



## **AVIVA INVESTORS AMERICAS LLC**

This Brochure provides information about the qualifications and business practices of Aviva Investors Americas LLC ("AIA"). If you have any questions about the contents of this Brochure, please contact us by emailing [lyda.iturralde@avivainvestors.com](mailto:lyda.iturralde@avivainvestors.com).

AIA is registered with the Securities and Exchange Commission ("SEC") as an investment adviser. The information presented in this Brochure was prepared by AIA, which is solely responsible for the content. Registration as an Investment Adviser does not imply any level of skill or training. Additional information about AIA is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

AIA also is registered as a Commodity Trading Adviser ("CTA") under the Commodity Exchange Act, as amended, with the Commodity Futures Trading Commission ("CFTC"), and is a member of the National Futures Association ("NFA").

Pursuant to an exemption from the Commodity Futures Trading Commission in connection with accounts of Qualified Eligible Persons ("QEP"), this Brochure is not required to be, and has not been, filed with the CFTC. The CFTC does not pass upon the merits of participating in a trading program or upon the adequacy or accuracy of CTA disclosure. Consequently, the CFTC has not reviewed or approved any AIA trading program or account documentation or this Brochure.

**March 28, 2014**

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## **Item 2** Summary of Material Changes

This section discusses material changes that were made to this Form ADV Part 2A Brochure since the last annual update in March 2013.

1. AIA added the following strategies in Items 5, 8, and 13:

- Asian High Yield Bond
- Global Credit Absolute Return
- REaLM Infrastructure
- Synthetic Credit Default Obligation (“CDO”)
- Emerging Markets Equity Small Cap

2. AIA updated the Cross Trades and Principal Transactions Policy and the Trade Aggregation and Allocation Policy in Item 12.

3. The Brochure notes that AIA is registered with the Commodity Futures Trading Commission (“CFTC”) as a Commodity Trading Advisor.

4. Disclosures concerning private funds were updated to reflect those funds affiliated with AIA.

This is only a summary of material changes. It does not identify every change to the brochure since the last annual update.

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## Item 4 Advisory Business

### ***Firm***

Aviva Investors Americas LLC ("AIA") is a wholly owned, direct subsidiary of Aviva Investors North America Holdings Inc., which is a wholly owned, indirect subsidiary of Aviva plc, a publicly traded financial services company headquartered in the United Kingdom. AIA is the United States member of a group of international affiliated investment advisers collectively referred to as "Aviva Investors." AIA provides investment advisory services to institutional clients and also acts as adviser to certain general and separate accounts of Aviva plc affiliates.

AIA was organized as a limited liability company in Delaware on April 2, 2012.

### ***Services***

AIA manages fixed income, hedge fund, and real estate strategies, among others. AIA provides investment advisory services that include portfolio management, research, security selection, trade execution and settlement, accounting services, and other portfolio related monitoring and reporting. AIA provides investment management services guided by client guidelines that generally include parameters on credit quality, duration of assets, industries, specific issuers and other limitations. AIA also provides investment management services to one institutional client through the management of a Synthetic Credit Default Obligation ("CDO"). This strategy currently is not being offered to new investors.

In performing advisory services, AIA may utilize the talents of investment professionals of affiliated investment advisory firms to manage a particular strategy or product. In keeping with applicable regulatory guidance, each such affiliate has entered into a Memorandum of Understanding ("MOU") with AIA through which the affiliate is considered a "Participating Affiliate" of AIA as that term is used in relief granted by the staff of the Securities and Exchange Commission. This allows AIA, as a U.S. registered investment adviser, to use the resources of non-U.S. affiliates, i.e., Participating Affiliates, to render portfolio management, research or trading services to clients of AIA.

The arrangement with Participating Affiliates positions AIA to offer investment management styles and strategies that it otherwise may not manage under the framework of U.S. regulations. In partnering with overseas affiliates, AIA offers management and related services to U.S. clients provided by investment management personnel associated with Participating Affiliates, who are viewed as best positioned to provide the expertise required to manage a particular strategy or product. Investment professionals of a Participating Affiliate may render substantially similar portfolio management research or trading services to their own advisory clients and the performance achieved may be better or worse than that achieved on behalf of AIA clients. AIA and each of its investment advisory affiliates, including Participating Affiliates, are subsidiaries of Aviva plc.

AIA provides investment management services to institutions, non-U.S. registered and unregistered funds. Any reference to funds within this ADV is for informational purposes only and is intended to address legally required disclosures about our business practices and conflicts associated with managing funds. Only qualified investors are able to invest in these funds and they should read the fund's offering documents prior to doing so. No reference within this ADV should be viewed as an offer to sell or an offer to buy an interest in a fund.

AIA manages assets totaling \$8,070,809,690 on a discretionary basis as of December 31, 2013.

## Item 5 Fees and Compensation

AIA may receive fees based on a percentage of assets under management, fixed fees, and/or performance-based fees. Fees are established and stated in a client's investment management agreement with AIA and are subject to negotiation with a client. Unless the client requests otherwise, AIA bills its fees for separate account mandates on a quarterly basis, in arrears, based on average assets over the quarter. Accounts initiated or terminated during a calendar quarter are charged a prorated fee. Payment of fees on other bases and intervals may be negotiated. In the instance of Aviva Investors funds or sub-advised funds, the funds' offering documents disclose applicable fees.

AIA's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses incurred by a client. Clients may incur certain charges imposed by custodians, brokers, and other providers including custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and

other fees and taxes on brokerage accounts and securities transactions. If a fund is held in a client's account, the client will separately incur internal management fees related to the fund, which are disclosed in the fund's prospectus or other offering documents. Such charges, fees and commissions are exclusive of and in addition to AIA's management fee. See Item 12 for a discussion of AIA's brokerage practices.

### **Separate Accounts**

AIA charges separate account clients a fee based on a percentage of client assets under management. AIA may also charge certain qualified clients a performance-based fee, as described in Item 6. Fees are subject to negotiation and may be higher or lower than those described below. Clients with significant multiple account relationships may receive a lower fee on individual accounts. Fees for existing clients may be calculated in accordance with different fee schedules in effect at the time of the most recent amendment to a client's advisory contract. There are potential conflicts of interest that exist if different clients pay different fees including a potential incentive to favor higher fee paying accounts. The timing or execution of trades by other accounts could also be used to benefit higher-fee accounts and allow them to gain access to opportunities before others. Higher paying accounts could also be advantaged by prioritization over other lower fee paying accounts when a prompt purchase or sale is desirable, i.e. they may receive preference by purchasing or selling securities at a more opportune time. Investment managers could focus their time and effort on higher paying accounts to the disadvantage of others. To avoid such conflicts, AIA's policies and procedures require fair dealing and establish trading practices that apply to all accounts as discussed in more detail in Items 11 and 12.

In relation to the management of the CDO, AIA receives fees as a percentage of assets under management for compensation and an incentive based fee upon final maturity of the CDO. Fees are established and stated in a client's investment management agreement with AIA and are subject to negotiation with the client.

