

## **Jennison Associates LLC**

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**March 31, 2015**

This brochure provides information about the qualifications and business practices of Jennison Associates LLC (Jennison). If you have any questions about the contents of this brochure, please contact us at 212.421.1000 and/or [adv@jennison.com](mailto:adv@jennison.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Jennison is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training.

Additional information about Jennison also is available on the SEC's website at <http://www.adviserinfo.sec.gov>.

## Item 2 – Material Changes

This section of our brochure highlights and discusses material and non-material changes that have been made to our brochure since its last annual update made on March 31, 2014. We made no changes to our brochure between April 1, 2014 and March 30, 2015. The changes that have been made to this brochure dated March 31, 2015 are listed below.

On March 31, 2015, we amended the following:

### Item 4

- We added Emerging Markets strategy.

### Item 5

- We enhanced our disclosure regarding advisory fees.
- We disclosed that due to “negative interest rates” introduced by the European Central Bank, clients that allow for investments in non-US dollar denominated securities may be charged additional fees by their custodians.

### Item 6

- We enhanced our disclosure regarding performance-based fees.

### Item 8

- We added Emerging Markets strategy description.
- We removed Jennison Fundamental Alpha strategy.
- We added JMA Natural Resources as a strategy offered to sponsors of wrap fee and UMA programs.
- We removed references to the JMA large cap blend balanced strategy. We no longer offer JMA balanced strategies to clients.
- We added Technology and Cyber Security Risks as a primary risk associated with our investment process and strategies.

### Item 10

- We removed the Jennison Market Neutral hedge fund.
- We removed Prudential Fixed Income as an affiliated investment advisor since we no longer receive a non-discretionary model from the affiliate.

### Item 12

- We updated the factors that we consider when selecting a broker/dealer.
- We enhanced our disclosure regarding our Trade and Operational Error Correction Policy.

### Item 14

- We updated our disclosure regarding the relationship we have with a third-party solicitor.

### Item 17

- We enhanced our disclosure regarding how we vote client securities.

Currently, our brochure may be requested free of charge by contacting Stephanie Willis, Chief Compliance Officer, at 212.421.1000 or [adv@jennison.com](mailto:adv@jennison.com).

### Item 3 – Table of Contents

Item 2 – Material Changes .....	ii
Item 3 – Table of Contents.....	iv
Item 4 – Advisory Business .....	1
Item 5 – Fees and Compensation .....	4
Item 6 – Performance-Based Fees and Side-By-Side Management .....	8
Item 7 – Types of Clients.....	11
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss.....	12
Item 9 – Disciplinary Information .....	25
Item 10 – Other Financial Industry Activities and Affiliations .....	26
Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	31
Item 12 – Brokerage Practices .....	35
Item 13 – Review of Accounts.....	43
Item 14 – Client Referrals and Other Compensation .....	45
Item 15 – Custody.....	46
Item 16 – Investment Discretion.....	47
Item 17 – Voting Client Securities.....	48
Item 18 – Financial Information .....	51

## Item 4 – Advisory Business

### *Our Firm*

Jennison Associates LLC (Jennison) is an SEC-registered investment adviser organized as a Delaware limited liability company. When we use the terms “we,” “us” and “our” in this brochure, we are referring to Jennison.

We (through a predecessor company) registered with the SEC and began managing tax-exempt U.S. large cap growth equity accounts, primarily for large institutions in 1969. We were acquired by The Prudential Insurance Company of America (PICA) in 1985, and we began to manage mutual funds in 1990. Through the years, we have expanded the types of investment strategies that we offer. Today, we manage equity, fixed income and multi-asset (balanced) portfolios in a range of styles and capitalizations.

Our expertise is managing portfolios based on internal fundamental research, bottom-up security selection and a highly interactive investment process. We conduct the majority of our equity portfolio management activities from our New York headquarters, our global equities portfolio management and investment research from both our Boston office and New York headquarters, and our fixed income portfolio management activities from our Boston office.

We are an indirect wholly owned subsidiary of Prudential Financial, Inc. (Prudential Financial), a publicly held company (NYSE: PRU).

### *Our Advisory Business in General*

Our firm offers a broad range of traditional and nontraditional investment capabilities.

- *Traditional:* Our traditional investment capabilities are **Large Cap Growth, Large Cap Value, Small/Mid Cap Core, Small Cap Core, Mid Cap Growth, Global Equity, International Equity Opportunity, Emerging Markets, and Fixed Income.**
- *Non-Traditional:* Our nontraditional capabilities include strategies that are not defined by style or capitalization (**Opportunistic Equity and Equity Income/Rising Dividend**); alternative strategies such as long/short strategies (**Global Healthcare**); sector strategies (**Health Sciences, Global Natural Resources, Utility, Global Infrastructure, and Master Limited Partnerships**), multi-asset strategies (**Opportunistic Multi-Asset**) and portfolios that are customized to client specified objectives (for example, **Blend, 20/20, Large Cap Blend, All Cap Blend, and disciplined strategies utilizing quantitative tools**).

For additional information about our strategies, please see Item 8.

We provide our services to our non-wrap clients primarily on a discretionary basis. However, we provide nondiscretionary advice in the form of model portfolios to some financial institutions that may choose to

use our model portfolios to manage accounts for their clients. We do not effect or arrange transactions for nondiscretionary model portfolios.

