



## **American Beacon Advisors, Inc.**

220 East Las Colinas Blvd, Suite 1200

Irving, TX 75039

(817) 391-6100

[www.americanbeaconadvisors.com](http://www.americanbeaconadvisors.com)

### **Form ADV Part 2A**

**("Brochure")**

February 27, 2015

This Brochure provides information about the qualifications and business practices of American Beacon Advisors, Inc. If you have any questions about the contents of this Brochure, please contact us at (817) 391-6100 or [client.services@ambeacon.com](mailto:client.services@ambeacon.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

American Beacon Advisors, Inc. is registered with the SEC as an investment adviser. Registration of an investment adviser does not imply a certain level of skill or training.

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

## **Item 2 – Material Changes**

This Item is used to provide our clients with a summary of material new and/or updated information to the Brochure. We revised certain information to help you better understand our firm and the services we provide and also updated any out-of-date information. We do not consider these changes to be material from the previous Brochure dated March 28, 2013.

### Item 3 -Table of Contents

Item 1 – Cover Page.....	i
Item 2 – Material Changes.....	ii
Item 3 - Table of Contents .....	iii
Item 4 – Advisory Business .....	1
Item 5 – Fees and Compensation .....	3
Item 6 – Performance-Based Fees and Side-By-Side Management .....	6
Item 7 – Types of Clients.....	7
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss.....	7
Item 9 – Disciplinary Information .....	15
Item 10 – Other Financial Industry Activities and Affiliations .....	16
Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	17
Item 12 – Brokerage Practices .....	20
Item 13 – Review of Accounts.....	22
Item 14 – Client Referrals and Other Compensation .....	23
Item 15 – Custody.....	23
Item 16 – Investment Discretion .....	24
Item 17 – Voting Client Securities.....	24
Item 18 – Financial Information .....	26

## **Item 4 – Advisory Business**

American Beacon Advisors, Inc. ("American Beacon"), located in Fort Worth, Texas, has been an investment adviser since 1986. American Beacon is registered with the SEC as an investment adviser under the Investment Advisers Act of 1940 ("Advisers Act") and with the National Futures Association ("NFA") as a commodity pool operator. American Beacon provides investment advisory services to institutional clients such as investment companies, corporations, governmental entities, private equity funds-of-funds and corporate employee benefit plans. As of December 31, 2014, American Beacon managed approximately \$58.3 billion in assets on a discretionary basis.

American Beacon is a wholly-owned asset management subsidiary of Lighthouse Holdings, Inc., which is indirectly majority owned by investment funds advised by Pharos Capital Group, LLC and TPG Capital Management, L.P., two private equity firms.

American Beacon offers the following advisory services to its clients.

### Investment Companies

As investment adviser to the American Beacon Funds and American Beacon Select Funds (collectively, the "Beacon Funds"), American Beacon has the responsibility for the management and investment of the assets of each investment company in accordance with its current registration statement and applicable investment objectives, policies, and restrictions. In connection with these responsibilities, American Beacon performs certain administrative services pursuant to its agreements with such investment companies. In certain cases, American Beacon selects investment sub-advisers for the Beacon Funds for approval by the applicable fund's Board of Trustees and American Beacon and/or the applicable fund contracts with them to manage a portion of the assets of any given fund that American Beacon does not manage itself. In such cases, American Beacon allocates assets of the funds among the various sub-advisers (if more than one sub-adviser manages a fund) and makes recommendations to the Board of Trustees of the funds regarding any necessary changes to the investment adviser structure. American Beacon monitors the performance of each sub-adviser and seeks to assure compliance with investment objectives, policies and restrictions of each Beacon Fund. This type of arrangement is commonly known as a "manager-of-managers" structure. As of December 31, 2014, American Beacon managed, on a discretionary basis, approximately \$29.4 billion in assets for the Beacon Funds.

### Employee Benefit Assets

American Beacon provides investment management services to a number of employee benefit plans sponsored by a large corporation and its affiliates (the "Plans"). The services may include the selection and monitoring of mutual funds, investment sub-advisers, and private equity investments; the allocation of assets among sub-advisers/funds in accordance with Plan policies; the selection and monitoring of securities lending agents, trade execution analysis providers, and

proxy consultants; maintaining commission recapture agreements with brokerage firms; ministerial rebalancing services; and direct investment management. American Beacon monitors the performance of each sub-adviser and seeks to assure compliance with the investment objectives, policies and restrictions of each Plan. As of December 31, 2014, American Beacon managed, on a discretionary basis, approximately \$16.9 billion in assets for the Plans.

### Separate Accounts

American Beacon's separate accounts generally fall into two categories: Stable Value portfolios and Current Income and Total Return portfolios. Stable Value portfolios are generally managed to generate current income from investments in high-quality instruments maturing in less than 13 months while seeking to maintain stable principal. Current Income and Total Return portfolios are actively managed to provide higher current income than the Stable Value portfolios, with total return as a secondary emphasis. These portfolios generally have a weighted average duration of six months to three years. American Beacon seeks to manage each client's separate account within the investment objectives, policies and restrictions provided by the client as well as the client's liquidity needs. The performance of each separate account may vary based on the circumstances of each account and American Beacon's customization of such accounts. As of December 31, 2014, American Beacon managed approximately \$12 billion in assets on a discretionary basis for its separate account clients.

### Private Equity Funds-of-Funds

American Private Equity Partners, L.P., American Private Equity Partners II, L.P., and American Private Equity Partners III, L.P. are Delaware limited partnerships formed as "funds-of-funds" by American Beacon (collectively, the "APEP Partnerships"). American Private Equity Management, L.L.C., a wholly-owned subsidiary of American Beacon, serves as the general partner of the APEP Partnerships, which are privately placed limited partnerships offered pursuant to exemptions from registration under the Investment Company Act of 1940 ("Investment Company Act") and the Securities Act of 1933 ("Securities Act") and are closed to new investments. American Beacon serves as investment manager to the APEP Partnerships, selecting underlying private funds for investment by the APEP Partnerships in accordance with the investment objectives, policies and restrictions of each partnership. As of December 31, 2014, American Beacon managed, on a discretionary basis, \$145.5 million in assets for the APEP Partnerships.

### Limitations on American Beacon's Liability

American Beacon's management or advisory agreements with its clients typically contain provisions that may act as a waiver, release or limitation of certain rights clients may have against American Beacon arising from its services. In substance, the agreements usually state that American Beacon, and its personnel and affiliates, are not liable for any loss arising out of American Beacon's advice or for any other act or omission taken with respect to its services, except for any act or omission which constitutes willful misfeasance, bad faith or negligence in

the performance of its duties, or reckless disregard of its obligations and duties under the agreement.

Notwithstanding the liability limiting nature of these provisions, clients should be aware that federal and state securities laws may impose liabilities on American Beacon under certain circumstances. Therefore, nothing in those or any other provisions in the agreements will have the effect of waiving, releasing or limiting any rights a client may have under those laws or under any other laws that are not permitted to be waived by contract.

## **Item 5 – Fees and Compensation**

The specific manner in which fees are charged by American Beacon is established in a client's written agreement with American Beacon. Depending upon the type of account, American Beacon generally bills its fees in arrears on a monthly or quarterly basis. Management fees may be prorated for each contribution and withdrawal of assets made to or from an account during the applicable period (with the exception of de minimis contributions and withdrawals). Accounts initiated or terminated during a billing cycle will be charged a prorated fee. Upon termination of any account any earned, unpaid fees will be due and payable and any fees paid in advance, such as with the APEP Partnerships, will be refunded on a prorated basis.

