates to the fact that markets, in specific situations and due to lack of volumes of transactions, do not enable an accurate assessment of the fair value of invested assets. In such cases, valuation risk represents the possibility that, when a financial instrument matures or is sold in the market, the amount received is less than anticipated, incurring a loss to the portfolio and therefore impacting negatively the net asset value of the portfolio.

*Taxation Risk.* The value of an investment may be affected by the application of tax laws in various countries, including withholding tax, or changes in government or economic or monetary policy in the countries concerned. As such, no guarantee can be given that the financial objectives will actually be achieved.

## **Disciplinary Information**

BNPP IP UK and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

## **Other Financial Industry Activities and Affiliations**

BNPP IP UK is a subsidiary of BNPP, a publicly owned bank organised in France engaged in global financial activities. Since BNPP IP UK is a subsidiary of a global financial organisation, it has arrangements with companies that are under common control of BNPP. The description below provides an overview of relationships with other businesses affiliated with BNPP IP UK that are considered material to its advisory business.

*BNP Paribas Investment Partners.* As part of a global strategy, BNPP's asset management division has been branded as BNP Paribas Investment Partners. BNPP IP includes those various asset managers which comprise BNPP's asset management business line. A list of the individual

BNPP IP asset managers is available upon request. BNPP IP is not itself an investment adviser registered with the SEC; rather, clients will directly contract with individual asset management firms that may be regulated in the U.S. or in jurisdictions external to the U.S.

BNPP IP UK has arrangements that are material to its advisory business with the following investment advisers that are registered with the SEC:

- i) Fischer Francis Trees & Watts Inc
- ii) Fischer Francis Trees & Watts UK Ltd
- iii) BNP Paribas Investment Partners Singapore Limited
- iv) BNP Paribas Asset Management Inc.

Please note that Fischer Francis Trees & Watts Inc. is registered as a commodity pool operator and a commodity trading advisor with the U.S. Commodity Futures Trading Commission and is a member of the National Futures Association.

BNPP IP UK may from time to time enter into business relationships with other BNPP IP companies as a sub-manager for client portfolios or funds for which another BNPP IP company acts as manager. From time to time prospective clients may be directly introduced to BNPP IP UK by other BNPP IP companies. In such instances, BNPP IP UK and the relevant BNPP IP company will negotiate fee sharing arrangements on a case by case basis.

BNPP IP shares office space with certain other BNPP IP companies in compliance with applicable regulation and with the appropriate supervision by legal and compliance personnel. BNPP IP UK has adopted strict policies and procedures to ensure protection of confidential information relating to its clients. The informational barriers procedures apply to all employees of each affiliated investment adviser. All employees must take all reasonable steps to protect confidential information and to restrict its flow to any other investment adviser or any employee of any other adviser. All employees are required to read and certify compliance with these procedures. BNP Paribas Investment Partners UK Ltd and Fischer Francis Trees & Watts UK Ltd, which are both SEC Registered, share office space and supervised persons. Both firms operate under the same policies and procedures and Code of Ethics and their employees are Access Persons of the respective firms. Certain areas of information and information barriers are in place where appropriate to meet certain client confidentiality and related requirements.

Outsourcing. BNPP IP UK provides a number of its support and operational functions to other entities within BNP Paribas Investment Partners under Service Level Agreements. A summary of these outsourcing arrangements is provided below:

- i) Services in respect of Finance, Tax, Compliance, Legal / Company Secretarial, Human Resources, Facilities, Business Continuity, IT, Risk, Permanent Control (Operational Risk), are provided by BNP Paribas Investment Partners UK Ltd to other entities within BNP Paribas Investment Partners. All services are covered by Service Level Agreements.
- ii) Dealing services in respect of fixed income, foreign exchange and emerging market debt are provided by BNP Paribas Dealing Services. These services are covered by Service Level Agreements.

BNPP IP UK outsources certain of its support and operational functions to its affiliate, BNP Paribas Securities Services, in respect of trade support, trade processing and client reporting and performance are provided by BNP Paribas Security Services. All services are covered by a Service Level Agreement.