#### *Customization of our Advisory Services - Non-Wrap Accounts*

We work with clients to devise mutually acceptable investment guidelines to accommodate the individual needs of our clients and to confirm that we can manage the account consistently with our investment philosophy. Typical client-imposed restrictions prohibit certain issuers or certain types of instruments (such as derivatives) or limit the portfolio's exposure, at the time of purchase, to a single issuer or industry or type of instrument. (Please see Item 16 for more information regarding limitations on our investment discretion imposed by our clients.) We provide limited customization for non-wrap nondiscretionary model portfolios. The typical restrictions that we accept for a nondiscretionary model portfolio for non-wrap clients are to prohibit a specific issuer or a specific type of investment (for example, non-U.S. securities).

#### *Participation in Wrap Programs*

We offer a variety of equity strategies to clients of wrap fee programs and nondiscretionary models to Unified Managed Account (UMA) programs sponsored by both affiliates and non-affiliates. We provide individualized portfolio management services to clients of wrap fee programs. Our nondiscretionary services consist of furnishing model portfolios in various equity strategies, which the UMA program sponsor may choose to employ in its management of accounts under one or more managed account programs. For more information about the strategies that we offer to wrap and UMA programs, please see Item 8. We do not effect or arrange for the purchase or sale of any securities in connection with nondiscretionary model portfolios. We refer to our wrap fee and UMA business as Jennison Managed Accounts (JMA).

Typically, the sponsor of the wrap fee or UMA program charges a single fee to its clients for all services provided under the program (brokerage, custody and advisory) and pays its advisers, including us, a portion of the fee for the services that we provide. In some cases, wrap program clients enter into unbundled arrangements with the sponsor where they enter into investment management agreements directly with us. These are known as "dual contract" arrangements. In these cases, we receive our fees from the client.

Our portfolios in wrap programs and nondiscretionary models for UMA programs typically hold fewer securities than portfolios managed in the comparable strategy outside of managed account programs. We cannot guarantee that the performance and composition of our non-wrap portfolios will be similar to the performance results and composition of accounts in wrap fee programs due to a variety of reasons, including the difference in the types, availability and diversity of securities that can be purchased, economies of scale, regulations and other factors applicable to the management of our non-wrap accounts that may not be experienced by accounts in wrap fee programs.

### *Customization of our Advisory Services – Wrap Accounts*

We customize the advice provided to wrap account clients by accepting reasonable client-imposed restrictions. The most common restrictions that we accept are those prohibiting the purchase of securities of particular issuers or companies that receive revenue from certain types of products or activities specified by the client. (Please see Item 16 for additional information.) In the case of nondiscretionary model portfolios used in UMA programs, we do not apply individualized restrictions to nondiscretionary model portfolios that we deliver to the sponsor or overlay manager for the UMA program. The sponsors or the overlay managers for UMA programs apply any UMA client-directed restrictions.

### *Assets Under Management*

As of December 31, 2014, our assets under management (rounded to the nearest million) were as follows:

- Discretionary: \$ 184,049,000,000^
- Nondiscretionary: \$ 2,795,000,000\*

^This number does not include outstanding indebtedness or other accrued but unpaid liabilities that are required to be included in *regulatory assets under management* in Part 1A, Item 5.F of the Form ADV.

\*This number includes the assets that are managed by others using our nondiscretionary model portfolios. We do not include assets managed by other persons based on non-discretionary model portfolios provided by us in the calculation of our *regulatory assets under management* in Part 1A, Item 5.F of the Form ADV.

## Item 5 – Fees and Compensation

### Advisory Fees

We negotiate fees with some of our clients. Fees paid by clients vary based on the type of advice provided and other factors such as the size of the client account, the investment strategy, the relationship with the client and the required level of service. Fees may also differ based on account type. For example, fees for commingled vehicles, including those that we subadvise, differ from fees for single client accounts. Since we negotiate fees with some clients, from time to time, clients with similar investment objectives or strategies pay different fees.

We offer both asset-based and performance-based fee arrangements for our discretionary investment management services. For non-discretionary advisory services, we typically offer asset-based fee arrangements. Our asset-based fees are customarily offered in tiered schedules with breakpoints linked to the amount of assets in the account, so that the fee rate decreases as the assets increase. In circumstances where a single client has multiple accounts managed by us under the same fee schedule, we may, in our discretion, agree with the client to aggregate the client's assets across accounts to enable the client to benefit from a lower fee tier.

We charge a performance-based fee, a fee based on the investment performance of an account, for certain product offerings and where such fee arrangements are acceptable to the client, provided that such arrangements are permitted under applicable law and regulations. Our performance-based fees are typically individually negotiated and generally based on the capital appreciation in an account relative to an index or absolute performance over a period of time. Our performance-based fees typically include an asset based management fee component, which is either flat or includes breakpoints linked to the amount of assets in the account and which we collect regardless of the performance of an account. (Please see our discussion in Item 6 for more information about our performance-based fees.) Institutional Asset-Based Fee Schedules

We have listed below asset based fee schedules offered to U.S. based institutional clients in our large cap growth and multi-asset (balanced) strategies. Fee schedules for our other strategies are available upon request.