### Investment Companies

American Beacon's agreements with the Beacon Funds provide for payment of annualized investment management fees by the Beacon Funds to American Beacon ranging from 0.05% to 0.20% of the investment company's net assets, plus fees owed to sub-advisers, if applicable and where the sub-advisory fees are not otherwise paid directly by the applicable fund. In addition, American Beacon receives 10% of the net monthly income generated from securities lending activities of certain Beacon Funds for its oversight of the securities lending activities. American Beacon also receives administrative service fees ranging from 0.01% to 0.40% for administrative and clerical services provided to the Beacon Funds, and shareholder servicing fees ranging from 0.10% to 0.375%, depending on the share class, are paid to intermediaries for servicing of shareholder accounts.

Certain share classes of the Beacon Funds pay American Beacon distribution (Rule 12b-1) fees ranging from 0.25% to 1.00% for distribution and shareholder servicing related services to the Beacon Funds. The distribution fees are paid pursuant to Distribution Plans that have been approved by the Board of Trustees of the Beacon Funds. The plans are "compensation plans" meaning that American Beacon receives a specified level of compensation for distribution and/or shareholder service-related activities, regardless of whether American Beacon expends more or less than this amount on distribution efforts. As a result, American Beacon could conceivably realize a profit from these fees, depending on its actual distribution-related expenditures. However, all 12b-1 fees received by American Beacon from the Beacon Funds are utilized to pay expenses under the Distribution Plans, such as expenses relating to selling efforts of various broker-dealers, shareholder servicing fees and the preparation and distribution of advertising material and sales literature. In addition, American Beacon commits certain of its own resources

to pay for various Beacon Fund promotional activities undertaken by American Beacon or its personnel, which are unreimbursed by the Beacon Funds. Sub-advisers may also make payments to support the Beacon Funds' distribution activities and potentially defray American Beacon's expenses. See item 10 below for more information on the conflict of interest this presents.

Fees charged to investment company clients are generally calculated and accrued daily and paid monthly in arrears. American Beacon may periodically waive fees otherwise payable by its investment company clients. Accordingly, future fees may not fall within the current range of fees stated above. An agreement for investment advisory services with an investment company client may be terminated at any time by either party upon written notice as set forth in the agreement and will terminate automatically in the event of its assignment.

### Employee Benefit Plans

American Beacon has no basic fee schedule for its employee benefit plan management services. American Beacon's Investment Management Agreement with the Plans (the "Agreement") provides that the Plans will pay American Beacon a monthly fee in arrears equal to the product of the month-end assets, the applicable fee rate and the actual number of days in the month, divided by the actual number of days in the year. The monthly fee is offset, consistent with applicable regulations, by any investment advisory fees and by certain other fees described in the Agreement that are collected by American Beacon or its affiliates from mutual funds affiliated with American Beacon in which such month-end assets are invested. Fees for some Plans are governed by the applicable Prospectus and any applicable Shareholder Services Agreement between the Plans and American Beacon.

### Separate Accounts

American Beacon's standard fee schedules for separate accounts are generally at the rate of 0.10% per annum on the first \$250 million in assets, 0.06% on the next \$250 million, and 0.04% thereafter. Irrespective of the amount of assets managed, a minimum annual fee of \$30,000 is charged for separate accounts. American Beacon's fees may be negotiable. American Beacon may negotiate higher or lower fee arrangements in certain circumstances, including situations when: there is a likelihood of significant growth of assets in the account; the prospective client is in a new industry or marketplace; the client is an affiliate of American Beacon; or interest rates are so low that a lower fee may be justified. A single client and its affiliates with assets in more than one investment vehicle managed by American Beacon and/or its affiliates may have its assets aggregated for fee calculation purposes and/or be charged a lower fee rate with respect to assets maintained in one or more accounts. Fees are normally based upon a percentage of the average daily market value of assets under management calculated on a 365-day basis. The average daily market value is calculated based on the prior month-end market value of each security for each day in the month, except for securities purchased during the month, which are valued at the purchase price for each remaining day in the month following purchase. Fees charged are generally payable monthly or quarterly in arrears. An agreement with a separate account client may be terminated at any time upon written notice pursuant to the terms of the agreement.

### Private Equity Funds-of-Funds

American Beacon manages the APEP Partnerships and is entitled to an annual management fee, paid semi-annually in advance, within ten days after each January 1 and July 1, with respect to each limited partner of the APEP Partnerships. American Beacon receives a fee equal to: (1) 0.75% per annum (0.375% semi-annually) of the capital commitment, pro-rated for any partial period, of each limited partner who invests directly in the APEP Partnerships without the assistance of a financial advisor or intermediary; and (2) 1.00% per annum (0.50% semi-annually) of the capital commitment of each limited partner who invests with the assistance of a financial adviser or intermediary. After the ninth anniversary of the first closing dates for APEP II and III, the fee will be reduced 10% annually as compared to the fee charged for the prior year. A portion of the management fee paid by indirect limited partners is paid to the relevant financial intermediaries. American Private Equity Management, L.L.C., the general partner for the APEP Partnerships and a wholly-owned subsidiary of American Beacon, may also receive a carried interest distribution from the APEP Partnerships, as further described in the limited partnership agreements of the APEP Partnerships.

### Other Types of Fees and Expenses

In addition to American Beacon's fees, clients will incur brokerage commissions, dealer spreads, transaction fees, ticket charges and other related costs and expenses in connection with transactions in their advised accounts. See Item 12 below for more information about brokerage. Clients may also incur charges imposed by custodians, broker-dealers, prime brokers and other third parties that may include items such as custodial fees, account maintenance fees, activity or inactivity fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer fees, electronic fund transfer fees, termination fees, postage and handling charges, exchange fees, interest to cover short positions, and other fees and charges on accounts or transactions. These fees, charges and/or commissions are exclusive of and in addition to the management and other fees paid to American Beacon, and American Beacon will not receive any portion of those charges.

Investors in the Beacon Funds will also bear indirectly as fund shareholders their proportionate share of the fund's internal expenses. These internal fees and charges are known as the fund's expense ratio. Each fund's expense ratio will vary over time and is disclosed in its Prospectus. Similarly, internal expenses of the APEP Partnerships and the Plans will be borne by investors in those accounts.

### Compensation from Investments in Affiliated Vehicles

For certain client accounts, American Beacon is authorized to and may invest client assets in affiliated investment vehicles including, for example, the investment of short-term cash and/or securities lending cash collateral into an American Beacon managed money market fund. When American Beacon invests a client in the Beacon Funds, fees and other compensation flow indirectly to American Beacon since, as adviser to the funds, American Beacon receives management fees, administrative fees and/or shareholder servicing fees based on the amount of



assets invested in the funds. The fee rates and other compensation paid to American Beacon and its affiliates are described above in Item 5 and may vary depending on the vehicle.

In addition, American Beacon personnel may be invested personally in those vehicles. As a result, they may benefit like all investors from the added stability and positive effects that result from new asset inflows and investor interest when American Beacon invests its clients in those vehicles.