BNP Paribas. BNPP, its affiliates and their directors, partners, trustees, members, officers and employees are engaged in businesses and have interests which may conflict with the business activities of BNPP IP UK. These activities and interests include potential multiple advisory, transactional and financial and other interests in securities, instruments and companies.

As previously noted above, BNPP is a full service financial services institution and a major participant in global financial markets. As such, it acts as an investor, investment banker, research provider, investment manager, financier, adviser, market maker, trader, prime broker, lender, agent and principal, and has other direct and indirect interests, in the global fixed income, currency, commodity, and other markets in which BNPP IP UK directly and indirectly invests on behalf of client portfolios. BNPP IP UK will make decisions for client portfolios in accordance with its fiduciary responsibilities; however, the potential business relationships, fees, compensation and other benefits to BNPP may, in certain cases, give rise to certain potential conflicts of interest. BNPP IP UK will use its best efforts to minimise the potential for conflicts of interest arising due to its relationship with BNPP and has policies and procedures in place to ensure that its clients' interests are prioritised.

As a global financial institution, BNPP's business includes brokerage and capital market activities both domestically and in foreign jurisdictions. As such it carries out routine broker dealer and investment banking functions in compliance with local laws and regulations. Notwithstanding, BNPP IP UK does not act as broker or principal in the purchase of securities for transactions with its clients.

BNPP IP UK and its affiliates, under common control by BNPP, may invest their capital for their own account in co-mingled investment vehicles for which BNPP IP UK provides investment management services. In such cases, BNPP IP UK and its affiliates maintain policies to prevent conflicts of interest harmful to its clients.

Certain persons providing services to BNPP IP UK may be employed by or also providing services to BNPP IP UK's affiliates under common control by BNPP. Any such provision of services would be undertaken in compliance with applicable regulation and the appropriate supervision of compliance personnel.

Other Conflicts of Interest. As discussed in the section entitled "*Performance Based Fees and Side-by-Side Management*" above, BNPP IP UK may recommend that certain clients invest in co-mingled vehicles for which it acts as investment adviser or sub-adviser or for which another BNPP IP company acts as investment adviser or sub-adviser. Recommendations to these clients to use these affiliated commingled vehicles are made solely to enhance overall investment returns, to improve investment offerings, and to allow clients to participate in certain investment opportunities that would otherwise not be available or economic on a separate account basis.



BNPP IP UK places assets of its clients in such vehicles only if the client authorises such use. Fees charged by BNPP IP UK are specified in a client's investment management agreement.

BNPP IP UK and its respective officers and employees act and continue to act as investment advisers and managers for multiple clients, and may choose to act as investors on their own behalf, notwithstanding that BNPP IP UK has directly or indirectly material interests or relationships which may involve conflicts or potential conflicts with BNPP IP UK's duty to its clients.

BNPP IP UK's officers, directors, and employees may be asked to serve as directors, advisers, or in other forms of participation in other companies or organisations, some of which may be affiliates of BNPP IP UK under common control by BNPP. Since such commitments can involve substantial responsibilities and potential conflicts of interest or the appearance of such conflicts, prior approval of both senior management and compliance must be obtained in respect of external appointments. For appointments to affiliates of BNPP IP UK, senior management must be sought before accepting such a position and compliance personnel must be advised of all such appointments.

BNPP IP UK is required to treat its clients fairly and to take all reasonable steps to ensure that clients do not suffer any detriment in relation to such conflicts of interest or material interests as described above. To meet this requirement, BNPP IP UK ensures that it has taken all reasonable steps to identify conflicts of interest or material interests and has in place adequate policies and procedures to protect its client interests and manage such conflicts or material interests, including drawing to its clients' attention to the possibility of such conflicts. Such policies and procedures include, but are not limited to BNPP IP UK's Code of Ethics, personal trading policies, trade aggregation and allocation policies, policies governing outside business activities and gifts and entertainment, as well as a Conflicts of Interest Policy which includes an informational barriers policy.