### Large Cap Growth Equity

- 0.75% on the first \$10 million of assets managed;
- 0.50% on the next \$30 million;
- 0.35% on the next \$25 million;
- 0.25% on the next \$335 million;
- 0.22% on the balance.



### **Multi Asset (Balanced)**

- 0.90% on the first \$5 million of assets managed;
- 0.85% on the next \$10 million;
- 0.80% on the next \$10 million;
- 0.70% on the next \$25 million;
- 0.50% on the next \$50 million;
- 0.40% on the balance.

### **Wrap Fee and UMA Program Fees**

Typically, a managed account sponsor client pays the sponsor a single asset based fee for brokerage, custody and advisory services and we are paid by the sponsor for our services. For additional information about the fees that a wrap account client may incur, please review the sponsor's brochure for the wrap program. We negotiate the fee for our services to wrap and UMA programs with the sponsor of the programs. The fees negotiated with the sponsor for our advisory service to such programs vary and depend on such factors as the asset class, market capitalization of the strategy, and discretionary versus nondiscretionary services.

We individually negotiate our fees for dual contract managed accounts and do not have a standard fee schedule.

### **Compensation for Services to Affiliates**

We provide services to our affiliates for a variety of financial products such as single client and commingled insurance separate accounts, portfolios for synthetic and separate account guaranteed investment contracts, model portfolios that are available to clients in wrap fee (managed account) programs sponsored by our affiliates, mutual funds that are available to both retail and institutional clients and mutual funds that are available through variable life and variable annuity products. Typically, the insurance separate accounts are investment options of various insurance products offered by PICA or Prudential Retirement Insurance and Annuity Company (PRIAC), such as guaranteed investment contracts, corporate or trust owned life insurance, or group annuity contracts. Our compensation for the services that we provide to our affiliates is sometimes less than the amount that we would receive from unaffiliated clients.

### **Payment of Fees**

We typically bill a client for our fees. We do not deduct our fees from clients' assets. Depending on the client's preference, asset-based fees are typically payable either monthly or quarterly in arrears. Clients may also elect to have their fees calculated based upon the market values calculated by their custodian or by us. Performance-based fees, if earned, are payable after the calculation period for such fees.

Unless otherwise agreed with the client, we prorate contributions and withdrawals in calculating the fee for the period; however, we do not prorate for de minimis contributions and withdrawals such as advisory

fees, custodial fees and dividends or other interest activity. We also prorate fees for accounts initiated or terminated during a billing period.

Wrap program clients with a dual contract arrangement typically pay our fees in advance. We do not require clients to pay our fees in advance. If a client were to pay advisory fees in advance and the client's advisory contract were to terminate before the end of a billing period, any prepaid fees would be refunded on a pro rata basis.

#### *Conflicts Related to Valuation and Fees*

When client accounts hold illiquid or difficult to value investments, we face a conflict of interest when making recommendations regarding the value of such investments since our management fees are generally based on the value of assets under management. We believe that our valuation policies and procedures mitigate this conflict effectively and enable us to value client assets fairly and in a manner that is consistent with the client's best interests.

#### *Other Fees Payable by Clients*

Clients are responsible for other fees and expenses related to their accounts. These expenses can include charges imposed by custodians, brokers, third party investment managers and other third parties, such as fees charged by such managers related to portfolio investments (e.g., ETFs or BDCs), 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. For example, we may invest client accounts into exchange traded funds (ETFs) and business development companies (BDCs) which charge internal management fees and which are disclosed in the investment's prospectus. Cash sweep vehicles may also charge internal management fees or other fees. Also, the European Central Bank introduced "negative interest rates" due to adverse market conditions in Europe, therefore, clients that allow for investments in non-US dollar denominated securities of foreign issuers may be charged by their custodians on euro balances as well as certain other non-US currency balances held on deposit as a result of the negative short term interest rate environment in certain European markets. Additionally, certain US and non-US trading markets impose additional charges and penalties for trade settlement failures that will result in additional transaction costs to Jennison clients. For example, in an effort to reduce the overall incidence of fails in the US government securities marketplace, any market participant that fails to deliver US Treasury securities on settlement date is assessed a "fails charge" to compensate the "non-failing" counterparty. This "fails charge" will be assessed against a client's account even if the failure to deliver a US Treasury security that was sold from the client's account was caused by another counterparty that has failed to deliver or failed to timely deliver securities that were purchased for the client's account. Such charges, fees and commissions are exclusive of and in addition to our investment management fee, and we do not receive any portion of these commissions, fees, and costs. For additional information about our policies relating to securities brokerage commissions on transactions in a client's account, please see Item 12.

### Other Compensation

We do not receive other compensation related to the sale of securities or other investment products that we manage, such as mutual funds, collective bank trusts, private funds or other investment vehicles. Our supervised persons do not receive compensation directly related to the sale of securities or other investment products, but the sale of our advisory services or interests in funds we manage is considered in the determination of the compensation of our sales personnel. Any such compensation would be payable by us and not our clients or investors.

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

As described in Item 5, we offer performance-based fee arrangements for select strategies to some clients. While the majority of our fee arrangements are asset-based, we have entered into individually negotiated performance-based fee arrangements with some clients.