In light of these circumstances, American Beacon faces a conflict of interest to the extent it has an incentive to invest clients in those vehicles – or recommend that clients invest in those vehicles -- based on the fact that American Beacon and its affiliates will receive compensation or other benefits, rather than based strictly on a client's needs. That conflict is mitigated, however, in those cases where American Beacon offsets the fees it charges to the client by any investment advisory fees and other fees that are collected by American Beacon or its affiliates from any American Beacon affiliated vehicle in which the client's assets are invested. This and other conflicts are disclosed to clients in this Brochure and/or in the advisory agreement between American Beacon and its client.

With the exception of the APEP Partnerships, clients generally have the option to purchase investment products recommended by American Beacon through other brokers, agents or advisors that are not affiliated with American Beacon. In addition, clients may be able to meet their investing goals by investing in other funds or investments as to which American Beacon does not provide advice, including some which may charge lower fees or entail lower costs than investing in vehicles affiliated with American Beacon.

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

A wholly-owned subsidiary of American Beacon, as general partner of the APEP Partnerships, may receive performance-based compensation, in the form of carried interest distributions, from the APEP Partnerships. This carried interest distribution is in addition to management fees paid to American Beacon in its role as adviser to the Partnerships. Performance-based compensation (including carried interest distributions) could motivate American Beacon, due to its affiliation with the general partner of the APEP Partnerships, to make investment decisions that are riskier or more speculative than would be the case if these arrangements were not in effect. The method of calculating carried interest distributions may result in conflicts of interest with respect to the management and disposition of investments, including the sequence of dispositions.

American Beacon provides investment advisory services to clients for which an affiliate is entitled to receive performance-based compensation (in the form of carried interest distributions) alongside clients with respect to which neither it nor any of its affiliates is entitled to receive any such performance-based compensation. This side-by-side management could motivate American Beacon to favor accounts for which its affiliate receives performance-based compensation over other accounts for which such compensation is not otherwise payable.

American Beacon attempts to address and/or manage these conflicts through its investment allocation policy and full and fair disclosure of such performance-based compensation in this brochure. With respect to the allocation of investment opportunities, it is American Beacon's policy to treat all clients fairly relative to one another. To this end, American Beacon regularly monitors the allocation of investment opportunities and trades with the aim of ensuring that no client or group of clients is unfairly favored relative to others over time.

## **Item 7 – Types of Clients**

American Beacon provides investment advisory services to investment companies (the Beacon Funds), corporate employee benefit plans, private equity funds-of-funds, corporations and governmental entities. For separate accounts, American Beacon generally requires a minimum of \$100 million to open an account, although it has discretion to waive the minimum in certain circumstances. Minimum investments in the Beacon Funds and the APEP Partnerships are governed by the organizational and disclosure documents of each of those funds.

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

The methods of analysis and investment strategies used by American Beacon in formulating advice or managing assets for clients are described below. Investing in securities involves risk of loss that clients should be prepared to bear.

### Investment Companies

American Beacon advises investment companies that feature a sole sub-adviser or multiple sub-advisers depending on the design of each fund. Additionally, American Beacon's investment professionals manage certain funds directly without a sub-adviser. American Beacon also makes recommendations to the Beacon Funds regarding the creation and structure of new funds, including asset classes, style, strategy and the type of sub-adviser structure best suited for the fund. With respect to multi-manager sub-advised funds, American Beacon's goal is to assemble the most effective combination of money managers, or sub-advisers, for a specific asset class, investment style, or market strategy. Each sub-adviser is responsible for investing its portion of the Beacon Funds' assets directly in securities aimed at achieving the investment objectives of the investment fund. Our sub-adviser evaluation and selection process is designed to be continuous and selective. In vetting sub-advisers to the Beacon Funds, American Beacon evaluates prospective asset management teams based upon their tenure with their firm and their involvement in producing the product's performance track record, the level of coordination between portfolio managers and analysts, the amount of time spent on asset management versus administrative functions, the number of separate accounts managed by the portfolio manager and other factors that American Beacon and the Board may deem relevant.

In regard to the multi-manager sub-advised funds, the Funds' portfolio managers have ultimate authority for buy and sell decisions after adhering to the guidelines set forth by American Beacon and the Funds; however, American Beacon's compliance team regularly monitors

trading activity in each Fund on a post-trade basis to ensure compliance with the applicable Prospectus and internal guidelines. The compliance team also implements an ongoing sub-adviser due diligence program, which includes an evaluation of the sub-adviser's pre- and post-trade compliance systems, and which may include an on-site visit. American Beacon's asset management team meets with each sub-adviser on a regular basis to review style and process adherence.

### ***Principal Risks***

The principal risk posed by investing in the Beacon Funds is that the securities selected by American Beacon or a sub-adviser for the Beacon Funds may not perform to expectations. This could result in the Fund's underperformance compared to other funds with similar investment objectives.

Depending on the Beacon Fund, other risks of investing in the Beacon Funds may include the following:

- Bank Loans and Senior Loan Risk
- Counterparty Risk
- Credit Risk
- Currency Risk
- Derivatives Risk
- Equity Investments Risk
- Emerging and Frontier Markets Risk
- Expense Risk
- Financial Services Companies Risk
- Fixed Income Investments Risk
- Foreign Exposure Risk
- Foreign Investing Risk
- Growth Companies Risk
- Government-Sponsored Enterprises Risk
- High Portfolio Turnover Risk
- High-Yield Investments Risk
- Interest Rate Risk
- Illiquid and Restricted Securities Risk
- Investment Risk
- Issuer Risk
- Large Capitalization Companies Risk
- Leveraging Risk
- Liquidity Risk
- Loan Participation Interests and Investments in Loan Investment Pools Risk
- Market Events Risk
- Market Risk
- Master/Feeder Structure Risk

- Money Market Fund NAV Risk
- Municipal Securities Risk
- Non-diversification Risk
- Other Investment Companies Risk
- Passive Strategy/Index Risk
- Prepayment and Extension Risk
- Repurchase Agreement Risk
- Securities Lending Risk
- Securities Selection Risk
- Small and Medium Capitalization Companies Risk
- Subsidiary Risk
- Tax Risk
- Unrated Securities Risk
- U.S. Government Securities and Government Sponsored Enterprises Risk
- Valuation Risk
- Value Companies Risk
- When-Issued and Forward Commitment Transactions Risk

As with all mutual funds, there is no assurance that any of the Beacon Funds will achieve its investment objective and you could lose part or all of your investment in the Beacon Funds. The Beacon Funds are generally not designed for investors who need an assured level of current income and, except for money market funds, are intended to be long-term investments. The Beacon Funds are not a complete investment program and may not be appropriate for all investors. Investors should carefully consider their own investment goals and risk tolerance before investing in the Beacon Funds. The Prospectuses and Statements of Additional Information for the Beacon Funds contain important information regarding objectives, investments, risks, fees and additional disclosures. These documents are available online at [www.americanbeaconfunds.com](http://www.americanbeaconfunds.com). Prior to making any investment in the Beacon Funds, investors and prospective investors should carefully review these documents for a comprehensive understanding of the terms and conditions applicable for investment in the Beacon Funds.