AIA's standard annual fee schedule is as follows:

<b>Strategy</b>	<b>Annual Fee (%)</b>
<b>Global High Yield Bonds</b>	
First \$50 Million	0.50%
\$50 - \$100 Million	0.45%
Over \$100 Million	0.40%
Minimum Fee	\$125,000
<b>Asian High Yield Bonds</b>	
First \$50 Million	0.50%
\$50 - \$100 Million	0.45%
Over \$100 Million	0.40%
Minimum Fee	\$150,000
<b>High Yield Bonds</b>	
First \$50 Million	0.50%
\$50 - \$100 Million	0.45%
Over \$100 Million	0.40%
Minimum Fee	\$125,000
<b>Global Short Duration High Yield Bonds</b>	
First \$50 Million	0.45%
\$50 - \$100 Million	0.40%
Over \$100 Million	0.35%
Minimum Fee	\$112,500
<b>High Yield High Quality Bonds</b>	
First \$50 Million	0.45%
\$50 - \$100 Million	0.40%

Over \$100 Million	0.35%
Minimum Fee	\$112,500
<b>High Yield Bank Loans</b>	
First \$50 Million	0.50%
\$50 - \$100 Million	0.45%
Over \$100 Million	0.40%
Minimum Fee	\$125,000
<b>U.S. Investment Grade Credit</b>	
First \$50 Million	0.32%
\$50 - \$100 Million	0.27%
Over \$100 Million	0.22%
Minimum Fee	\$75,000
<b>U.S. Long Corporate/ Government Credit</b>	
First \$50 Million	0.32%
\$50 - \$100 Million	0.27%
Over \$100 Million	0.22%
Minimum Fee	\$75,000
<b>U.S. Intermediate Duration Investment Grade Credit</b>	
First \$50 Million	0.27%
\$50 - \$100 Million	0.22%
Over \$100 Million	0.17%
Minimum Fee	\$75,000
<b>U.S. Long Duration Investment Grade Credit</b>	
First \$50 Million	0.32%
\$50 - \$100 Million	0.27%
Over \$100 Million	0.22%
Minimum Fee	\$75,000
<b>U.S. Securitized Fixed Income</b>	
First \$50 Million	0.32%
\$50 - \$100 Million	0.27%
Over \$100 Million	0.22%
Minimum Fee	\$75,000
<b>Emerging Market Debt – Hard Currency</b>	
Minimum \$50 Million	0.60%
\$50 - \$100 Million	0.50%
Over \$100 Million	0.40%
<b>Emerging Market Debt – Local Currency</b>	
Minimum \$50 Million	0.60%
\$50 - \$100 Million	0.50%
Over \$100 Million	0.40%
<b>Emerging Market Debt – Inflation Linked</b>	
Minimum \$50 Million	0.60%
\$50 - \$100 Million	0.50%
Over \$100 Million	0.40%

<b>Emerging Market Equity – Small Cap</b>	
First \$50 Million	0.85%
\$50 - \$100 Million	0.60%
Over \$100 Million	0.55%
Minimum Fee	\$200,000
<b>Global Markets Alpha*</b>	
First \$250 Million	0.35%
Between \$250 Million and \$500 Million	0.25%
Over \$500 Million	0.20%
Minimum Fee	\$200,000
<b>Real Estate Multi-Manager – US Focus</b>	
\$75 Million (minimum) and over	0.75%
<b>Real Estate Multi-Manager – Global/Regional Focus</b>	
\$75 Million (minimum) and over	1.00%
<b>Hedge Funds*</b>	
All amounts	0.80%
Minimum Account Size	\$50 Million
<b>REaLM (Returns Enhancing and Liability Matching) Infrastructure Strategy</b>	
All amounts	0.50%

\* A performance fee may also be charged for this mandate.

Unless otherwise noted, the minimum account size for all of the above categories is \$25 million, except for Real Estate Multi-Manager which has a minimum account size of \$75 million. These minimum account sizes and fees are negotiable under limited circumstances.

### ***Mutual Funds***

AIA may sub-advise registered investment companies that pay AIA an asset-based management fee on a monthly basis, based on the average daily assets in the fund. Fees payable to AIA for investment management services of mutual funds are individually negotiated with each fund's Board of Directors. Shareholders should read the prospectus of a fund for further information regarding fund fees.

The investment advisory fees that AIA receives as the investment adviser to the Madison Harbor Balanced Strategies closed-end fund are described in the registration statements and/or financial filings of that fund.

### ***Private Funds***

Fees for each private fund are established in AIA's advisory agreement with that fund and are described more specifically in each fund's offering documents or private placement memoranda ("PPM"). Generally, AIA receives a management fee based on a percentage of the fund's assets.

AIA serves as the investment adviser to the Aviva Investors Real Estate Capital Partners I-A, LP ("LP"). Fees related to the LP are further described in the fund's PPM.

## **Valuation Policy**

AIA primarily uses market pricing data provided by independent pricing sources for publicly traded securities. AIA engages alternative pricing sources, including the use of valuation models and niche pricing services, for investments where pricing is not readily available. AIA has established a Valuation Committee to oversee its pricing activities. In connection with its activities, the Valuation Committee may determine a “fair value” for certain instruments or securities which are not able to be priced by independent pricing services, based on AIA’s knowledge of the instrument or security, current market conditions and other considerations deemed appropriate. AIA relies on alternate methods to determine “fair value” involving a variety of factors and approaches in dealing with unique characteristics of an instrument when market prices, or those of established service providers, are not available. AIA’s practices and the factors evaluated may vary. No single factor or approach will be implemented by AIA in every case to determine fair value.

In the instance where market quotations are not readily available for certain securities, valuations may require significant judgment. AIA will evaluate a number of factors in determining “fair value” including: price quotations from dealers, internal and external model outputs, recent transactions and related fundamental and economic factors. All determinations of “fair valuation” occur under the supervision and approval of the Valuation Committee in keeping with AIA’s Valuation Procedures.

AIA’s role in valuing certain instruments and securities creates potential conflicts, including an incentive to price instruments and securities at a higher price in an effort to improve performance which increases management fees. AIA’s controls over the valuation process rely on the operations of its Valuation Committee, the implementation of policies and procedures, and regular monitoring to assist in conflict mitigation.

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

AIA may negotiate a performance-based fee with eligible clients prior to executing an advisory agreement. AIA may charge performance-based fees to certain qualified clients (as defined by the Investment Advisers Act of 1940). Performance-based fee arrangements are intended to align the interests of AIA with those of its clients though it may result in the payment of higher overall compensation to AIA. In addition, performance-based fees create the potential incentive for AIA to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. To address this conflict, AIA’s policies and procedures establish a basis for fair allocation of investment opportunities among clients over time. Investments that are appropriate for accounts with performance fees may also be appropriate for one or more other clients. AIA exercises discretion to determine which clients are most suited to participate in a particular investment opportunity, in whole or in part, including those with a performance fee.

## **Item 7 Types of Clients**

AIA offers portfolio management services to a broad range of institutional clients, including corporate pension and profit-sharing plans, insurance companies (including Aviva related insurance companies), Taft-Hartley plans, charitable institutions, foundations, endowments, state and municipal entities, trust programs, sovereign funds, and US and international government entities. AIA also provides investment advisory services to funds such as private funds and may engage in the management of mutual funds and collective investment trust funds.

AIA manages a Synthetic Credit Default Obligation (“CDO”) on behalf of one institutional client, (“Swap Counterparty”). This strategy currently is not being offered to new investors.

A client may remove AIA as the investment manager upon written notice of termination to AIA based on the terms of the investment management agreement in effect. Termination of an advisory agreement by a client will not affect transactions previously initiated on the client’s behalf prior to the effective date of the termination. If AIA chooses to terminate its relationship with a client, AIA must generally give the client 30 days written notice, unless otherwise stated within the investment management agreement.

Specifically in relation to the CDO, the Swap Counterparty may remove AIA as the investment manager upon 30 days' written notice of termination to AIA based on the terms of the investment management agreement in effect. Termination of an advisory agreement by a client will not affect transactions previously initiated on the client's behalf prior to the effective date of the termination. If AIA chooses to terminate its relationship with the Swap Counterparty, we must generally give the client 90 days written notice, or a shorter period as mutually agreed to by both parties, unless otherwise states within the investment management agreement.

AIA has minimum account sizes for its strategies. See Item 5 for more information regarding AIA's account minimums.

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

AIA employs a team approach in the management of its strategies and the process involves members of AIA's Research Team and the respective Portfolio Management Teams. The Portfolio Management Team is accountable for making final investment decisions. While Portfolio Management also is ultimately responsible for the asset allocation, portfolio construction and security selection decisions, the Research Team provides valuable insights and heavily influences these decisions.

All clients must assume the risk that investment returns will fluctuate, may be positive or negative, hold the potential for loss of principal and return or may result in delivery of returns that are higher or lower than those of other investment advisers, market indices or investment products. Though all of our strategies seek positive returns, the strategies may not achieve their stated objectives. Investing in securities involves risk of loss that clients should consider.