As described in Item 5, we charge performance-based fees for certain product offerings and also for select strategies where such fee arrangements are acceptable to the client. The majority of our fee arrangements, however, are asset-based fees that are calculated based on the value of a client's portfolio at periodic measurement dates or over specified periods of time. Our performance-based fees are typically individually negotiated and are generally based on the capital appreciation of the account relative to an index or absolute performance over a period of time. Our performance-based fees typically include an asset-based management fee component which is either flat or includes breakpoints linked to the amount of assets in the account and which we collect regardless of the performance for the account. Some of our performance-based fees are derived from the percentage by which we outperform the benchmark against which the client's portfolio is measured. We will generally be entitled to be paid a portion of that percentage, although the formulas and specifics of these fees vary. In measuring clients' assets for the calculation of performance-based fees, net profits include realized and unrealized capital gains and losses. Performance-based fees may offer greater upside potential to us than asset-based fees, depending on how the fees are structured. .

### **Side By Side Management Conflicts of Interest**

We manage accounts with asset-based fees alongside accounts with performance-based fees. This side-by-side management can create an incentive for us and our investment professionals to favor one account over another. Specifically, we have the incentive to favor accounts for which we receive performance fees, and possibly take greater investment risks in those accounts, in order to bolster performance and increase our fees.

Other types of side-by-side management of multiple accounts can also create incentives for us to favor one account over another. Examples are detailed below, followed by a discussion of how we address these conflicts.

- *Long only accounts/long-short accounts:* We manage accounts in strategies that only hold long securities positions as well as accounts in strategies that are permitted to sell securities short. We may hold a long position in a security in some client accounts while selling the same security short in other client accounts. For example, we permit quantitatively hedged strategies to short securities that are held long in other strategies. Additionally, we permit securities that are held long in quantitatively derived strategies to be shorted by other strategies. The strategies that sell a security short held long by another strategy could lower the price for the security held long. Similarly, if a strategy is purchasing a security that is held short in other strategies, the strategies purchasing the security could increase the price of the security held short.

- Multiple strategies: We may buy or sell, or may direct or recommend that one client buy or sell, securities of the same kind or class that are purchased or sold for another client, at prices that may be different. We may also, at any time, execute trades of securities of the same kind or class in one direction for an account and in the opposite direction for another account, due to differences in investment strategy or client direction. Different strategies effecting trading in the same securities or types of securities may appear as inconsistencies in our management of multiple accounts side-by-side.
- Affiliated accounts/unaffiliated accounts and seeded/nonseeded accounts and accounts receiving asset allocation assets from affiliated investment advisers: We manage accounts for our affiliates and accounts in which we have an interest alongside unaffiliated accounts. We could have an incentive to favor our affiliated accounts over unaffiliated accounts. Additionally, our affiliates may provide initial funding or otherwise invest in vehicles managed by us. When an affiliate provides “seed capital” or other capital for a fund or account, it may do so with the intention of redeeming all or part of its interest at a particular future point in time or when it deems that sufficient additional capital has been invested in that fund or account. We typically request seed capital to start a track record for a new strategy or product. Managing “seeded” accounts alongside “non-seeded” accounts can create an incentive to favor the “seeded” accounts to establish a track record for a new strategy or product. Additionally, our affiliated investment advisers could allocate their asset allocation clients’ assets to us. We could favor accounts used by our affiliate for their asset allocation clients to receive more assets from our affiliate.
- Non-discretionary accounts or models: We provide non-discretionary model portfolios to some clients and manage other portfolios on a discretionary basis. Recommendations for some non-discretionary models that are derived from discretionary portfolios are communicated after the discretionary portfolio has traded. The non-discretionary clients could be disadvantaged if we deliver the model investment portfolio to them after we initiate trading for the discretionary clients, or vice versa.
- Higher fee paying accounts or products or strategies: We receive more revenues from (1) larger accounts or client relationships than smaller accounts or client relationships and from (2) managing discretionary accounts than advising nondiscretionary models and from (3) non-wrap fee accounts than from wrap fee accounts and from (4) charging higher fees for some strategies than others. The differences in revenue that we receive could create an incentive for us to favor the higher fee paying or higher revenue generating account or product or strategy over another.
- Personal interests: The performance of one or more accounts managed by our investment professionals is taken into consideration in determining their compensation. We also manage accounts that are investment options in our employee benefit plans such as our defined contribution plans or deferred compensation arrangements and where our employees may have personally invested alongside other accounts where there is no personal interest. These factors could create an incentive for us to favor the accounts where we have a personal interest over accounts where we do not have a personal interest. (Please see Item 11 for additional information.)

### *How We Address These Conflicts of Interest*

The conflicts of interest described above could create incentives for us to favor one or more accounts or types of accounts over others in the allocation of investment opportunities, time, aggregation and timing of investments. Portfolios in a particular strategy with similar objectives are managed similarly to the extent possible. Accordingly, portfolio holdings and industry and sector exposure tend to be similar across a group of accounts in a strategy that have similar objectives, which tends to minimize the potential for conflicts of interest among accounts within a product strategy. While these accounts have many similarities, the investment performance of each account will be different primarily due to differences in guidelines, individual portfolio manager's decisions, timing of investments, fees, expenses and cash flows.