### Separate Accounts

As mentioned above in Item 4, American Beacon's separate accounts generally fall into two categories: Stable Value portfolios and Current Income and Total Return portfolios. American Beacon's investment philosophy for the separate accounts is committed to high quality, low volatility investing. Our top-down approach to portfolio management leads us to concentrate on macro-economic factors including the leading economic indicators, the shape of the yield curve, the business cycle, and Federal Reserve Board monetary policy. In addition, we strictly prohibit the use of instruments that amplify market conditions to achieve short-term gains, such as collateralized debt obligations and structured investment vehicles, to limit risk. We have committed compliance resources to ensure portfolio guidelines are adhered to and objectives are met and we have developed a framework to provide segregation of duties among portfolio management, compliance, pricing and performance measurement personnel.

American Beacon's "top-down" investing strategy focuses on analysis of fundamental economic data, the yield curve, business cycle patterns, and credit quality combined, aiming to create a dynamic, high quality portfolio.

**Investment Strategy and Economic Outlook** – Our top-down process begins with an overall investment strategy developed in accordance with our forecast for inflation, interest rates, and other economic factors.

American Beacon's fixed income portfolio managers and credit analysts are involved in developing the overall investment strategy for separate accounts. Each portfolio management team focuses on different aspects of the yield curve and credit markets, so each team offers its own perspective in the decision making process. To the extent that there is agreement on the investment outlook, the teams then analyze their sector allocation and security selection decisions accordingly. To the extent that opinions diverge on the outlook, the Chief Fixed Income Officer and/or the Vice President, Fixed Income Investments makes the ultimate decision on an investment strategy. The portfolio managers then incorporate that strategy and analyze sectors and securities for their portfolios. Portfolio managers determine the weighting and selection decisions in accordance with each client's guidelines and risk tolerances. All of these decisions are made within the context of the client's overall investment policy.

The Chief Fixed Income Officer and/or the Vice President, Fixed Income Investments oversees the portfolio construction process to ensure that the portfolios are being managed in accordance with the investment strategy and the client's investment policy.

**Maturity Structure and Sector Analysis** – We then establish weighted average maturity (WAM) targets based on the direction of interest rates, the phase of the business cycle, and the slope of the yield curve. American Beacon seeks to optimize the sector mix to take full advantage of spread opportunities.

**Issue Selection** – We focus on highly rated obligations to minimize credit risk. Credit review occurs not only before purchase, but also continually during the holding period of the obligation.

Our security selection process is initially based on our top-down assessment of a sector, but bottom-up analysis naturally follows. Since similarly rated issuers do not necessarily possess the same credit risk, our research emphasizes credit metrics, ratings expectations, and other factors to uncover those differences. For example, the rating agencies have a tolerance for small changes in leverage, interest coverage and profitability ratios. We stress test these metrics to determine a margin of safety for a given rating. Additionally, at times, we discuss these issues with the rating agencies and securities firms to clarify the factors that may affect a credit rating.

The credit research group is instrumental in its detailed credit analysis to assist the portfolio managers with relative valuation decisions. The credit ratings provide a starting point from which to consider individual issuers, but the credit research process allows us to make appropriate security selection decisions given the underlying fundamentals and incremental yield. Ultimately, we are looking for stable issuers that offer attractive value relative to

government equivalents. In order to justify adding credit risk to the portfolio, we must determine that the incremental yield is appropriate for that particular issuer.

Our credit research process involves assessing fundamental credit strength and ratings stability in order to assist portfolio managers in relative value decisions. The primary function of our research is to gather and filter appropriate information to gain an understanding of market sectors and individual companies.

Our credit research group is responsible for maintaining our stable value accounts' Approved Issuer List. In addition to our continuous informal reviews, a formal written determination of creditworthiness is required for each issuer at both the initial approval stage and during scheduled periodic reviews. All approved issuers are assigned an internal rating designed to delineate the credit quality of equally rated (by the nationally recognized statistical ratings organizations "NRSROs") issuers based on our independent analysis. Additionally, maturity limitations may be placed on individual issuers by the credit research group and will be noted on the Approved Issuer List.

American Beacon utilizes a combination of externally published material (approximately 75%) and internally generated research (approximately 25%) in this process. External research may come from the rating agencies (Moody's, S&P, and/or Fitch), brokerage firms, SEC filings, Bloomberg, Internet and/or conferences / forums.

### ***Principal Risks***

The key risk factors we incorporate into our investment decisions for separate accounts are as follows:

#### ***Securities Selection Risk***

Securities selected by American Beacon may not perform to expectations. This could result in the underperformance of the account compared to other accounts with similar investment objectives.

#### ***Interest Rate Risk***

Interest rate risk (duration), is one of the primary risk factors driving portfolio risk and return. Duration measures the interest rate sensitivity of a portfolio to an instantaneous, parallel shift in the yield curve. We attempt to control interest rate risk by adjusting portfolio duration relative to that of the benchmark duration in a manner that incorporates a conservative risk/return objective. The decision parameters as to when and by what magnitude we would deviate from the benchmark duration would be determined by our view of the stage of the economy, business cycle, and the Federal Reserve monetary policy.

### Yield Curve Risk

One component of interest rate risk includes the maturity profile of holdings across the yield curve. We monitor yield curve risk by mapping the portfolio's exposure to various segments of the yield curve to identify an optimal yield curve position.

During an economic recovery, when the yield curve generally flattens, a barbell strategy (where portfolio holdings are weighted toward short maturities, or floating rate securities, in conjunction with intermediate maturity securities) would reduce yield curve risk. Short maturity and floating rate securities have very low duration, thus low price risk. Short maturities can be reinvested at higher rates, and floating-rate securities automatically reset with higher coupons. These types of securities offer protection from a rising Federal Funds rate. The intermediate maturities employed in the barbell strategy capture the yield advantage of being further out in the yield curve, which offsets the yield given up in the short-maturity component of the strategy. Generally, the short end of the yield curve is the most volatile part of the yield curve, thus a barbell strategy can be effectively implemented in anticipation of rising rates.

Similarly, as interest rates decline, the yield curve generally steepens. With a steep yield curve, the roll down contribution to total return can be significant. As such, a bullet strategy (where maturities are staggered across the yield curve) can be implemented to control yield curve risk and capture roll-down return.

### Default Risk

Default risk is the risk of loss arising from an issuer's failure to pay principal and interest when due. We aim to avoid default risk by performing credit research on issuers prior to investment to determine fundamental credit quality based on operating trends, balance sheet strength, cash flow generation, management track record, and capital structure. We also conduct periodic reviews of each issuer and closely follow market and credit default prices of the individual securities and issuers.

### Standard Deviation Risk

Investment portfolios managed to conservative guidelines should result in lower return volatility, and therefore lower standard deviation risk. We aim to control standard deviation risk by making small adjustments to target duration, taking active views on yield curve positioning, and minimizing default risk through credit research.

### Liquidity Risk

Liquidity risk is the risk that a security may have to be sold at a lower price than that at which it is being valued. This can happen due to the complexity of the security or other issuer- or market-specific factors. We aim to control liquidity risk through careful security selection based on credit analysis, issue size, and security structure analysis. Liquidity risk can also occur as a result of cash flow mismatch. This risk factor can be controlled by staggering the maturities in

accordance with anticipated cash flow needs, by closely monitoring the credit quality of the issuers, and by reviewing price changes of portfolio holdings on a regular basis to identify potential liquidity risk candidates.

#### Issuer and Counterparty Credit Risk

The value of a security may decline if the security's credit rating is downgraded or credit quality otherwise falls. There is the risk that the issuers or guarantors of securities, including securities issued by U.S. Government agencies not backed by the full faith and credit of the U.S. Government, will default on the payment of principal or interest or the obligation to repurchase securities.