### ***Fixed Income Strategies***

#### **High Yield Fixed Income**

With the support of AIA Research Team coverage, AIA's High Yield Team conducts bottom-up security screening, analysis and selection of non-investment grade securities. The High Yield Team concentrates on four sources of value: quality allocation, industry allocation, security selection, and multi-currency (hedged) issues and constructs portfolios based on the Team's level of analysis and level of conviction of these sources of returns. Security selection is a primary source of return and conviction dictates the choice of a specific issue rather than the size of its index weighting. AIA monitors holdings while focusing on high yield risks, the original investment thesis, exit strategy, probability of default, and magnitude of potential loss.

AIA offers the following High Yield Strategies:

The **Global High Yield** strategy primarily invests in high yield fixed income securities of issuers in developed global markets, typically investing in US dollar (USD) denominated bonds and the balance in non-U.S. dollar denominated bonds that are currency hedged. Derivatives may be used for investment and hedging purposes. An emphasis is placed on corporate credit risk rather than political risk.

The **High Yield** strategy primarily invests in U.S. dollar denominated high yield fixed income securities of U.S. issuers. The portfolios may also invest in U.S. dollar denominated high yield fixed income securities of issuers in developed global markets. Derivatives may be used for investment and hedging purposes.

The **US High Yield High Quality** strategy primarily invests in the higher quality tiers of U.S. dollar denominated high yield fixed income securities of issuers in developed global markets. Derivatives may be used for investment and hedging purposes.

The **Global Short Duration High Yield** strategy primarily invest in high yield fixed income securities of issuers in developed markets with an average maturity of less than five years. Derivatives may be used for investment and hedging purposes.

The **High Yield Bank Loan** strategy primarily invests in U.S. dollar denominated high yield first lien bank loans of issuers in developed global markets. Derivatives may be used for investment and hedging purposes.

The **Asian High Yield** strategy primarily invests in high yield corporate bonds issued by firms domiciled in Asian countries. The strategy typically invests in US dollar (USD) denominated bonds and may consider allocating in local currencies (no more than 20%) of the strategy. The strategy typically hedges all currency risk to the base currency (USD) and can hold up to 20% unhedged to USD.

High Yield fixed income securities are subject to the following principal risks:

- **Credit Risk/Default Risk.** High yield bonds have lower credit ratings and involve greater risk to principal than higher grade fixed income securities. Risks of default or downgrade are more prevalent than investment grade securities along with price declines due to actual or perceived changes in an issuer's creditworthiness. Issuers of non-investment grade bonds are more susceptible than other issuers to economic downturns and may be unable to pay interest and ultimately to repay principal at maturity.
- **Market Risk.** The risk of non-investment grade bonds is defined by the market view of the company and capital structure of an issuer. With heightened sensitivity to equity market returns, non-investment grade bonds are more volatile during economic weakness.
- **Liquidity Risk.** Non-investment grade bonds often trade on a negotiated basis with relatively high transaction costs. Liquidity declines if there are a limited number of buyers or sellers for a particular bond. Typically, investors receive a liquidity premium for the higher transaction cost and scarcity of demand for a particular issue. Conversely liquidity premium may not be sufficient especially when a bond's quality deteriorates and holders are faced with very low bids.
- **Foreign Securities Risk.** Investing in securities of foreign issuers poses additional risks since political and economic events unique to a country or region will affect foreign securities markets and their issuers. In addition, investments in securities of foreign issuers are generally denominated in a foreign currency. As a result, changes in the value of those currencies compared to the US dollar may affect, positively or negatively, the value of a portfolio's investments.
- **Derivative Risk.** Derivative prices depend on the performance of an underlying asset. Relatively small price movement in the underlying price of a derivative contract may result in substantial losses under these strategies. Low margin deposits required when trading derivatives may result in leverage. In the instance of accounts that employ leverage, leverage may be significant and may magnify gains and losses.
- **Interest Rate Risk.** Changes in interest rates may adversely affect the value of an investor's portfolio. Rising interest rates cause the price of fixed income securities to fall and declining rates cause fixed income securities prices to rise.

### ***Investment Grade Securitized Fixed Income***

In the management of U.S. Investment Grade/Securitized Fixed Income Strategies, AIA primarily employs fundamental credit analysis. AIA formulates a top-down asset/sector allocation and conducts bottom-up security selection. Once implemented, AIA typically provides ongoing oversight and conducts formal portfolio reviews monthly or more frequently if warranted by market or other conditions.

**Asset / Sector Allocation:** The allocation process for investment grade securities begins with a bottom-up return forecast by sector. The return forecasts are optimized using our asset allocation model to formulate a set of "efficient frontier" asset/sector allocations to be considered during the portfolio construction process. Portfolio Management determines the desired asset/sector allocation based on our economic and investment outlook and input from our asset allocation model.

**Credit Universe Screening and Issuer Selection:** Through quantitative and qualitative fundamental and technical analysis of risk expectations, internal ratings are determined to reflect AIA's view of a corporation's risk profile. The

relative value across the issuer's capital structure is determined. AIA's fundamental approach provides a framework for assessing risk including whether a potential investment adequately compensates for risk.

**Duration:** AIA seeks to construct portfolios to conform to typical client objectives and evaluates the benefits and risk of each investment over a typical investment horizon. In refining asset allocation and security selection to pursue alpha, AIA typically remains duration neutral.

AIA offers the following US Investment Grade Strategies:

The **U.S. Investment Grade Credit** strategy is an investment solution designed to invest in investment grade debt issued by corporations across the globe in US dollars (USD) currency.

The **U.S. Intermediate Duration Investment Grade Credit** strategy is designed to invest in short to intermediate duration (1-10 year maturity) investment grade debt issued by corporations across the globe in US dollars (USD) currency.

The **U.S. Long Duration Investment Grade Credit** strategy is designed to invest in long duration (10+ year maturity) investment grade debt issued by corporations across the globe denominated in US dollars (USD) currency.

The **U.S. Long Corporate/ Government Credit** strategy is designed to invest in government bonds and long duration (10+ year maturity) investment grade debt issued by corporations and the debt of governments across the globe that are denominated in US dollars (USD) currency.

**US Securitized Fixed Income** is a strategy which provides diversified exposure to the U.S. investment grade securitized bond issues including: US agency and non-agency mortgage backed securities (MBS), asset backed securities (ABS) and commercial mortgage backed securities (CMBS).

The US Investment Grade and Securitized strategies are subject to the following principal risks:

- **Interest Rate Risk.** Changes in interest rates may adversely affect the value of an investor's portfolio. Generally, rising interest rates cause the price of fixed income securities to fall and declining rates cause fixed income securities prices to rise.
- **Credit Risk.** The credit rating or financial condition of an issuer may affect the value of a fixed income debt security. Generally, the lower the quality rating of a security, the greater the risk that the issuer will fail to pay interest and return principal. Adverse economic conditions may weaken the capacity of an issuer to pay interest and repay principal causing a security to lose some or all of its value.
- **Prepayment Risk.** Prepayment is the risk that an issuer will redeem a callable bond prior to maturity. Prepayment may occur when market rates of interest decline, covenant issues including covenant violations, change of control and other issues. The risk to the investor is one of reduced interest flows for an investor if proceeds are reinvested at a reduced rate. Mortgage backed securities may experience irregular cash flows when borrowers payoff their mortgages earlier than expected.

### ***Emerging Market Debt***

AIA offers emerging market fixed income debt strategies managed by a Participating Affiliate. The process involves:

- **Idea generation:** This involves the analysis of individual countries, global factors, the valuations of bond securities and comparative yield valuations. The Management Team reviews proprietary and external research and visits countries viewed as holding investment potential.
- **Formulation of Central Themes:** The Management Team considers approximately a six to nine month horizon, evaluates strategy across regions and selects investment themes in which it has conviction as the basis for positioning the portfolio.

- **Portfolio Construction:** Specific portfolio attributes are determined such as country weights, duration and yield curve positioning and security selection.
- **Implementation:** After evaluating factors including liquidity and maximum tolerance for loss, position sizes are formulated with regard to a relevant benchmark.

**Emerging Market Debt – Hard Currency** is a fixed income strategy which is primarily invested in emerging market sovereign debt securities, up to 20% in emerging market corporate bonds and up to 10% in emerging market credit-linked notes (unleveraged) and is hedged to USD.