Additionally, we have developed policies and procedures that seek to address, mitigate and assess these conflicts of interest. We cannot guarantee, however, that our policies and procedures will detect and prevent, or lead to the disclosure of, each and every situation in which a conflict may arise.

- We have adopted trade aggregation and allocation procedures that seek to treat all clients (including affiliated accounts) fairly and equitably. These policies and procedures address the allocation of limited investment opportunities, such as initial public offerings (IPOs) and new issues, the allocation of transactions across multiple accounts, and the timing of transactions between our non-wrap accounts and our wrap fee accounts. (Please see Item 12 for additional information about our brokerage practices.)
- We have policies that limit the ability to short securities in portfolios that primarily rely on our fundamental research and investment processes (fundamental portfolios) if the security is held long in other fundamental portfolios.
- We have adopted procedures to review allocations or performance dispersion between accounts with performance fees and non-performance fee based accounts and to review overlapping long and short positions among long accounts and long-short accounts.
- We have adopted a code of ethics and policies relating to personal trading. (Please see Item 11 for additional information about our code of ethics and personal trading policies.)
- We provide disclosure of these conflicts as described in this brochure.

## **Item 7 – Types of Clients**

We provide portfolio management services to corporate pension and profit-sharing plans, Taft-Hartley plans, charitable institutions, foundations, endowments, municipalities and other governmental entities, trusts, registered mutual funds and their investment managers and other financial institutions, individuals primarily through wrap fee programs, collective and common trusts, private funds, insurance companies with respect to their separate accounts, sovereign funds, foreign funds such as UCITs and SICAVs, and other U.S. and international institutions. We also provide impersonal nondiscretionary advice to sponsors of UMA programs and other financial institutions. We provide our services to both affiliated and non-affiliated clients. Our minimum account size varies by product, investment vehicle and by the characteristics of the mandate. Non-wrap single client accounts have higher minimums than investments in commingled vehicles and accounts through wrap programs have lower minimums than other types of accounts. We waive these minimums at our discretion.

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

### **Our Methods of Analysis**

Each of the strategies that we offer is primarily based on our fundamental research and investment processes. Some of our strategies use quantitative tools and investment processes in addition to our fundamental research to manage portfolios.

*Our Fundamental Equity Research and Investment Processes.* We believe that internal fundamental research, bottom-up stock selection, and a highly interactive investment process are integral to seeking superior investment performance.

We specialize in fundamental analysis, which involves attempting to gain insight into the future value of a company by studying company-specific and market-related quantitative (such as financial statements) and qualitative (such as quality of company management or products) information. This research is the cornerstone of our investment process and the primary source for our investment ideas. Our experienced analysts specialize in specific market sectors and build an in-depth understanding of companies through meetings with senior management, customers, suppliers, and competitors. Scrutiny of financial statements provides the foundation for a fundamental outlook and earnings model. We supplement our internal proprietary research and earnings projections with information from a network of industry contacts and custom analyses developed by outside specialists.

Our interactive investment process leverages the knowledge and skills of the entire equity investment team. Although portfolio managers ultimately make investment decisions for the portfolios they manage, they work closely with research analysts and other portfolio managers in a dynamic and continuous process of updating and debating investment ideas and company-specific convictions. Our process prizes intellectual rigor and leverages the knowledge and skills of the entire investment team. Our team approach recognizes that individual accountability combined with close collaboration among investment professionals is the foundation of success.

*Our Quantitative Research and Investment Processes.* We use quantitative tools to create and manage some of our non-traditional equity portfolios, such as our customized portfolios and our quantitatively hedged portfolios. In general, our fundamental research process serves as the foundation for our customized portfolios. We typically base our customized portfolios on portfolios that rely on our fundamental research and apply quantitative tools to manage sector and other portfolio characteristics to client-specified risk/return objectives. Our quantitative analytic tools are designed to provide additional insights and complement our fundamental research process in order to optimize portfolio construction. For our quantitatively hedged portfolios, we use quantitative tools to manage the short holdings of the portfolio.



*Our Fixed Income Research and Investment Processes.* The objective of our fixed income strategies is to provide the desired alpha without taking excessive fundamental risk. We are focused on investment grade fixed income securities. We believe that investment values, yield spreads and yield curve shapes will revert to the mean (average) over time. We build our investment portfolios from the bottom up and make decisions based on our views of the attractiveness of individual securities. The foundation of our investment process is our fundamental credit analysis and the quantitative analysis of individual securities. We look for sources of alpha from a combination of security selection, yield curve management, sector rotation and active trading. We primarily purchase investment grade securities, particularly the investment grade market sectors such as Treasuries, agencies, corporates, asset-backed securities and mortgage-related securities, including CMOs and pass-throughs. We typically try to keep portfolio duration similar to that of the portfolio's benchmark.

While our investment process is primarily driven by bottom up analysis, we assess the overall risk position of our clients' portfolios using our in-house portfolio management system. Our proprietary system, which is updated daily, is a deep source of information regarding the risk of each security and each portfolio versus its benchmark and versus other similar portfolios. Our system provides our portfolio managers with a detailed matrix analysis of the portfolio versus the benchmark by ratings quality, partial durations, sector and subsector weightings and industry exposure. Additionally, our system provides index comparisons down to the level of individual issuer concentration. The information from our system allows us to adjust our bottom up process to optimize the overall portfolio characteristics.