#### Foreign Exposure Risk

Investing in securities issued or supported by foreign entities carries potential foreign exposure considerations, including but not limited to the risk of: (1) political and financial instability, (2) less liquidity and greater volatility, (3) lack of uniform accounting, auditing and financial reporting standards, and (4) increased price volatility.

#### Government-Sponsored Enterprises Risk

Investments in government-sponsored enterprises are debt obligations issued by agencies and instrumentalities of the U.S. Government. These obligations vary in the level of support they receive from the U.S. Government. They may be: (i) supported by the full faith and credit of the U.S. Treasury, such as those of the Government National Mortgage Association; (ii) supported by the right of the issuer to borrow from the U.S. Treasury, such as those of the Federal Home Loan Banks and the Federal Farm Credit Banks; (iii) supported by the discretionary authority of the U.S. Government to purchase the agency obligations, such as those of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation or (iv) supported only by the credit of the issuer, such as those of the Federal Farm Credit Bureau. The U.S. Government may choose not to provide financial support to U.S. Government sponsored agencies or instrumentalities if it is not legally obligated to do so in which case, if the issuer defaulted, a client holding securities of such issuer might not be able to recover its investment from the U.S. Government. Like all bonds, U.S. Government-sponsored enterprise bonds are also subject to credit risk.

#### U.S. Government Securities Risk

A security backed by the U.S. Treasury or the full faith and credit of the United States is guaranteed only as to the timely payment of interest and principal when held to maturity. The market prices for such securities are not guaranteed and will fluctuate. In addition, because many types of U.S. Government securities trade actively outside the United States, their prices may rise and fall as changes in global economic conditions affect the demand for these securities.



### Market Risk

Market risks can affect the value of shares. These risks include political, regulatory, market and economic developments, including developments that impact specific economic sectors, industries or segments of the market. For example, recent developments relating to subprime mortgages have adversely affected fixed-income markets worldwide. These developments have reduced the willingness of some lenders to extend credit and have made it more difficult for borrowers to obtain financing. In addition, certain market participants have been less willing to make a market in some types of debt instruments. There is a risk that the lack of liquidity or other adverse credit market conditions may hamper the ability to purchase and sell debt securities.

### Market Events Risk

Turbulence in financial markets and reduced liquidity in credit and fixed income markets may negatively affect many issuers worldwide, which may have an adverse effect on investments.

### Prepayment and Extension Risk

Investments in asset-backed and mortgage-backed securities are subject to the risk that the principal amount of the underlying collateral may be repaid prior to the bond's maturity date. If this occurs, no additional interest will be paid on the investment and an investment may have to be made at a lower rate. Conversely, a decrease in expected prepayments may result in the extension of a security's effective maturity and a decline in its price.

### High Portfolio Turnover Risk

Portfolio turnover is a measure of trading activity over a one-year period. A portfolio turnover rate of 100% would indicate that an account sold and replaced the entire value of its securities holdings during the period. High portfolio turnover could increase transaction costs and possibly have a negative impact on performance. Frequent trading could also result in increased short-term capital gain distributions to clients, which are taxable as ordinary income.

### Private Equity Funds-of-Funds

American Beacon serves as the manager for the APEP Partnerships and pursues an investment strategy focused primarily on direct investments in institutional leveraged buyout private equity funds selected by American Beacon. Additionally, a portion of the assets may be invested in (i) other types of private equity and alternative investment funds, such as venture capital and distressed debt funds; (ii) debt or equity securities of portfolio companies on a side-by-side basis with other private or alternative funds; (iii) secondary interests in private equity or alternative funds, whether or not the Partnership has made a prior direct investment in such funds; and (iv) money market mutual funds.

## ***Principal Risks***

Investments in the APEP Partnerships entail a high degree of risk and are suitable only for sophisticated persons who fully understand and are capable of bearing the risks of an investment in the APEP Partnerships. The Offering Memorandum for each Partnership provides a thorough discussion of the risks involved with these types of investments, including among others the risk of investing in a security with no or very limited opportunity for redemption or resale.

### **Employee Benefit Plans**

American Beacon performs certain duties and responsibilities on behalf of the Plans, as more fully described under Item 4 above. The investment strategies and methods of analysis for the Plans are determined by the corporation's Benefit Strategy Committee ("BSC"). In most cases, American Beacon is authorized to select investment sub-advisers and commingled vehicles for the Plans. The principal risks are that the sub-advisers and commingled vehicles selected by American Beacon may not achieve the Plan's objectives as expected or may otherwise deviate from applicable requirements. The BSC is responsible for approving certain investment sub-advisers and/or commingled funds involving potential conflicts of interest.

### **Securities Lending**

The Plans may lend securities from their portfolios to brokers, dealers and other financial institutions needing to borrow securities to complete certain transactions. In connection with such loans, the Plans continue to be entitled to payments in amounts equal to the interest, dividends or other distributions payable on the loaned securities. The Plans also have the right to initiate the termination of a loan at any time. The Plans do not have the right to vote on securities while they are on loan. However, it is the Plans' policy to attempt to terminate loans in time to vote those proxies that are determined are material to their interests.

Should the borrower of the securities fail financially or otherwise fail to return the securities when due, the Plans may experience delays in recovering the loaned securities. Loans are made only to borrowers that are deemed by American Beacon to present an acceptable level of credit risk. The Plans intend to receive collateral consisting of cash in an amount equal to at least 100% of the current market value of the loaned securities. The cash collateral may be reinvested in securities, which will expose the Plans to the risk of any decline in the value of those securities.

## **Item 9 – Disciplinary Information**

American Beacon is required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of American Beacon or the integrity of American Beacon's management. American Beacon has no information applicable to this Item.

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

American Beacon has various financial industry affiliations that may be significant to its clients. As described above in Items 4 and 5, American Beacon and/or its affiliates are compensated for various services provided to the Beacon Funds, and the APEP Partnerships, in which certain American Beacon clients may be invested. In addition, American Beacon performs advisory services for client accounts and vehicles with investment objectives and policies similar to one another, including vehicles in which American Beacon and/or its affiliates have an interest, such as the APEP Partnerships. The conflicts of interest arising from these activities are described more fully under Items 5, 6 and 11.

Certain American Beacon employees, including some who are American Beacon management personnel, are also registered representatives of Foreside Fund Services, LLC, a broker-dealer unaffiliated with American Beacon that serves as principal underwriter of the Beacon Funds. As registered representatives, those employees may be engaged in activities relating to distribution of the Beacon Funds. The compensation American Beacon pays those employees may include a portion of the asset-based management fees collected by American Beacon from the Beacon Funds.

American Beacon is registered as a commodity pool operator with the NFA. Directors and certain employees of American Beacon are registered as associated persons or listed as principals of American Beacon with the NFA.