**Emerging Market Debt – Local Currency** is a fixed income strategy that invests in local currency debt instruments with stable to improving credit quality. The strategy invests in emerging market sovereign debt securities, up to 10% in emerging market corporate bonds and up to 10% in emerging market credit-linked notes (unleveraged). There is an allowable maximum of 20% in any single emerging market currency.

**Emerging Market Debt – Inflation Linked** is a fixed income strategy that primarily invests in emerging market inflation-linked debt securities.

The emerging markets strategies above are subject to the following principal risks:

- **Interest Rate Risk.** Changes in interest rates may adversely affect the value of an investor's portfolio. Rising interest rates cause the price of fixed income securities to fall and declining rates cause fixed income securities prices to rise.
- **Credit Risk.** The credit rating or financial condition of an issuer may affect the value of a fixed income debt security. Credit risk results from concern that an issuer will be unable or unwilling to make timely payments of either principal or interest. Generally, the lower the quality rating of a security, the greater the risk that the issuer will fail to pay interest and return principal. Adverse economic conditions may weaken the capacity of an issuer to pay interest and repay principal causing a security to lose some or all of its value.
- **Foreign Securities Risk.** Investing in securities of foreign issuers and governments poses additional risks since political and economic events unique to a country or region will affect foreign securities markets and their issuers. In addition, investments in securities of foreign issuers are generally denominated in a foreign currency. As a result, changes in the value of those currencies compared to the US dollar may affect, positively or negatively, the value of a portfolio's investments.
- **Debt Securities Risk.** Debt securities react to interest rate changes during periods of falling interest rates. The values of outstanding fixed income securities generally rise and values fall during periods of rising rates. Securities with longer maturities produce higher yields but are subject to greater market fluctuations due to changes in interest rates. When rates fall, high interest rate debt obligations may be prepaid or "called" by an issuer prior to maturity.
- **Emerging Markets Risk.** Emerging markets securities are viewed as speculative. Emerging market governments may be less stable and their economies less liquid and diverse than developed markets. In addition, emerging markets securities may suffer periods of relative illiquidity; significant price volatility; restrictions on foreign investment and possible restrictions on repatriation of investment income and capital.
- **Derivative Risk.** Low margin deposits required when trading derivatives may result in leverage that may be significant and magnify gains and losses. Relatively small price movement in the underlying price of a derivative contract may result in substantial losses under these strategies. Successful use of derivatives depends on the degree to which prices of the underlying assets correlate with the price movements in the derivative. An investment may be affected negatively if there is insufficient correlation.

### ***Emerging Market Equity – Small Cap***

AIA offers an emerging market equity small cap strategy managed by a Participating Affiliate.

The Emerging Markets Small Cap Equity Strategy invests in a concentrated portfolio of 40-80 stocks from an investment universe of approximately 4,000 companies, which includes companies listed in Emerging and Frontier Markets or with the majority of their operations within these regions. The strategy aims to hold two thirds of the portfolio in companies under a \$2 billion market capitalization, with a minimum market cap of \$150 million and a maximum of \$5 billion for new investments. The portfolio is diversified across region, country and sector, with no sector or country allocation exceeding 10% of the portfolio.

The portfolio management team invests in small cap stocks in the emerging markets based on fundamental analysis, which begins with a screening of the potential universe of stocks for high quality companies with attractive valuations. Quality screens include an attractive business model, proven management team that is aligned with shareholder objectives, rigorous accounting practices, balance sheet strength and stable and growing cash flows. Companies are further assessed for valuation measures including price-to-earnings ratio, earnings momentum and business momentum. The portfolio manager conducts regular meetings with company management and is supplemented by a dedicated research team based in Sri Lanka.

The Emerging Markets Small Cap Equity Strategy is subject to the following principal risks:

- **Foreign Securities Risk.** Investing in securities of foreign issuers and governments poses additional risks since political and economic events unique to a country or region will affect foreign securities markets and their issuers. In addition, investments in securities of foreign issuers are generally denominated in a foreign currency. As a result, changes in the value of those currencies compared to the US dollar may affect, positively or negatively, the value of a portfolio's investments.
- **Emerging Markets Risk.** Investments in emerging, less developed and EU Convergence countries as well as Eastern European markets may be more volatile than investments in more developed markets. Some of these markets have relatively unstable governments; economies based on only a few industries and securities markets that trade only a limited number of securities. Emerging markets securities are viewed as speculative. In addition, emerging markets securities may suffer periods of relative illiquidity; significant price volatility; restrictions on foreign investment and possible restrictions on repatriation of investment income and capital.
- **Equity Risk.** Equity and equity-related securities will be affected by economic, political, market, and issuer specific changes. Such changes may adversely affect securities, regardless of company specific performance. Additionally, different industries, financial markets, and securities can react differently to these changes. Such fluctuations of value are often exacerbated in the short-term as well. The risk that the price one or more companies' securities will fall, or fail to rise, can adversely affect the overall portfolio performance in any given period.
- **Foreign Exchange Risk.** Foreign exchange rates can be extremely volatile and difficult to predict. Foreign exchange rates may be influenced by, among other factors: changing supply and demand for a particular currency; trade, fiscal and monetary policies of governments (including exchange control programs, restrictions on local exchanges or markets and limitations on foreign investment in a country or on investment by residents of a country in other countries); political events; changes in balances of payments and trade; domestic and foreign rates of inflation; domestic and foreign rates of interest; international trade restrictions; and by regulation, in the currency markets to influence prices directly. Variance in the degree of volatility of the market from the Investment Manager's expectations may produce significant losses, particularly in the case of transactions entered into pursuant to non-directional strategies.
- **Liquidity Risk.** The markets for small cap securities and instruments may have limited liquidity and depth. The limited liquidity and lack of depth could be a disadvantage, both in realization of the prices which are quoted and in the execution of orders at desired prices. The portfolio can have a significant exposure to medium and small cap stocks which can have limited market participation and trading activity.

- **Political Risk.** Trading in financial instruments are subject to certain risks arising from government regulation of or intervention in the currency and markets through regulation of the local exchange market restrictions on foreign investments by residents. Such regulation or intervention could adversely affect performance.

### **Global Markets Alpha**

**Global Markets Alpha (“GMA”)** is a fixed income strategy combining elements of a beta portfolio allocation, such as replication of a market index, and alpha elements including, but not limited to, global rates-sovereign absolute return, quantitative strategies, global credit, currency, emerging market, global high yield, global inflation and asset allocation. The beta and alpha allocations are formulated based on client preference.

The Global Markets Alpha Team (the “GMA Team”) uses a top down risk budgeting process to allocate risk across a range of possible active investment strategies to pursue the advantages of alpha allocations that in-house alpha specialists formulate. In conjunction, the beta replication process is undertaken with the intent to create a diversified fixed income portfolio.

The Team conducts beta replication by means of a stratification process which aims to optimize results, to minimize tracking error and seeks to ensure that curve and duration risks are minimized with the least number of positions. Also, the Team focuses beta replication on recently issued index securities in pursuit of liquidity consistent with the replication strategy. Once beta replication is modeled, the Team engages in a five stage process including risk budgeting, alpha generation, risk allocation, execution and risk management.

**Top Down Allocation:** The Team considers alpha generation options, constraints and the potential effects of an assumed information ratio during the risk modeling stage given the alpha opportunity sets selected and the risk and return targets of each client. When allocating the risk budget, the Team assesses how each alpha strategy may perform under a given set of market conditions and each alpha strategy's track record. The Team develops assumptions regarding factors including the correlation of returns among alpha strategies, volatility, optimization and considers techniques to derive the risk weights to be allocated to each alpha strategy.

**Alpha Generation:** The Team reviews historical performance track records of alpha strategies, including volatility and the potential shortfall range based on past return. The potential shortfall is a guide to the likely scale of draw downs, i.e., performance declines, associated with alpha delivery. The Team gauges the expected shortfall and volatility by evaluating the potential alpha returns, the volatility of returns and frequency of the drawdown to decide how much risk to allocate to each alpha strategy. These factors are optimized to derive the risk weights allocated to each underlying alpha element. The Team monitors the correlation of alpha performance of each specialized alpha element on an ongoing basis associated with global rates-sovereign absolute return, quantitative strategies, global credit, currency, emerging market, global high yield, global inflation and asset allocation, among others.