We perform rigorous stress testing on individual securities and on the entire portfolio. We review option-adjusted duration and convexity on all securities, particularly mortgage-backed securities. We also run partial (key rate) durations daily on each bond and on the portfolio. We review closely the dispersion versus the portfolio benchmark both on a single portfolio basis and within groups of portfolios that are managed against the same benchmark. For corporate bonds, we establish internal credit opinions and review the issuers' credit quality.

We also review the portfolio concentration by industry and focus the portfolio in areas that have positive credit trends. We measure credit exposure by rating and duration daily. For example, our daily portfolio reports include the contribution to duration for each of the AAA, AA, A and BBB categories. Finally credit quality diversification by applying market value based thresholds based on credit quality is a key part of our risk management process.

Our fixed income portfolio managers manage our portfolios on a team basis, but we also designate a lead portfolio manager who is responsible for coordinating and overseeing the investment team's decisions for each account. Sector specialists generate ideas within their areas of expertise and then compare these to relative value in other fixed income market segments. We leverage the knowledge and experience of our investment team through a consensus-oriented interactive process whereby the team scrutinizes and challenges investment ideas across the sectors. This close and constant interaction among our sector specialists enables us to leverage the knowledge and skills of the investment team and to efficiently make cross sector decisions.

### *Our Investment Strategies Provided to Non-Wrap Clients*

We provide investment management services to institutions using a variety of strategies in two broad categories:

- Traditional Strategies
- Non-Traditional Strategies.

#### *Traditional Strategies:*

- *Large Cap Growth Equity:* We manage large cap growth portfolios that vary by number of holdings and primarily focus on large capitalization growth stocks. Our growth equity team believes that above-average growth in units, revenues, earnings, and cash flow will drive the value of a security over time. It looks for stocks that it believes are able to maintain or achieve superior absolute and relative earnings growth and are attractively valued. It seeks to capture acceleration or duration of growth that is not fully reflected in a stock's price.
- *Large Cap Value Equity:* We manage large cap value portfolios that vary by number of holdings and primarily focus on large cap value stocks. Our value investment team seeks investments in companies it believes are being valued at a discount to their true worth, as defined by the value of their earnings, free cash flow, the value of their assets, their private market value or some combination of these factors, and that possess a collection of catalysts that it believes can unlock the true value of the company.
- *Small/Mid (SMID) Cap Core Equity and Small Cap Core Equity:* We manage SMID cap core equity and small cap core equity portfolios. We define our SMID cap universe as primarily U.S.-based companies with market capitalizations typically between \$500 million and \$3.5 billion and our small cap universe as primarily U.S.-based companies with market capitalizations typically between \$150 million and \$2 billion. Our SMID Cap and Small Cap portfolios represent a blend of both growth and value styles; however, our SMID and Small Cap portfolio managers do not distinguish stocks in those styles when considering them for the portfolio. We seek to uncover companies that have attractive valuations, and that we believe should experience superior earnings growth in the intermediate term.
- *Mid Cap Growth Equity:* We manage mid cap growth equity portfolios. We define the mid cap universe as primarily U.S.-based companies with market capitalization typically between \$3 billion and \$18 billion. We seek to uncover companies that we believe have attractive valuations, and should experience superior earnings growth on an intermediate term basis.
- *Global Equity Opportunity:* We manage global equity portfolios. Our global equity investment team seeks capital appreciation by investing in companies around the world

believed to be new market leaders with sustainable competitive advantages. It seeks to capture market upside and temper market downside and to dampen portfolio volatility by assessing the correlations of individual holdings and the overall portfolio. Portfolios are built from the bottom up based on our fundamental research. The strategy has an integrated global perspective and is unconstrained (that is, we seek to exploit inefficiencies worldwide, and our approach is benchmark- and region-agnostic).

- *International Equity Opportunity:* We manage international equity portfolios. Our international equity team seeks capital appreciation by investing in companies worldwide, outside of the US, believed to be new market leaders with sustainable competitive advantages. It seeks to capture market upside and temper market downside and to dampen portfolio volatility by assessing the correlations of individual holdings and the overall portfolio. Portfolios are built from the bottom up based on our fundamental research. The strategy is unconstrained (that is, we seek to exploit inefficiencies worldwide, excluding the US, and our approach is benchmark-and region-agnostic.)
- *Emerging Markets:* We manage emerging markets equity portfolios. Our emerging markets team seeks capital appreciation by investing in companies around the developing world believed to be market leaders with sustainable competitive advantages. It seeks to capture market upside and temper market downside and to dampen portfolio volatility by assessing the correlations of individual holdings and the overall portfolio. Portfolios are built from the bottom up based on our fundamental research. The strategy is unconstrained (that is, we seek to exploit inefficiencies around the developing world, and our approach is benchmark-and region-agnostic.)
- *Active Long Duration Fixed Income:* Our long duration fixed income portfolios provide exposure to investment grade fixed income. We seek extra return from active trading of individual securities and yield curve management.
- *Active Core/Intermediate Fixed Income:* Our core fixed income portfolios invest in investment-grade fixed income securities and generally have higher average credit quality over time versus the benchmark. Individual security selection drives our corporate, ABS, agency, CMBS and CMO sector allocation.
- *Asset/Liability:* We actively manage customized fixed income portfolios designed to match liability payments or non-standard indices.
- *Passive Fixed Income:* We manage passive fixed income accounts on a “buy and hold” basis, against any benchmark index that reflects the client’s objectives. Although portfolio credit quality, and particularly, sector allocations may vary from the index, we seek to manage the duration and convexity features of the portfolio similar to those of the benchmark index. We also manage portfolios that are strictly indexed to a particular benchmark.