As referenced above under Item 5, sub-advisers to the Beacon Funds may make contributions to the portion of the Beacon Funds' distribution activities that are paid for by American Beacon. This poses a conflict of interest for American Beacon to the extent it creates an incentive for American Beacon to retain a particular sub-adviser based on American Beacon's interest in continuing to receive financial support for distribution, rather than based strictly on the Beacon Funds' interest in retaining the best sub-adviser to meet its needs. However, American Beacon does not request a proposed sub-adviser's contribution to distribution payments until after the sub-adviser has been selected and fees have been negotiated. Therefore, a sub-adviser's willingness to make such payments is not a factor in the selection process. In addition, all distribution expenditures using Beacon Fund assets are overseen by the Beacon Funds' Board of Trustees, who regularly receives information about fees paid under the Funds' Distribution Plans, as well as information about unreimbursed promotional expenditures made by American Beacon out of its own resources and contributions made by sub-advisers to support distribution activities.

American Beacon may receive compensation for soliciting separate account business for investment advisers that serve as investment managers or sub-advisers to products managed by American Beacon. This poses a conflict of interest for American Beacon to the extent it creates an incentive for American Beacon to retain a particular investment adviser based on American Beacon's interest in continuing to receive compensation for soliciting separate account business for such an investment adviser. However, American Beacon discloses information relative to such arrangements as appropriate, including to the Beacon Funds' Board.

American Beacon's management activities may include the selection of service providers for its clients. American Beacon has a disciplined process for vetting and selecting service providers. When American Beacon or its personnel have relationships or transactions involving prospective service providers (including their affiliates and personnel), American Beacon may be conflicted between the interests of its clients and the interests of American Beacon or its personnel. The vetting and selection process herein described, as well as American Beacon's supervision of its employees, are designed to mitigate those potential conflicts.

### APEP Partnerships

American Beacon has arrangements which are material to its advisory business with the APEP Partnerships. In particular, American Beacon provides both investment advisory and administrative services to American Private Equity Management, LLC and the APEP Partnerships. American Private Equity Management, LLC, a wholly-owned subsidiary of American Beacon, serves as the general partner of the APEP Partnerships. The APEP Partnerships primarily invest in institutional leveraged buyout private equity funds. Additionally, a portion of the assets may be invested in other types of private equity and alternative investment funds.

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

### Code of Ethics

American Beacon has adopted a Code of Ethics (the "Code") pursuant to Rule 204A-1 of the Advisers Act and Rule 17j-1 of the Investment Company Act. American Beacon has designed the Code to inform the firm's directors, officers and employees of their duty to place client interests above their own personal interests. The Code addresses potential conflicts of interest generally and specifically in four main areas related to its officers and employees: 1) personal securities trading, 2) receipt and provision of gifts and entertainment involving parties associated with American Beacon, 3) investment personnel serving as directors of publicly-traded companies, and 4) political contributions.

The Code significantly restricts the personal trading of all officers and employees with access to non-public portfolio information ("Access Persons"). In general, the Code prohibits Access Persons from purchasing or selling a security, if the Access Person has knowledge that the security is being purchased or sold or being considered for purchase or sale by American Beacon or a sub-adviser on behalf of a client account. Except in limited circumstances, the Code requires that Access Persons obtain pre-approval of their personal securities trades from American Beacon's Compliance Department. In determining whether to approve an Access Person's trade request, the Compliance Department considers the significance of the employee's requested trade and recent activity in the security on behalf of client accounts, including recent activity by the sub-advisers employed or monitored by American Beacon. American Beacon does not typically have knowledge of anticipated trading by the sub-advisers, so the Compliance Department may approve an Access Person's purchase or sale of a security when a sub-adviser is

considering the same or a related security for purchase or sale at the same time. However, portfolio managers employed by American Beacon are prohibited from purchasing or selling the same or an equivalent security within seven days around a purchase or sale by that portfolio manager on behalf of a client account. Significant trades by an Access Person at or near the same time that a sub-adviser or American Beacon is trading on behalf of a client account could adversely affect the price that the client account obtains on the transaction.

The Code also requires that directors, officers and employees comply with American Beacon's policy on the use of material non-public information, which is intended to prevent the use of such information for personal or client benefit. Certain other prohibitions in the Code apply to portfolio managers and investment personnel with the intent of preventing or mitigating potential conflicts between their personal interests and those of client accounts. For example, the following activities are generally prohibited: investment personnel recognizing a profit on the purchase and sale (or sale and purchase) of the same (or equivalent) security within sixty calendar days; portfolio managers trading a security that is a significant position in a client account under their management; and investment in initial public offerings by investment personnel.

All Access Persons must report their personal securities trades and holdings on a regular basis, including those in the Beacon Funds and the APEP Partnerships, to American Beacon's Compliance Department, which reviews the reports for compliance with the Code. All Access Persons are required to report any violation of the Code of which they are aware to American Beacon's Chief Compliance Officer. The Code provides for an executive officer, in consultation with the Chief Compliance Officer, to determine appropriate sanctions for violations, up to and including termination of employment.

American Beacon provides the Code to each Access Person upon hire and annually, at which time Access Persons certify in writing that they agree to comply with the Code. American Beacon will provide a copy of the Code to any client or prospective client upon request.

#### Clients Invested in American Beacon Affiliated Vehicles

Certain separate accounts under American Beacon's management and the Plans permit American Beacon to invest account assets in the Beacon Funds and the APEP Partnerships. These arrangements pose conflicts of interest that are described more fully under Item 5. American Beacon discloses that it earns additional advisory fees under these circumstances in its Form ADV, and separate account clients and the Plans acknowledge in their investment management agreement that they have received and read American Beacon's Form ADV.

#### Voting Proxies Issued by Affiliated Funds

Because the separate accounts can invest in certain Beacon Funds, American Beacon may be called upon to vote a proxy issued by an investment company that it manages. To avoid the appearance of a conflict of interest in these cases, American Beacon will contact the client to obtain consent before voting. If other potential conflicts of interest arise when voting a proxy,

American Beacon will contact the client to obtain consent before voting. See the discussion of American Beacon's proxy voting policies and procedures in Item 17.

#### Investing in the Same Securities or at the Same Time

American Beacon does not manage accounts directly for itself or its related persons. However, American Beacon or its affiliates may invest their own assets in the Beacon Funds, and as noted above, Access Persons may invest their personal assets in the Beacon Funds and/or the APEP Partnerships (and some may be participants in the Plans). This poses a conflict of interest by creating an incentive for American Beacon to favor accounts in which it or its related persons are invested over other client accounts when allocating investment opportunities. For example, if both the Beacon Funds and the Plans are in need of an additional sub-adviser for a particular strategy, and the sub-adviser selected by American Beacon has a limited capacity for managing assets, American Beacon might have an incentive to allocate more of the sub-adviser's capacity to a Beacon Fund where American Beacon has an investment versus to the Plans. However, it is American Beacon's policy to allocate investment opportunities fairly among all accounts.

For accounts that are managed directly by American Beacon (certain Beacon Funds and the separate accounts), American Beacon may have an incentive to favor Beacon Funds in which it or its related persons are invested over the separate accounts or other Beacon Funds. To mitigate this conflict, it is American Beacon's policy to group client orders together when multiple accounts in the same strategy are seeking to acquire or dispose of the same security and when such grouping is consistent with each participating client's investment management agreement and American Beacon's duty to seek best execution. When American Beacon is unable to acquire sufficient quantity of a security to fill a grouped (or aggregated) trade, the quantity obtained will be allocated among the participating client accounts on either a pro rata or rotational basis when practical. See Item 12 below for further discussion of American Beacon's policy with respect to aggregated orders. Another trading practice that could provide an opportunity for favoring an account in which American Beacon or its related persons have an interest would be the crossing of securities between client accounts. In the event that one client account is seeking to dispose of a security at the same time that another client account is seeking to acquire the security, it could be advantageous for the accounts to cross the security to save on transaction costs. However, such a practice could also be used to move higher-performing securities to a favored account. American Beacon prohibits cross trades involving any separate accounts but does permit cross trades among the Beacon Funds under its management. American Beacon's Compliance Department monitors the relative performance of similarly managed accounts in an attempt to detect favoritism of one account over another.