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

BNPP IP UK has adopted a Code of Ethics which mandates high standards of business conduct and professionalism and establishes rules of conduct for its employees. BNPP IP UK's Code of Ethics is intended, among other things, to ensure that personal investing activities by BNPP IP UK's employees are consistent with BNPP IP UK's fiduciary duty to its clients. The Code of Ethics requires employees to obtain pre-approval for certain transactions, including but not limited to, fixed-income securities, equity transactions, derivatives transactions, exchange traded futures and options contracts, acquisitions in initial public offerings and acquisitions of shares in funds advised or sub-advised by BNPP IP UK or by another BNPP IP company. Additionally, BNPP IP UK's employees must adhere to other personal investment policies which are specifically described in the Code of Ethics. BNPP IP UK's employees may own securities which may be or could be held for clients. BNPP IP UK's policy is that all employee transactions in any securities which are also eligible for client accounts must be specifically approved in advance. The Code prohibits BNPP IP UK's employees from trading on material non-public information. All BNPP IP UK's employees are required to provide Initial and Annual Personal Holdings Reports. BNPP IP UK will provide a copy of its Code of Ethics to any client or prospective client upon request.

As described above, upon prior approval, from time to time BNPP IP UK's employees may buy and sell securities for themselves that are also recommended to clients. In such instances, transactions may not be in amounts that will have a material effect upon the price or trading volume of a particular security and are always subject to the prohibition from trading on non-public information. Employees may not buy or sell securities for their own personal accounts where their decision is substantially derived, in whole or in part, by reason of their association with BNPP IP UK unless the information is also available to the investing public on reasonable inquiry.

Additional restrictions applicable to those staff members undertaking portfolio management or dealing activity (including desk assistants) and their managers:

- Generally, staff members responsible for portfolio management may not transact directly in securities, ETFs or derivatives traded in the portfolios they manage. Similarly, traders who provide a dealing service must abide by the same rules.

Exceptions to the general rule are:

- Investment Grade Government Bonds;
- Equities, with supervisory and Compliance approval.
- Investments in mutual funds and discretionary accounts do not require pre-approval unless such funds or accounts are managed by BNPP in which case pre-approval must be received.
- Managers of portfolio management staff are also prohibited from carrying out transactions in securities or derivatives which are traded in the portfolios of their subordinates.
- Managers of portfolio management staff are also prohibited from carrying out transactions in securities or derivatives which are traded in the portfolios of their subordinates.

Employees are required to disclose individual security transactions on a quarterly basis to BNPP IP UK.

BNPP IP UK may be subject to potential conflicts of interest when making investment decisions for clients, and such conflicts can affect its objectivity. There is a financial interest to recommend products or services offered by other companies that are under common control. By conducting business with companies affiliated with us, we are able to increase the overall profitability for the parent company. For information on affiliates of BNPP IP UK under common control by BNPP and a description of the conflicts of interest see section entitled “*Other Financial Industry Activities and Affiliations.*”

## **Brokerage Practices**

Counterparty Selection. For BNPP IP UK, the bodies authorised to approve, decline or remove counterparties/brokers on the authorised Global Counterparty List (GCL) are the Global

Counterparty Committee (GCC) and/or one of the Regional Broker Committees (RBC) as appropriate. RBC's benefit from a delegated authority from GCC to leverage local knowledge and relationships for the approval of DVP brokers only. GCC has the authority to overturn RBC decisions.

The objective for GCC/RBC is to examine all elements of the risk/reward matrix to determine the appropriateness of each counterparty or broker for inclusion on the approved list. Particular focus is given to the creditworthiness, operational efficiency, best execution capabilities and relationship value of the counterparty.

The business may propose new counterparties/brokers. Such proposals need to be supported by both the Chief Investment Officer of the relevant business line as well as the appropriate Head of Dealing. For each new proposal, a fully completed application form is required, detailing the business case, legal entity, contact details etc. For Counterparty relationships, Credit Risk must also perform a risk analysis commensurate with the anticipated risk profile.