*Non-Traditional Strategies:*

- *Opportunistic Equity:* We manage primarily long-only equity portfolios that utilize an intensive “value with a catalyst” bottom-up approach to research and an opportunistic approach to security selection based on valuations, revenues, free cash flow, and earnings prospects. Our opportunistic strategy is unconstrained relative to market capitalization and style, and is agnostic as to benchmarks. Our Opportunistic Equity portfolio managers use rigorous risk-reward analysis to make buy-sell decisions.
- *Global Healthcare:* Our global healthcare strategy seeks capital appreciation by investing in long and short positions in global healthcare equities based on our fundamental research. Investments span industry subsectors and market capitalizations and include securities of companies engaged in the drug, biotechnology, medical device, and healthcare services industries. The global healthcare investment team seeks to outperform a long-only strategy over a full market cycle by capturing much or all of the return during an up cycle while minimizing losses during a down cycle.
- *Global Infrastructure:* Our global infrastructure strategy seeks total return by investing in companies that own, operate, build, or service infrastructure assets. Through our global, opportunistic multi-cap approach, we seek to perform across all market conditions by taking advantage of shifting market dynamics.
- *Equity Income/Rising Dividend:* Our equity income strategy seeks current income through investments primarily in income-producing equity and equity-related securities; capital appreciation is a secondary consideration. Our rising dividend strategy seeks capital appreciation and income by primarily investing in equity and equity related securities of companies that we believe will experience dividend growth (i.e., companies that are either currently paying dividends that we believe will increase them in the future or companies that are not currently paying dividends, but which we expect to pay them in the future.) Rather than identifying the highest-dividend-yielding stocks, the investment team uses a relative value strategy and fundamental research to identify companies believed to have the ability to sustain and grow dividends or generate high free cash flow that can be returned to investors in the form of stock buybacks or dividends. Portfolios are diversified across sectors, regions, and market capitalizations.
- *Sector Strategies:* We have specialized and experienced research analysts who have deep knowledge of their areas of focus. We manage portfolios concentrated in the following sectors; **health sciences, global natural resources, utilities and master limited partnerships.**
- *Multi-Asset Strategies:* We offer strategies that invest in multiple asset classes, such as our Opportunistic Multi-Asset strategy. Our opportunistic multi-asset team seeks to achieve total returns that approach long term equity returns while taking less risk. The portfolio managers actively manage asset allocation, comparing the absolute and relative risk/reward for each of the three asset classes – equities, fixed income, and cash. In

selecting stocks, the team seeks to capitalize on the greatest risk/reward opportunities in the equity market, regardless of a company's size or industry classification. Within fixed income, Treasury bond security selection is based primarily on the investment team's view on interest rates as well as the slope of the yield curve in the context of underlying economic trends. Corporate bond security selection is based primarily on securities' credit fundamentals as well as their yield spreads relative to Treasuries.

- ***Customized Strategies:*** We offer customized portfolios that combine insights from our fundamental analysis with quantitative tools to meet client-specific objectives. Our **disciplined strategies** are examples of strategies that blend fundamental analysis with quantitative tools. We also tailor solutions that combine our strategies listed above or tailor a strategy to meet specified client objectives. Our **Blend Equity** strategy is an example of a combination strategy. Our **Blend Equity** strategy combines the insights from our large cap growth and our large cap value teams in one portfolio. Some customized strategies rely on our traditional or nontraditional portfolios. Accordingly, insights from the traditional or nontraditional strategies will be incorporated into the customized strategy after they have been implemented in the other strategies.

#### **Strategies offered to Wrap Fee and UMA Programs**

Our management of the strategies that we offer to Wrap Fee and UMA Programs is similar to our management of the strategies that we offer to non-wrap clients described above, except for the differences noted in Item 4 under "Participation in Wrap Programs." We offer versions of our traditional strategies – **JMA large cap growth equity, JMA large cap value equity, JMA small/mid (SMID) cap core and JMA midcap growth equity** – to sponsors of wrap fee and UMA programs. We also offer certain non-traditional strategies to sponsors of wrap fee and UMA programs: **JMA opportunistic equity, JMA large cap blend, JMA natural resources and JMA disciplined large cap growth**. Our **JMA disciplined large cap growth** strategy is a customized strategy that relies on our fundamental research process and a parallel quantitative screening process to gauge stocks in the large cap growth investment universe based on long-term valuation, price momentum, and short-term price reversals.

#### **Primary Risks Associated with our Investment Process and Strategies**

Investing in securities involves risk of loss that clients should be prepared to bear. Summarized below are certain important risks for clients and prospective clients to consider.