American Beacon deems that investment by certain qualified Access Persons (i.e., knowledgeable employees) in the APEP Partnerships does not limit the ability of clients to invest in the APEP Partnerships. In addition, unlike other securities, the APEP Partnerships do not trade in a market where their value may be affected by investment by other parties. As such, American Beacon does not prohibit its directors, officers or employees from investing in an APEP Partnership at the same time that American Beacon is recommending that investment to its clients. American Beacon would not approve a personal investment by a director, officer or

employee that adversely affected an APEP Partnership's continued eligibility for exemption from registration as an investment company.

## **Item 12 – Brokerage Practices**

### Selection of Brokers and Dealers; Best Execution

American Beacon has discretion to select brokerage firms for security transactions in the separate accounts and Beacon Funds under American Beacon's direct management. American Beacon has a fiduciary duty to seek best execution on all transactions in order to reduce the impact of trading costs on client portfolio returns. Broadly defined, to seek "best execution" is to seek to maximize the value of a client transaction considering the relevant circumstances of that transaction. American Beacon will use its best efforts to obtain the most favorable execution available under the circumstances. Transactions executed by American Beacon are purchases or sales of fixed-income securities, which are typically traded with a mark-up (or spread) charged by the dealer rather than a negotiated or stated commission rate. In seeking best execution of a fixed-income transaction, American Beacon may consider several factors, including the price of the security, fill capability of the broker-dealer, settlement efficiency, the reasonableness of the spread, and other services or expertise provided by the broker-dealer.

### Research and Other Soft Dollar Benefits

When client brokerage activity is used to obtain research or brokerage services, the adviser receives a benefit because the adviser does not have to produce or pay for the research or brokerage services itself out of its own resources. This poses a conflict of interest for the adviser to the extent it creates an incentive for the adviser to select a broker-dealer based on the adviser's interest in receiving the research or brokerage services. In addition, research and brokerage services obtained through client brokerage activity may be used to service other of the adviser's client accounts, not allocated proportionately to the accounts whose brokerage transactions paid for the benefits. This poses a conflict of interest among clients to the extent that clients that did not bear any of the cost for the information may nonetheless benefit from the information obtained.

American Beacon may receive research or brokerage services provided by a broker as a result of transactions executed for the Beacon Funds and the separate accounts. It is possible that the mark-up or commission paid to a broker-dealer that provides research or brokerage services may be higher than the amount of mark-up or commission that another broker-dealer would charge for effecting the transaction. However, it is American Beacon's policy to seek best execution and not to direct transactions to any broker-dealer because of benefits that American Beacon may receive from that broker-dealer. The research and brokerage services that American Beacon may receive are not conditioned upon any predetermined amount of brokerage activity with the broker-dealers providing them.

The types of products and services that American Beacon received from broker-dealers within the last fiscal year were: general market and economic analysis and issuer-specific research

reports. American Beacon used these reports to assist in making investment decisions on behalf of client accounts.

### Commission Recapture

American Beacon has negotiated commission recapture agreements on behalf of the Beacon Funds and the Plans, whereby a broker-dealer agrees to rebate a portion of its commission back to the applicable client account. Any collateral benefit received through participation in the commission recapture program is directed exclusively to the client accounts. A sub-adviser's participation in the brokerage commission recapture program is optional. Each sub-adviser retains full discretion in selecting broker-dealers for securities transactions and is instructed to use the commission recapture program for a transaction only if it is consistent with the sub-adviser's obligation to seek the best execution available. Neither American Beacon nor its sub-advisers receive any benefits from the commission recapture program.

### Directed Brokerage

American Beacon does not permit clients to direct their transactions to particular broker-dealers, unless those broker-dealers are on American Beacon's approved broker-dealer list. American Beacon has discretion to select brokers and dealers for all client accounts under its direct management.

### Order Aggregation

Because American Beacon's investment decisions for its client accounts under direct management may affect more than one account, there may be the opportunity to group or aggregate purchase and sale orders across multiple client accounts when consistent with the terms of each client's investment management agreement and American Beacon's duty to seek best execution of transactions. Factors that American Beacon will consider in determining whether to aggregate orders among client accounts include: any issuer limits applied by the client, actual or anticipated cash flows for the client, the impact of the transaction on the weighted average maturity (duration) target for the account, relative sector weighting targets, and any other investment guidelines or restrictions that would limit an account's ability to participate in the order. Aggregated orders may include client accounts in which American Beacon or its related persons have an interest, which along with the conflicts of interest this poses, is discussed in more detail under Item 11.

Aggregating orders may allow the participating accounts to receive reduced transaction costs that would not be available when orders are executed separately. Aggregation of orders may give rise to actual or potential conflicts of interest among the accounts participating in the transaction, if American Beacon is unable to acquire sufficient quantity of a security to fill the trade. In these instances, the quantity obtained will be allocated among the participating client accounts using a pro rata or rotational method when practical. A pro rata allocation would be based on the respective amounts initially identified for each participating account, while a rotational allocation could be used alone or in combination with a pro rata allocation to ensure that over time accounts



get a fair percentage of their transactions filled first. These standard allocation methods may be modified by American Beacon when strict adherence to the method is impractical or leads to inefficient results. Because of the moderate amount of assets managed by American Beacon and the nature of the fixed-income markets and our strategies, American Beacon expects to typically purchase securities in the amount desired for allocation to all participating accounts.

#### Other Brokerage Matters

It is American Beacon's policy not to direct transactions to a broker-dealer based upon that broker-dealer: 1) promoting or selling (or agreeing to promote or sell) shares of the Beacon Funds or any other investment company, 2) referring prospective clients to American Beacon, or 3) absorbing the cost of trade errors. In addition, American Beacon instructs investment sub-advisers not to direct (or enter an arrangement to direct) brokerage transactions to broker-dealers based upon a broker-dealer's promotion or sale of shares of the Beacon Funds or any other investment company.

The sub-advisers to the Beacon Funds and the Plans have discretion to determine the securities to be purchased and sold and to select the brokers or dealers that will execute the purchases and sales, subject to compliance with the investment restrictions and guidelines set forth in the relevant disclosure/offering documents for the client and any other instructions provided to the sub-adviser by American Beacon. In its initial selection and ongoing monitoring of sub-advisers, American Beacon evaluates their brokerage practices and efforts to obtain best execution. American Beacon permits the sub-advisers to the Beacon Funds and the Plans to receive research and brokerage services as a result of transactions executed for those clients. This may include research and brokerage services produced by a third party other than the executing broker and provided/paid for by the executing broker. You may reference the Form ADV of each sub-adviser and the Prospectuses and SAIs for the Beacon Funds for descriptions of the sub-advisers' brokerage practices.