**Risk Allocation to Individual Strategies and Portfolio Construction:** Each alpha strategy selected receives a top down, risk budget allocation. This positions each Alpha Team to pursue full employment of its risk allocation as a portion of the account's overall risk budget.

**Execution:** The GMA Team determines the content of the portfolio and instructs alpha managers / traders to execute. Alpha traders provide added value to the investment process by means of providing for: the orderly timing of trades, pursuing liquidity and analyzing market conditions and their effects on the alpha strategies.

**Risk Management:** Daily the Global Market Alpha Team conducts diagnostics to assess risk levels employing techniques that utilize various third party risk tools. Additionally, an Independent Risk Team conducts a formal monthly audit of existing portfolios based on analysis performed through separate diagnostic tools. Stress testing and scenario analysis occur across the portfolio inclusive of all individual strategies within each portfolio.

GMA is subject to the principal risks identified in conjunction with the preceding emerging markets and high yield strategies including: interest rate risk, credit risk / default risk, market risk, foreign securities risk, debt securities risk, derivatives risk, and emerging market risk. It is also subject to the following risks:

- **Prepayment Risk.** Prepayment is the risk that an issuer will redeem a callable bond prior to maturity. Prepayment may occur when market rates of interest decline, covenant issues including covenant violations,

change of control and other issues. The risk to the investor is one of reduced interest flows for an investor if proceeds are reinvested at a reduced rate.

- **Foreign Exchange/Hedging Risk.** The risk of an investment's value changing due to fluctuations in currency exchange rates results in foreign exchange risk. Exposure includes the risk of having to close out long or short positions in a foreign currency at a loss due to an adverse movement in exchange rates. There is no assurance that a hedging strategy will be effective.
- **Counterparty Risk:** This strategy is subject to risk of a counterparty failing to perform and satisfy its obligations. To reduce the risk of counterparty failure, AIA typically engages in derivative strategies, to the extent possible, with entities that transact using the International Swap Dealer's Association Master Agreement ("ISDA") and Credit Support Annex ("CSA"), or other acceptable format.
- **Valuation Risk:** Derivatives may have limited pricing sources.
- **Volatility Risk:** Derivatives may be more volatile than other investments and may magnify gains or losses. Successful use of a derivative depends upon the degree to which prices of the underlying assets correlate with price movements in the derivatives. Losses may occur if a change in market value of securities fails to correlate well with the values of derivative positions.
- **Leverage Risk:** A derivative links a holder to the risks and rewards of owning an underlying financial instrument without actually owning the instrument. Derivatives may be used to control risk but may increase risk exposure when not properly applied and calibrated.
- **Liquidity:** Derivatives may not be readily marketable and may be thinly traded.

### ***Real Estate Multi-Manager***

#### **Real Estate Multi-Manager – US and Global/Regional Focus**

AIA's Real Estate Multi-Manager ("REMM") Team pursues investment in private equity real estate ("PERE") globally for its clients. REMM sets a global strategy, pursues client-focused allocations and utilizes a global analytical framework to partner with third party fund managers who execute targeted strategies.

REMM investments broadly fall into three types: primary investments into newly formed vehicles held in either a blind pool fund or consisting of identified co-investment; secondary investments in PERE that are acquired from existing investors; and recapitalizations of an asset or portfolio where new capital is typically needed to de-leverage such investment or provide operating capital. REMM typically invests on behalf of clients seeking current return.

The risks of the REMM strategy include:

- **Liquidity.** REMM PERE investments may be illiquid. It is uncertain when profits, if any, will be realized. Losses on unsuccessful investments may be realized before gains on successful investments. Return of capital and the realization of gains, if any, generally occur with the partial or complete disposition of an investment. While an investment may be sold at any time, its sale may not occur for a number of years after the initial investment. Prior to sale, there may be no current return on an investment.
- **Reliance on General Partners and Fund Managers.** Control of the operations of an underlying investment fund is vested with the respective general partners and fund managers, and profitability depends upon the business and investment skill of the management Team. Loss of the service of one or more of the management Teams' members may negatively affect a fund's investment performance.
- **Limited Transferability of Fund Interests.** Typically, there is no public market for investment fund interests. Transfers may be accomplished in certain situations subject to the approval of the General Partner of the underlying investment fund.
- **Significant Adverse Consequences for Default.** If an investor defaults on its capital commitment or other payment obligations, there are significant adverse consequences, including forfeiture of ownership of interests.

- **Impact of Law and Government Regulation.** Changes in law, particularly tax laws outside of the investors' jurisdiction that apply to foreign investment in real estate, may have an adverse effect on the value of interests. The enforcement of laws and regulations may increase the operating expenses of the fund and lower the income or rate of return from the fund and affect the value of the Fund's assets.
- **Absence of Regulator Oversight.** Investment funds and their managers may not be required to register under federal or non-U.S. regulations and investors may not receive certain protections.

## ***REaLM (Returns Enhancing and Liability Matching) Infrastructure***

### **REaLM Infrastructure**

This strategy invests in equity and debt associated with infrastructure projects located across the United Kingdom ("UK") that are denominated in sterling. The projects hold potential to deliver secure inflation linked long term cash flows, typically in excess of 20 years. The degree of cash flow security is viewed as high due to: the monopolistic nature of many infrastructure investments, the credit quality of government or quasi-government counterparties, and/or the regulated nature of the sectors which are considered to be in the lower risk end of the spectrum for real estate or infrastructure investment. The strategy seeks predominantly availability-based revenues (rather than demand-based) considered to have minimal financial risk. Targeted sectors include, but are not limited to; UK domestic solar energy, energy centers, wind, social infrastructure, utilities and geothermal projects.

Proprietary financial modeling of each asset or investment is undertaken through establishing a "base case" incorporating suitable assumptions and then sensitivity testing under downside scenarios. These scenarios incorporate assumptions about sector specific variables such as average solar irradiation levels or average wind speed, broader themes such as operating and maintenance costs and financial matters such as inflation rates, interest rates and tax rates, etc.

The risks of the REaLM strategy include:

- **Market Price Risk** – In some sub-sectors, the uncertainty of future commodity prices or variation endangering the capacity to generate saleable product due to fluctuations in market prices present a risk, such as alternative energy generation facilities. Such enterprises may be susceptible to market price risk.
- **Demand Risk** – In some sub-sectors, revenues may be jeopardized by inconsistent usage or demand for services or products associated with infrastructure project and result in revenues that fluctuate or fall below anticipated levels. This risk may jeopardize the profitability of such projects.
- **Availability Risk** - In some sub-sectors, the success of a company or project in which the strategy may invest may have as its principal activity making specific asset(s) available, i.e. a public building, school, hospital, or energy facilities etc. The availability of these opportunities may be limited at times.
- **Production Risk** - In some sub-sectors, such as the production of power from renewable sources energy, produced by solar photovoltaic facilities and wind generation assets, is affected by the risks and uncertainties of climatic conditions such as solar irradiation and/or wind strength and direction and other natural occurrences. The strategy focuses on sub-sectors where such risks are limited, such as in domestic rooftop PV which (in addition to the other benefits of the solar sub-sector) provides diversification of assets and irradiation variation / damage diversification.
- **Regulatory Risk** – Revenues for projects are dependent on regulatory frameworks, feed-in tariffs, subsidies and/or contracts with Government / quasi-Government agencies which contribute to financial viability and strength of the assets/investments. Changes in regulatory policy that reduce or eliminate such support may negatively affect the financial standing of a project. Conversely, favorable regulatory developments tend to enhance the financial outlook for investment in infrastructure.

- **Counterparty Risk** – The projects in which the strategy invests are reliant on counterparties, such as government organizations and/or other regulated entities etc, which lease or operate facilities or act as payment counterparty to the underlying assets associated with a project. The Infrastructure Portfolio Management Team seeks to mitigate these risks through choosing and engaging with higher quality counterparties.
- **Technology Risk** – In some sub-sectors the uncertainty of future technological developments may affect the profitability and sustainability of infrastructure enterprises. An operation currently viewed as technologically advanced, as research and development progresses over time, may incur the risk of technological obsolescence and face cost associated with revisions to plant, equipment and process that affects the financial dynamics of a project.
- **Financial Risk** – The initiation and completion of infrastructure projects typically involves significant capital commitment while in development, at the inception of operations and over time. The strategy will only invest in unlevered projects and typically in operational assets with proven technology and simple operating systems.