GCC has minimum counterparty rating standards which can only be changed upwards for counterparties. In the event of a split rating the lowest rating will be used. OTC transactions must be documented under an ISDA plus a Credit Support Annex (CSA) where possible. DVP brokers are not subject to the same level of scrutiny in consideration of the short term and relatively benign nature of the product being traded. However, GCC & RBC are required to consider the integrity of the operating and settlement environment of the DVP activity as well as the creditworthiness of the counterparty/broker.

Temporary dealing may be approved on a one-off basis subject to Straight Through Processing ("STP") compatibility where liquidity or best execution demands require it.

Where a counterparty or broker is specified by a client as a preferred entity then even if this name is not on the GCL, it can be approved for use in respect of this client only. This approval is subject to the very strict understanding that this requirement must be documented in writing by the client with a clear statement to the effect that the client understands that it takes full responsibility for this selection.

*Best Execution.* All transactions executed in over-the-counter markets are executed on a net price basis. As a matter of policy BNPP IP UK will only enter into cross transactions on an exceptional basis where such transactions are in the best interests of its clients taking full account of any conflicts of interest and ensuring these are properly addressed. Cross transactions must be formally approved by the Head of Compliance or their delegate prior to execution.

All trades are executed with counterparties which are approved by BNPP IP UK in accordance with the process described above, selected in a manner consistent with seeking best execution. No concessions on prices are made to any dealer by reason of services performed or offered to be performed, or goods supplied or offered to be supplied. In addition to the gross dealing price, BNPP IP UK takes into account the level of charges, mark up or mark down made by the counterparty and the creditworthiness of the counterparty.

*Affiliated Transactions.* BNPP IP UK may recommend purchases of securities in primary offerings where a Related Person is a member of the underwriting syndicate. BNPP IP UK may effect transactions with BNPP or its affiliates as a dealer unless such transactions with Related Parties are not permitted by the client. In respect of any US Clients, BNPP IP UK would obtain specific permission from the client for such transactions with Related Parties. Any such transactions are conducted on an arms length basis and are strictly subject to the principle that BNPP IP UK must always act in its clients' best interests and transaction must be in accordance with the BNPP IP UK's Best Execution Policy.

*Commission Sharing Agreements.* BNPP IP UK may also acquire research from independent providers with no links to the execution broker. This is paid for by means of commission sharing agreements.

Under a Commission Sharing Agreement, the broker is instructed to pay a part of the normal commission to a third-party research provider as payment for research and advisory services that have assisted the BNPP IP UK in investment decisions for client portfolios. Such commissions are only paid in respect of research, execution and advisory services which support the fund managers decision making process.

Commission Sharing Agreements are not dependent upon placing specific volumes of business with individual brokers and are subject to contractual provisions that prevent the commission sharing agreement from conflicting with our obligation to obtain best executions for clients.

*Trade Aggregation and Trade Allocation.* As an adviser and fiduciary to our clients, BNPP IP UK places its clients' interests first and foremost. Consistent with this fiduciary duty, BNPP IP UK's trading procedures seek to ensure that all clients are treated fairly and equitably and that no client account is advantaged or disadvantaged over another. In furtherance of this policy, when the same securities are purchased or sold for one or more of BNPP IP UK's client accounts, BNPP IP UK's general policy is to, when possible, purchase or sell the securities as a block transaction, and to allocate such securities or proceeds for the participating accounts at the price paid per unit allocated.

In allocating the securities, the principles employed are 1) allocation of each investment decision to each individual account shall be broadly determined with respect to the investment guidelines and investment policy applying to each individual account; (2) dealing for different clients in the same security and at the same time shall be aggregated and traded as a block to the extent possible; and 3) each aggregate allocation shall be allocated at the unit price paid to all participating accounts. Aggregated transactions are allocated fairly and equitably among eligible clients.

## **Review of Accounts**

BNPP IP UK assigns a portfolio manager with supervisory responsibility for each client portfolio. The selection and trading of positions are generated by the specialist portfolio managers and executed by a separate dealing desk. The portfolio manager monitors account objectives and guidelines, as well as communicating with each client on a continuous basis.