#### **Item 13 – Review of Accounts**

Assets managed directly by American Beacon are serviced by various departments. Account assets are reviewed daily by the individual portfolio managers and generally weekly by the Chief Fixed Income Officer and/or Vice President, Fixed Income Investments. The Finance Department, along with the applicable account custodian, is responsible for pricing of portfolio securities and monitoring volatility in prices to detect unusual variances. American Beacon's compliance team periodically audits compliance checklists to ensure compliance with investment guidelines and other applicable restrictions. The Fixed Income Group also conducts periodic investment strategy meetings. At these meetings, the participants discuss the relative economic cycle, the direction of interest rates, the shape of the yield curve, sector allocations and re-balancing ideas.

For those portfolios for which American Beacon hires and/or monitors sub-advisers, the compliance team reviews compliance checklists completed by the sub-advisers and verifies information reported by the sub-advisers against custodial reports to ensure compliance with

investment guidelines. The compliance team periodically reviews their operations and internal compliance programs, which may include an on-site visit. In addition, portfolio managers and other senior staff meet regularly with individual sub-advisers to review performance and style adherence.

The frequency of client reports depends upon the nature of the account and each client's requirements. Some clients receive reports on a monthly basis, while others receive reports quarterly or on a less frequent basis. Client reports are in writing and generally provide account performance and information about American Beacon's investment strategy.

### APEP Partnerships

For the APEP Partnerships, American Beacon actively monitors the investments in underlying funds. In order to help build a strong relationship with the fund managers of the underlying funds and to protect the interests of the APEP Partnerships, American Beacon seeks an advisory board seat on each of the underlying funds. Periodic reports of the underlying funds are also reviewed to stay abreast of each underlying fund's activities. American Beacon's Finance Department reviews capital calls received from the underlying funds and requests capital contributions in accordance with the partnership agreements.

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

American Beacon may compensate third parties for referrals that result in clients opening separately managed accounts or investors opening accounts in products advised by American Beacon that are offered pursuant to exemptions from registration under the Securities Act and the Investment Company Act. To the extent that compensation may be considered a solicitation fee, the compensation will be disclosed in writing to the client. American Beacon may pay this compensation from its advisory fees or other resources.

American Beacon and its employees may receive gifts of nominal value, books, occasional meals or entertainment, or reimbursement or subsidies in connection with attendance at conferences sponsored by consultants, investment managers or vendors. American Beacon has implemented policies and procedures intended to monitor for conflicts of interest that may arise as a result of receipt of these items. Such policies include limits on employees' receipt of gifts and business entertainment from parties that do business, or that seek to do business, with American Beacon. In addition, American Beacon may receive research from broker-dealers in connection with transactions executed for client accounts, as more fully described under Item 12.

## **Item 15 – Custody**

Clients should receive at least quarterly statements from the broker-dealer, bank or other qualified custodian that holds and maintains the client's investment assets. American Beacon urges you to carefully review the custodian's statements and compare them to the account statements that we may provide to you. Our statements may vary from custodial statements

based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **Item 16 – Investment Discretion**

American Beacon has discretionary authority for the majority of its clients to select the identity and amount of securities to be bought or sold. American Beacon's authority typically appears in the investment management agreement it executes with the client and is generally limited by the stated investment objectives, policies and restrictions for the particular client account.

For registered investment companies, American Beacon's authority to trade securities may also be limited by certain other factors, such as federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

As noted previously, American Beacon performs advisory services for a variety of clients in a variety of accounts and arrangements. At times, a conflict of interest may arise among clients or accounts. Accounts may compete for limited investment opportunities. In addition, the advice given and the action taken with respect to any given advisory client's account may differ from advice given or the timing and nature of action taken with respect to another client's account, even an account with a similar investment strategy and objectives. This may result from a variety of circumstances, among them restrictions placed on the account by the client, the timing of cash flows into and out of the account or other characteristics of the account. Although American Beacon takes reasonable steps to avoid it when possible, action taken with respect to securities in one account may adversely impact the value of securities held by another account.

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

### **Separate Accounts**

American Beacon has adopted proxy voting policies and procedures designed to implement its duty to vote proxies in the best interests of each client that has delegated proxy voting authority to American Beacon. Given the investment guidelines of the separate accounts, the only securities for which American Beacon expects to receive proxies are money market mutual funds. As such, the proxy voting policies and procedures set forth voting guidelines for the proxy issues and proposals common to money market funds.

For routine proposals that will not materially change the strategy, structure, bylaws or operations of the money market fund, American Beacon's policy is to support management; however, each proposal will be considered individually focusing on the financial interests of the client. Non-routine proposals, such as board elections, advisory contract and distribution plan approvals, and mergers, will generally be reviewed on a case-by-case basis with American Beacon first and foremost considering the effect of the proposal on the client.

Because the separate accounts can invest in certain investment companies managed by American Beacon, American Beacon may be called upon to vote a proxy issued by an investment company that it manages. To avoid the appearance of a conflict of interest in these cases, American Beacon will contact the client to obtain consent before voting. If other potential conflicts of interest arise when voting a proxy, American Beacon will contact the client to obtain consent before voting. For voting matters that do not represent a conflict of interest, it is not American Beacon's practice to solicit a client's instructions for voting.

A copy of American Beacon's proxy voting policies and procedures is available upon request using the contact information located on the first page of this Brochure. A client may also contact American Beacon to receive a detailed record of any proxies voted on its behalf.

### Investment Companies

The Beacon Funds have delegated proxy voting authority to American Beacon. American Beacon maintains proxy voting authority for the assets under its management and has delegated proxy voting authority to sub-advisers with respect to each Fund's assets under the sub-adviser's management. The respective boards of the Beacon Funds have adopted policies and procedures to govern American Beacon and the sub-advisers in voting proxies in the best interests of shareholders. This includes procedures to address potential conflicts of interest between shareholders and American Beacon, the sub-advisers or their affiliates. Each of the Beacon Funds' SAIs include the proxy voting policies and procedures and instructions for shareholders to request the proxy voting record for the Beacon Funds.

### Employee Benefit Plans

The Plans have delegated proxy voting authority for securities of North American issuers to American Beacon and securities of foreign issuers to the sub-advisers. The Plans have also authorized American Beacon to select and retain a proxy voting advisory service to provide objective advice and vote proxies for issuers held by the Plans below a certain threshold. The Plans have adopted proxy voting policies and procedures to govern American Beacon in voting proxies in the best long-term interests of the Plans' beneficiaries. This includes procedures to address potential conflicts of interest between beneficiaries and American Beacon, the sub-advisers or their affiliates. In general, proxies for matters representing a conflict are presented to the Plans' administration committee for voting. The committee is provided with periodic summaries of proxy votes for their review.

### Private Equity Funds-of-Funds

On behalf of the APEP Partnerships, American Beacon is authorized to exercise voting or consent rights, give general or special proxies or powers of attorney with or without power of substitution, and exercise any conversion privileges, subscription rights or other options with respect to all investments, investment vehicles or other property in which the APEP Partnerships may invest; provided, that all such powers shall be exercised by American Beacon in its sole and

absolute discretion subject to the fiduciary obligations set forth in ERISA and other relevant statutes.

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

American Beacon does not require or solicit prepayment of fees by any client six months or more in advance. As described in Item 5, American Beacon's fees for the APEP Partnerships are calculated for a six-month period and paid in advance but less than six months in advance.

This item requires an adviser to make certain disclosures that are not applicable to American Beacon, because it has no financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients, and it has not been the subject of a bankruptcy petition at any time during the past 10 years.