### **Credit Default Swap**

**Synthetic Credit Default Obligations (“CDO”):** This strategy represents a segregated portfolio that holds a number of Credit Default Swap (“CDS”) contracts for which AIA provides asset management services. Based on the portfolio objective, securities will be selected consistent with eligibility criteria and stated portfolio guidelines.

The investment team is responsible for conducting independent research and analysis on the underlying “reference assets” included in both the initial portfolio and any later additions or removals of securities from the portfolio. The strategy’s investment objective is to minimize the total portfolio loss severity due to realized credit defaults from CDS contracts.

Any proposed changes in holdings to the portfolio (“Substitution”) are presented to the Swap Counterparty in compliance with the Portfolio Guidelines, Portfolio Substitution Criteria and Trading Procedures outlined in the client’s investment advisory agreement. The Substitution must be accepted by the Swap Counterparty before the Substitution trade is executed. The CDO is then submitted to a rating agency for a rating to be applied to the CDO. Each time a Substitution is made in the portfolio, the CDO must be re-submitted to the rating agency. Please refer to Item 12 for additional information related to broker and counterparty selection.

This strategy involves not only the risks of the underlying “reference asset,” but also the risk including acceleration of the financing embedded in the structure and/or restrictions imposed on the management and nature of the permissible reference assets.

Investments in CDOs may involve substantial risks.

Investments in a CDO may frequently be subordinate in right of payment to other classes of securities sold by the CDO and not readily marketable. Depending on the default rate on the CDO’s collateral, the strategy may incur substantial losses on its investments.

CDOs are subject to credit risks. The likelihood of a credit event occurring with respect to a reference asset will generally fluctuate with, among other things, the financial condition of the reference asset. In particular, High Yield CDOs may have greater credit risk than investment-grade CDOs. The performance of CDOs may be adversely affected by macroeconomic factors, including: (i) general economic conditions affecting capital markets and participants therein; (ii) the economic downturns and uncertainties affecting economies and capital markets worldwide; (iii) recent concern about financial performance, accounting and other issues relating to various publicly traded companies; and (iv) recent and proposed changes in accounting and reporting standards and bankruptcy legislation.

In the case of default on one of the portfolio’s CDS contracts, CDOs are also subject to interest rate risk as the portfolio may not receive the interest rate payments on a defaulted CDS contract. Specifically, upon a credit event with a specific reference asset, the portfolio could lose a substantial portion, or all of the value of the CDS associated with the reference asset. CDS contracts also may be subject to deferrals of interest rate payments or an acceleration or early redemption in certain circumstances.

CDOs are derivative instruments. A derivative instrument often has risks similar to its underlying instrument and may have additional risk, including imperfect correlation between the value of the derivative and the underlying instrument, risks of default by the other party to certain transactions, magnification of losses incurred due to changes in the market value of the securities, instruments, currencies, indices or interest rates to which they relate and risks that the instruments may not be liquid and could be difficult to value. Certain derivative transactions may give rise to a form of leverage. Leverage magnifies the potential for gain and the risk of loss.

## **Item 9** Disciplinary Information

We are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of AIA or the integrity of AIA's management. AIA has no disciplinary information to report.

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

As noted in Item 4, AIA is a wholly owned, direct subsidiary of Aviva Investors North America Holdings Inc., which is a wholly owned, indirect subsidiary of Aviva plc. The following is a list of other AIA related parties:

*Aviva Investors Canada Inc.* is registered with the Ontario Securities Commission ("OSC") as a portfolio manager and exempt market dealer which provides investment management services primarily to Aviva-affiliated Canadian insurance companies and separate account mandates.

*Aviva Investment Global Services LTD* is authorized and regulated by the U.K. Financial Conduct Authority and provides investment management services on fund and separate account mandates to retail and institutional clients.

*Aviva Investors Asia Pte Limited* is regulated by the Monetary Authority of Singapore and offers investment management services on fund and separate account mandates.

*Aviva Investors Real Estate Capital Partners I-A, L.P.* is a Delaware limited partnership for which AIA serves as the investment adviser. The fund seeks to acquire interests in established real estate investment vehicles through secondary market acquisitions and recapitalizations of indirect structures, such as funds, limited partnerships and private real estate investment trusts, where the underlying assets are managed by third party real estate investment managers.

*AI-Recap GP I, LLC* is a wholly owned subsidiary of AIA and is a Delaware limited liability company which serves as the General Partner to the Aviva Investors Real Estate Capital Partners I-A, L.P.

*Madison Harbor Balanced Strategies, Inc.* is a closed-end, non-diversified, investment management company registered under the Investment Company Act of 1940 to which AIA serves as investment adviser.

AIA engages in financial industry activities with a variety of related persons. Certain investment strategies, such as hedge fund of funds, are currently managed only on behalf of affiliated insurance company clients.

AIA routinely shares services with Participating Affiliates and other wholly owned subsidiaries of Aviva plc, its parent, including accounting and reporting services. Service sharing arrangements typically incorporate the sharing of revenue with or payments made to our affiliates for services provided.

AIA offers the investment management services of overseas affiliates to US clients through its cross borders management program. AIA is the lead adviser among affiliated investment advisory firms with respect to US clients who may invest in investment strategies managed by its affiliates. In offering affiliate-managed strategies, AIA utilizes the skills of investment professionals of affiliated investment advisory firms to manage a particular strategy or product. Each such affiliate is viewed as a "Participating Affiliate." This means that the employees of Participating Affiliates who are involved in the management services offered to US investors are supervised by AIA. AIA's Participating Affiliates must abide by requirements stipulated by the SEC and have submitted to US and SEC jurisdiction. At present, AIA's Participating Affiliates include Aviva Investors Global Services Limited which is authorized and regulated in the U.K. by the Financial Conduct Authority, and Aviva Investors Asia Pte Limited which is incorporated in the Republic of Singapore. AIA and its affiliates share management fees among and with Participating Affiliates that provide management, research or trading services to clients of AIA.

In addition, AIA may maintain exempt international adviser status in Canada in the instance that it serves as a sub-adviser to its Canadian investment advisory affiliate, Aviva Investors Canada Inc. AIA is currently qualified as an Exempt International Adviser in Ontario and Quebec.

AIA also is registered with the Commodity Futures Trading Commission and the National Futures Association as a commodity trading adviser.

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

AIA has adopted a Code of Ethics (the "Code") describing its fiduciary duty to act in the best interests of its clients. The Code explains this duty and the general standards of conduct and practices to be followed by all employees. AIA's Code includes provisions relating to required standards of conduct and personal securities trading procedures. AIA will provide a copy of the Code to clients or prospective clients upon request.

AIA anticipates that it will recommend to investment advisory clients the purchase or sale of securities in which its employees may have a position or interest. Similarly, its employees may buy or sell securities that AIA's clients own. In these situations, AIA and its employees have an incentive to gain from client activity. AIA's Code contains guidelines that AIA and its employees must follow with regard to such securities transactions. These guidelines are designed to provide reasonable assurance that the personal securities transactions, activities and interests of AIA's employees will not interfere with the interests of advisory clients while, at the same time, allowing employees to invest for their own accounts.

Under the Code, certain classes of securities have been designated as exempt based upon a determination that these do not materially interfere with the best interests of AIA's clients. Apart from these securities, the Code requires pre-clearance of transactions, and restricts trading that is proximate in time to client trading activity. Because the Code in some circumstances permits employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is routinely monitored to provide reasonable assurance that conflicts of interest between AIA and its clients are addressed.

AIA employees with access to client information may potentially use this knowledge to their personal advantage by seeking to influence the price of a security that both AIA and the employee own. An employee could therefore seek to transact ahead of clients for personal gain or sell prior to clients to prevent or diminish loss. Accordingly, the policies and procedures outlined above assist in mitigating this conflict. Additionally, the Code contains restrictions on the buying or selling of securities while an employee is in possession of material, non-public, "inside information" concerning a security or issuer.