The Investment Compliance teams provide an independent check of clients' compliance with their respective investment guidelines.

Client portfolio and transaction records are maintained using computerised accounting systems. Information on all trades is provided to clients upon request. BNPP IP UK provides clients with a review of account holdings and/or performance results on a quarterly basis, although other schedules may be arranged.

Standard reports typically cover the following:

- i) investment returns for the portfolio and its performance benchmark for up to ten years or since inception, whichever is shorter;
- ii) a summary of market developments, portfolio activity and current investment strategy;
- iii) a listing of portfolio assets; and
- iv) a compilation of all transactions.

## **Client Referrals and Other Compensation**

From time to time, BNPP IP UK may enter into arrangements with individuals and organisations pursuant to which each has agreed to introduce BNPP IP UK to certain US and non-US clients who may be interested in BNPP IP UK's investment management services. These individuals and organisations would be contracted or employed as consultants and advisers to BNPP IP UK in connection with the marketing of BNPP IP UK's investment management services. Compensation may vary for each consultant. In such cases, pursuant to Rule 206 (4)-3 of the SEC Rules under the Investment Advisors Act of 1940 (the "1940 Act"), where cash payments are made for solicitation, BNPP IP UK would implement a written agreement binding the solicitor to comply with the 1940 Act and Rules and requiring delivery to the client of (a) Part 2 of BNPP IP UK's Form ADV and (b) a written fee sharing disclosure statement meeting the requirements of the Rule. All such arrangements would also be subject to and must adhere to UK regulatory requirements under the rules of the Financial Conduct Authority.

## **Custody**

Custody is defined as any legal or actual ability by BNPP IP UK to access client funds or securities. Since all client funds and securities are maintained with a qualified custodian, BNPP IP UK does not take physical possession nor does it have the authority to take possession of client assets. However, under the current SEC rules, BNPP IP UK is deemed to have custody of certain client assets solely by virtue of the fact that the qualified custodian is a member of the larger BNPP group. Therefore, we urge all of our clients to carefully review and compare their quarterly reviews of account holdings and/or performance results received from us to those they receive from their custodian.

BNPP IP UK has implemented policies and procedures to govern those instances where the custodian of a client is a related person of BNPP IP UK (i.e. a person directly or indirectly controlling or controlled by BNPP IP UK or a person under common control with BNPP IP UK). In accordance with those policies and procedures, BNPP IP UK maintains a copy of the internal control report (SSAE16 or equivalent document) of the related person and prepares an internal

memorandum to evidence that the related person is operationally independent of BNPP IP UK. The related person is operationally independent of BNPP IP UK if the following four criteria are satisfied and no other circumstances can reasonably be expected to compromise the operational independence of the related person:

- i) client assets in the custody of the related person may not be subject to the claims of BNPP IP UK's creditors;
- ii) BNPP IP UK's personnel may not have custody, possession, or access to client assets, or the power to dispose of client assets to third parties for the benefit of BNPP IP UK or the related person, or otherwise have the opportunity to misappropriate client assets;
- iii) BNPP IP UK's personnel and personnel of the related person who have access to advisory client assets are not under common supervision; and
- iv) BNPP IP UK's personnel may not hold any position with the related person or share premises with the related person.

## **Investment Discretion**

BNPP IP UK typically manages client accounts on a discretionary basis, subject to the restrictions that have been provided by clients. These investment guidelines are established with each of BNPP IP UK's clients, stipulating various limits governing the management of each portfolio, including eligible securities and maximum commitments. Within the guidelines, BNPP IP UK may execute trades without further authority. Trades are executed with those dealers or other financial institutions which, in BNPP IP UK's judgment, offer the most favourable terms for its clients. Fixed-income securities are traded predominantly with dealers at net prices without commissions. When BNPP IP UK utilises brokerage services, such as for exchange-traded futures contracts, the reasonableness of the commission paid to brokers is evaluated on basis of the amount of commissions in relation to the execution services rendered. Clients of BNPP IP UK may specify a subset of dealers or financial intermediaries in its guidelines which may be utilised for its portfolio, or similarly provide a minimum credit rating to which BNPP IP UK must adhere in selecting a dealer or financial intermediary.