The Code also contains guidelines and restrictions related to gifts and entertainment. Giving or accepting gifts on the part of employees creates a conflict of interest as it raises questions about the independent judgment of the employees who receive gifts and the intent of third parties who provide them.

Involvement in any outside employment or business activity may create a conflict of interest when it interferes with an employee's ability to perform the duties of his or her job. AIA prohibits engagement in outside activity that interferes with its business activities of AIA or potentially creates a conflict of interest with an employee's responsibilities.

The Code has strict guidelines all employees must follow to minimize these conflicts noted above. All supervised persons at AIA must acknowledge the terms of the Code of Ethics annually, and upon amendment. AIA may impose sanctions for violations of the Code of Ethics. Sanctions may include termination of employment in the case of serious offenses or other penalty.

### ***Participating in Client Transactions***

AIA does not manage any "proprietary" investment accounts – i.e., accounts that are funded with AIA's own money and are intended to create profits for AIA. Accordingly, AIA in ordinary course does not compete with clients in the market for securities. Similarly, AIA does not use its own money to trade as a counterparty with client accounts.

However, AIA may participate or have an interest in client transactions by conducting cross trades as follows.

## ***Cross Trades***

From time to time, it may be beneficial for one client to purchase a security from another client in order to minimize or eliminate transaction costs and to limit the market impact of the transaction. These cross trades create a potential conflict of interest as there is the potential to favor one account over another as AIA represents both the client-seller and the client-buyer in the transaction. Cross transactions are permitted only if the Portfolio Manager believes the transaction is in the best interest of both accounts, disclosure is provided to each client about the potential conflict of interest, and each client consents to the transaction. Both client accounts are to receive best execution and AIA will not charge a brokerage commission or mark-up or mark-down. AIA will generally not place cross trades for client accounts that are subject to the Employee Retirement Income Security Act of 1974, as amended, and will only place cross trades for a U.S. registered investment company in accordance with Section 17(a) of the Investment Company Act of 1940, as amended.

## **Item 12 Brokerage Practices**

### ***Broker Selection***

AIA typically is authorized to select brokers and dealers and negotiate transaction prices, mark-ups and markdowns, and brokerage commission rates for its clients. AIA, as a matter of policy and practice, seeks to obtain best execution for client transactions. Best execution is defined as the best combination of quality execution and price given the particular circumstances of a transaction.

In evaluating broker-dealers for selection, AIA weighs factors such as price; capital position of the broker; ability to consummate and clear trades in an orderly and satisfactory manner; consistent quality of service; and broad market coverage resulting in a continuous flow of information regarding bids and offers. Initial approval of brokers is based on fundamental credit analysis of the firm, approval of the overall scope of services of the broker and a determination of operational readiness.

Ongoing review and evaluation of the performance and execution abilities of broker-dealers includes periodic random review to evaluate execution price versus other market marks at the time of execution. AIA reviews cumulative data regarding the volume of activity through brokers, such as the gross volume of trades, to identify exposure and confirm that the level of brokerage through specific brokers appears reasonable and appropriate.

In regards to the management of the CDO strategy, AIA has limited discretion in regards to broker selection and trade execution. AIA does not act as a counterparty to CDS trades that are executed on behalf of the CDO. The Swap Counterparty of the CDO is the named counterparty to the trade. AIA is provided a list of approved Market Participants from the Swap Counterparty. Proposed portfolio substitution trades recommended by AIA are confirmed by the Swap Counterparty of the CDO. Once approved by the Swap Counterparty, AIA solicits bids/offers for the approved CDS trades. Once received, AIA provides the Swap Counterparty notice ("Third Party Notice"). The Swap Counterparty then has the right to match and give notice to AIA as whether they will match any or all of the third party quotes. Based on the notice given by the Swap Counterparty, the trade is executed and confirmed by AIA on behalf of the Swap Counterparty.

### ***Counterparty Selection***

When trading derivatives, AIA seeks competitive bids for each derivative position, where feasible, and executes through counterparties with which it maintains agreements. A counterparty may be an over-the-counter trading partner or an exchange in the instance of listed contracts.

AIA evaluates acceptable counterparty risk for a portfolio based on criteria including counterparty quality, the nature of the contract and the size and maturity of the transaction. AIA maintains guidelines concerning collateralization and minimum counterparty standards that apply to derivative and forward currency transactions.

### ***Client Directed Brokerage***

Clients choosing to direct brokerage transactions through particular brokers or dealers should be aware that AIA's ability to negotiate commissions or purchase/sales prices for such clients may be hampered or reduced. Accordingly, AIA's typical practice is to avoid acceptance of advisory clients' instructions for directing a client's brokerage

transactions to a particular broker-dealer unless approval to do so has been obtained by AIA's Chief Compliance Officer ("CCO"). However, if requested by a client and with the approval of the CCO, AIA will direct brokerage to a specific broker or designated participating brokers. In turn, the client may receive services or other monetary or non-monetary benefits when undertaking directed brokerage arrangements. AIA's participation in directed brokerage is first premised upon fulfilling its obligation to pursue best execution on behalf of the client.

### ***Soft Dollar Arrangements***

AIA does not currently engage in soft dollar arrangements. AIA does not direct commissions to any broker as payment for the receipt of research or other soft dollars benefits.

### ***Trade Aggregation and Allocation***

AIA may aggregate multiple orders for the purchase or sale of the same security into block transactions. Participation in a block transaction, and the subsequent allocation of the investments between clients, is generally based on a client's investment objectives and policies, investment guidelines, liquidity requirements, legal or regulatory restrictions, asset liability management considerations, tax considerations, and the nature and size of the aggregated order, among other things. AIA aims to allocate aggregated trades to all clients fairly and equitably over time and there may be times when accounts do not participate in purchases or sales due to guideline constraints, account or transaction size, risk tolerance or cash flow considerations. Investment opportunities are typically allocated to client accounts prior to the time a trade is placed, however, there is no obligation to include an account in an aggregated order unless the Portfolio Manager believes that inclusion is in the client's best interest.

Client accounts may participate in an aggregated transaction on a pro rata, targeted percentage or other objective basis. Pro rata allocations result in participating accounts receiving a proportionate share of an order or position based on desired duration contribution, market value, relative net assets or other objective methodology. An allocation based on a targeted percentage allocation methodology results in each participating account receiving a different weighting of an issuer as determined by a Portfolio Manager, taking into consideration investment objectives and guidelines, and cash flows, among other things.

When aggregated trades are completed at different times during the day, with several dealers, or are only partially filled, each participating account generally will receive a pro-rata amount of each trade based on the pre-allocation determination, with consideration given to rounding to avoid less easily tradable lots and other minimum participation requirements. Exceptions, however, include situations where a Portfolio Manager indicates a "full first fill" for a designated account if the Portfolio Manager believes that a participating account(s) should be fully filled before other accounts due to tax considerations, based on the differing investment strategies of the accounts, or other considerations. Accounts may also be excluded from the pro rata allocation if a de minimus allocation would result. AIA endeavors to rotate accounts excluded due to the de minimus exception to help ensure fair access to trading opportunities over time.

AIA takes steps to obtain reasonable assurance that clients receive a fair allocation of investment opportunities over time by periodically reviewing portfolio performance and attribution dispersion information and reviewing composite performance as an indicator of equitable allocation over time.

## **Item 13 Review of Accounts**

Accounts are typically reviewed on a daily basis or other appropriate interval by the Portfolio Manager, Performance Analyst, Operations and/or Research Analysts. The number of accounts reviewed varies depending on the nature and size of the accounts under management. Matters which are reviewed include, but are not limited to, daily trading activity, client guidelines, portfolio composition, performance comparisons, current market activity, and economic outlooks. Portfolio Managers also may perform a review of a client's account status and activity upon the request of a client, when a material change in a client's investment objectives occurs, or when there is a material change in prevailing market conditions.

### ***Analysis Relating to High Yield, Investment Grade and Securitized Strategies***

While the analysis of the High Yield and Bank Loan strategies are primarily focused on bottom-up, fundamentally-driven security selection, the following highlights the framework for incorporating top-down and bottom-up drivers of performance.

#### **Global Economic Outlook Review**

On a bimonthly basis, investment personnel meet with the Global Economics Team to discuss Aviva Investors' base case and risk scenarios for the economic outlook in North America, the United Kingdom, and Europe. This may include an outlook for the labor market, the consumer, the housing market, GDP growth, monetary policy, and interest rates. A majority of AIA's investment professionals attend this meeting on a regular basis.

#### **Quarterly Credit Strategy Meeting**

On a quarterly basis, the head of AIA Credit Research and Research Analysts discuss the total return outlook for industries in the upcoming months. Discussion of fundamental industry outlook and valuation ensue and results in determinations regarding expectations for the top and bottom performing high yield industries. Subsequent to the meetings, these expectations are shared and considered along with the portfolio manager's evaluation as additional input to the industry allocation decision.

#### **Monthly Portfolio Performance Review**

On a monthly basis, the Portfolio Managers and Research Analysts review and discuss investment results and performance attribution for the prior month, analyze and discuss portfolio positioning and risk characteristics for prospective periods and discuss specific strategies and actions to be taken with respect to security selection, industry allocation, quality tier allocation and hedged currency allocation.

#### **Weekly Roundtable Meetings**

On a weekly basis, the Portfolio Managers and Research Analysts conduct roundtable meetings reviewing portfolio positions relative to the original investment thesis, the Analysts' recommendation and the specified exit strategies. Analysts and Portfolio Managers are also comparing relative valuations and fundamentals across the investable universe to generate actionable ideas.

#### **Daily Market Call**

On a daily basis, investment professionals meet to discuss market developments, company earnings and announcements, investment selections and matters of general relevance to the portfolios managed by AIA. AIA may provide special review of a client's account and related activity at the request of a client, upon a material change in a client's investment objectives or when there is a material change to prevailing market conditions.

### ***Analysis Relating to Emerging Markets Debt***

AIA's Emerging Market Debt Team holds weekly formal policy meetings to examine emerging market themes and scenarios utilizing a range of economic and valuation models. The Team reviews current portfolio positions and potential investment opportunities.

### ***Analysis Relating to Emerging Markets Equity-Small Cap***

The Emerging Markets Small Cap Equity team conducts daily reviews of clients' positions to determine and execute upon changes in valuation, investment thesis and country and sector trends affecting those positions. The portfolio manager has daily contact with our dedicated team of research analysts who provide fundamental company analysis and stock screening. There is a daily team meeting with the other global equity fund managers to discuss overnight events, company results and to share ideas. The team participates in a weekly meeting with all Aviva Investors investment teams (i.e. Fixed Income, Multi-asset, Real Estate, Foreign Exchange, Sovereign, Strategy, Risk, Compliance, etc.) to discuss wider market trends and views from other investment areas. Bi-monthly meetings are held with the Head of Equities to formally review portfolio positioning and performance. Monthly meetings are held with the independent risk and performance teams who monitor liquidity, style consistency, sector risk, country risk and position concentrations. Finally, formal quarterly meetings are held with the Strategy team to cover house views and macro trends.

### ***Analysis Relating to Global Markets Alpha***

The Global Markets Alpha Team (the “Team”) monitors clients’ top down risk budget and desired risk-return levels, daily, and formally each quarter. The Team reviews portfolio diagnostics weekly to establish consistency among similar accounts managed in this strategy. Moreover, the Team meets with alpha specialist teams, e.g., with the Sovereign Strategy Team, weekly and participates in monthly credit strategy meetings. Additionally, the Team meets on a monthly basis with the independent Risk Management Team to conduct a formal risk audit which supplements daily risk management reviews.

### ***Analysis Relating to REaLM Infrastructure***

The Portfolio Management Team meets regularly to evaluate and manage the ongoing investment activity associated with the REaLM Infrastructure strategy. Potential new investments are subject to initial screening to assess risk factors and the quality of the return profile, counterparty and strategic fit with the portfolio’s objectives. Daily interactions among team members to assess holdings are supplemented by formal meetings typically held monthly. A full due diligence exercise is conducted on all investments, prior to executing any investment. Thereafter, projects will be assessed and monitored on an ongoing basis against performance expectations. This includes financial modelling using prudent assumptions regarding operating metrics, economic and strategic rationale, financial, construction and operating metrics and assessment within the macroeconomic, market and regulatory framework. Client reviews are conducted periodically and include analysis of benchmarks, investment objectives and related issues.

### ***Analysis Relating to Derivatives***

AIA regularly monitors the performance of CDS positions in the portfolio. Investment management has strategy meetings during which it evaluates the efficacy of the derivatives and derivatives strategy based on the client requirements.

### ***Client Reports***

AIA typically provides written reports to its clients quarterly or more frequently if requested by a client. Client reports typically include account holdings, performance, market value of securities and trading activity.

On a monthly basis, AIA reviews and provides comment on a Swap Counterparty report which is provided to AIA by the Swap Counterparty. In addition, AIA reviews and provides comments on a report prepared by the Trustee. All reports to the CDO investors are prepared by the Trustee.

Reports may vary depending upon the underlying asset type. AIA does not provide publications or reports on a subscription basis.

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

AIA may occasionally enter into solicitation agreements with unaffiliated and affiliated third parties. AIA may compensate a third party in return for client solicitations. The fees are not paid by clients. Any such arrangements must comply with SEC Rule 206(4)-3.

Currently, neither AIA nor its employees receive compensation from third parties nor does AIA pay third parties to solicit on its behalf.

## **Item 15 Custody**

AIA does not self-custody separate account client funds or securities. AIA uses the services of a qualified, independent custodian selected by a client prior to or at the time of contracting with AIA. Client custodians typically provide a statement to clients on a quarterly basis or other intervals. We recommend that clients compare the information in AIA’s account statements to the information in the statements provided by the custodian. Clients should contact the custodian about discrepancies or other questions.

AIA has an affiliated entity that is the general partner to a private fund. The partnership is audited and the audit reports are delivered to investors in the partnership in accordance with SEC Rule 206(4)-2.

## **Item 16 Investment Discretion**

AIA generally receives discretionary authority to transact on behalf of a client at the outset of an advisory relationship. A client typically grants AIA discretion in a written investment management agreement. Occasionally, AIA operates on behalf of a client without discretion due to client instructions or other limitations. To its best ability, AIA employs discretion in a manner consistent with the documented client investment objectives and guidelines pertaining to that client account.

## **Item 17 Voting Client Securities**

As part of its advisory services, AIA will vote proxies of portfolio securities for its clients, unless the client retains authority to vote proxies. Because AIA primarily focuses on fixed income securities, proxies are infrequent. When AIA does receive a proxy on a client's behalf, a voting decision is made based on what it believes to be in the client's best interests. Prior to voting, portfolio managers evaluate the existence of real or potential conflicts of interests. Any portfolio manager or employee who has concern about conflict is to inform the CCO. When a conflict is detected in the voting of proxies, e.g., an existing client business relationship with an issuer or undue influence exerted by an agent of the issuer on a voting portfolio manager, the portfolio manager is to consult AIA's CCO, who shall develop an approach intended to resolve or mitigate the conflict. At his discretion, the CCO may convene the Proxy Committee, which is comprised of internal senior managers. The Proxy Committee may act upon the majority decision of the members participating in any meeting.

Typically, in voting proxies, AIA considers the opinion of company management, concerns regarding shareholder value and the issuer's business and practices. Generally, AIA votes with management on routine matters and votes against proposals that diminish shareholder rights reduce the proportionate share of current shareholdings or promote unequal voting rights. Other matters are considered on a case-by-case basis and AIA is typically guided by the principle of promoting the best interests of shareholders.

Upon written request, AIA will provide its clients information on how proxies were voted for their account(s). A copy of AIA's Proxy Voting Policy may be obtained by writing to:

### **Chief Compliance Officer**

ATTN: Proxy Policy Request  
Aviva Investors Americas LLC  
225 West Wacker Drive, Suite 1750  
Chicago, IL 60606

## **Item 18 Financial Information**

AIA is a wholly owned indirect subsidiary of a public company in the UK, Aviva plc. Aviva plc is listed on the London Stock Exchange and the New York Stock Exchange. Additional shareholder information is available on the internet at [www.aviva.com](http://www.aviva.com).

AIA has no financial commitments that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.