## **Voting Client Securities**

As required under the UK Financial Conduct Authority (FCA) rules, BNPP IP UK has issued a Statement of Compliance with the UK Stewardship Code which is available on the UK website ([http://www.bnpparibas-ip.co.uk/central/about-us/voting-policy.page?l=eng&p=IP\\_UK-NSG](http://www.bnpparibas-ip.co.uk/central/about-us/voting-policy.page?l=eng&p=IP_UK-NSG)).

BNPP IP UK will exercise discretionary voting authority over proxies issued on securities held in client accounts unless voting authority has been reserved explicitly by the client or assigned to another party by the governing account documents. BNPP IP UK's Proxy Voting Guidelines govern its proxy voting activities and which includes the operation of a global Proxy Voting Committee that oversees its global proxy voting activities. This Committee has hired Institutional Shareholder Services ("ISS") as its voting agent. This Committee has provided ISS with a global proxy voting policy for all portfolios. ISS tracks and receives proxies to which clients are entitled, makes recommendations pursuant to the proxy voting policy provided by the Proxy Voting Committee or, if the ballot item is not addressed by the global proxy voting policy, makes recommendations according to the ISS voting policy.

BNPP IP UK's policy is to follow the recommendations of its global proxy voting policy. However, the Firm's portfolio managers or analysts may request an override of a Proxy Voting Committee or ISS recommendation if they believe that the recommendation is not in the best interests of the client. In such cases, a process is followed to review and approve a vote other than that recommended by the global proxy voting policy or the ISS voting policy. Based on this process the proxy voting team will execute the votes on the ISS voting platform.

Additionally, there may be instances where the BNPP IP UK or its personnel are subject to conflicts of interest in the voting of proxies. Conflicts of interest may exist, for example, due to personal or family relationships of personnel or when BNPP IP UK or an affiliate has a business relationship with, or is soliciting business from, the issuing company (or an employee group of a company) or a third party that is a proponent of a particular outcome on a proxy issue. In cases where it believes there may be an actual or perceived conflict of interest, additional review and steps may be taken including obtaining the prior approval of Compliance or Legal, obtaining the Proxy Voting Committee review or approval, deferring to the voting recommendation of a third party, voting pursuant to client direction (following disclosure of the conflict), abstaining from voting, voting reflectively (in the same proportion and manner as other shareholders) or taking such other action as necessary to protect the interests of clients.

In many non-U.S. markets, shareholders may be prevented from selling shares within a certain period of time prior to the meeting date (commonly referred to as share blocking). In such cases the BNPP IP UK compares the benefits to its clients expected to be derived from the voting of blocked shares versus the ability to sell the blocked shares and as a result may choose not to vote the shares. BNPP IP UK may also choose not to vote non-US proxies when the actual costs of voting the shares outweigh the perceived client benefit, such as cases where traveling to the country to vote the shares in person is required. Additionally, where clients have implemented securities lending programs, BNPP IP UK will be unable to vote proxies for securities on loan unless it issues instructions to the client custodian to retrieve the securities prior to record date. BNPP IP UK may choose to refrain from calling back such securities when the voting of the proxy is not deemed to be material or the benefits of voting do not outweigh the cost of terminating the particular lending arrangement.

Although BNPP IP UK generally votes consistently on the same issue when securities are held in multiple client accounts, certain circumstances may cause BNPP IP UK to vote differently for different client accounts.

Typically, clients do not direct BNPP IP UK to vote for a particular solicitation as they authorise the Company to vote on their behalf within their investment management agreement. Clients may, however, contact the Company if they request a specific voting decision be made.

Clients may obtain information on how the Company has voted its proxies and/or a copy of the Company's complete proxy voting policies and procedures by contacting the Company's Compliance Department.

Upon request, clients may obtain information on how BNPP IP UK has voted its proxies and/or a copy of BNPP IP UK's complete proxy voting policies and procedures.

## **Financial Information**

BNPP IP UK has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.