##### *Risks Applicable to Our Equity Strategies*

- ***Equity Market Risk:*** Our equity strategies involve investing in U.S. or foreign securities. Equity markets increase or decrease in value depending on fundamental, economic, political and other factors. Equity markets can be volatile and may sometimes move up or down rapidly and unpredictably. Regardless of how an individual company performs, the value of its securities can decrease if financial markets fall.

- *Style Risk:* We offer equity strategies that pursue different investment styles. At any point in time, an investment style may be out of favor for a period of time and may underperform the market in general, its benchmark or other investment styles. Some of our strategies pursue a growth style of investing. This style of investing can be subject to above-average fluctuations as a result of seeking higher than average capital growth. Some of our strategies pursue a value investment style. The value style of investing is subject to the risk that the market may not recognize a security's intrinsic value for a long time or that a security judged to be undervalued may actually be appropriately priced. Historically, growth stocks have performed best during later stages of economic expansion and value stocks have performed best during periods of economic recovery. Some of our strategies pursue a blend of growth and value styles. These strategies will be subject to the risks of both value and growth investing. Growth and value stocks have historically produced similar long-term results, though each category has periods when it outperforms the other.
- *Market Capitalization Risk:* We offer equity strategies that focus on different areas of the capitalization spectrum as well as strategies that do not focus on any particular market capitalization. Generally, the stock prices of small- and medium-sized companies are less stable than the prices of large company stocks and can present greater risks. This means that when stock prices decline overall, the price of securities of smaller companies can decline more than a broad-based securities market index. Smaller companies usually offer a smaller range of products and services than larger companies. They may also have limited financial resources and may lack management depth. As a result, securities issued by smaller companies tend to be less liquid and fluctuate in value more than securities of larger, more established companies. Large capitalization companies as a group could fall out of favor with the market, causing a strategy that focuses on or is more concentrated in large capitalization companies to underperform strategies that focus on smaller capitalized companies. The same can happen to strategies that focus on small capitalization companies if they fall out of favor with the market relative to large capitalization companies.
- *Initial Public Offerings Risk:* Our non-wrap equity strategies may participate in the IPO market. The volume of IPOs and the levels at which the newly issued stocks trade in the secondary market are affected by the performance of the stock market overall. If IPOs are brought to the market, availability may be limited and if we seek to acquire IPO shares, we may not be able to buy any shares at the offering price for our clients, or if we are able to buy IPO shares for our clients, we may not be able to buy as many shares at the offering price as we would like. The securities involved in IPOs are often subject to greater and more unpredictable price changes than more established stocks. Such unpredictability can have a dramatic impact on our clients' account performance (higher or lower) and any assumptions by investors based on the impacted performance may be unwarranted. In addition, as our assets under management grow, the impact of IPO investments on performance will decline, which could reduce total returns for a client account. Please see Item 12 for a description of our policies on the allocation of IPO securities.
- *Real Estate Investment Trusts (REITs):* Some of our strategies invest in REITS. In addition to the risks generally associated with equities, the performance of a REIT depends on the strength of



real estate markets, REIT management and property management, all of which can be affected by many factors, including national and regional economic conditions.

- *Concentration Risk:* Some of our equity strategies hold fewer securities than our other strategies. This means that an account managed in one of these strategies may invest a greater percentage of its assets in the securities of a single company or other issuer than a strategy that holds more securities. Investing in a strategy that holds fewer securities involves greater risk than investing in a strategy that invests in more securities because a loss resulting from the decline in value of any one security may represent a greater portion of the total assets of a more concentrated strategy.
- *Sector Risk:* Some of our strategies focus on a single sector or grouping of industries and are exposed to sector risk. Sector risk is the risk that the strategy's concentration in the securities of companies in a specific sector or industry will cause the strategy to be more exposed to the price movements of companies in and developments affecting that sector than a more broadly diversified strategy. Because these strategies invest primarily in one sector, there is the risk that an account invested in the strategy will perform poorly during a downturn in that sector. Additionally, the strategy's holdings may vary significantly from broad market indexes and the performance of an account invested in a sector strategy may deviate from the performance of such indexes.
- *Securities of ETFs and other Investment Companies:* Some strategies from time to time invest in exchange-traded funds (ETFs) or securities of other investment companies, such as shares of closed-end investment companies, unit investment trusts, business development companies, and open-end investment companies. These types of investments represent interests in professionally managed portfolios that can invest in any type of instruments. Investing in ETFs and other investment companies involves substantially the same risks as investing directly in the underlying securities, but it involves additional expenses at the investment company-level, such as a proportionate share of portfolio management fees and operating expenses. Certain types of investment companies, such as closed-end investment companies and ETFs, are exposed to other risks : (i) an ETFs or closed-end fund shares may trade above or below their net asset value; (ii) an active trading market for an ETFs or closed-end fund shares may not develop or be maintained; or (iii) trading of an ETFs or closed-end fund shares may be halted if the listing exchange's officials deem such action appropriate, the shares are delisted from the exchange, or the activation of market-wide "circuit breakers" (which are tied to large decreases in stock prices) halts stock trading generally.
- *Frequent Trading Risks:* Some of our equity strategies are traded frequently where portfolio turnover can exceed 100%. These strategies are exposed to the risk that frequent buying and selling of investments will involve higher trading costs and other expenses that can affect the performance of the strategy over time. High rates of portfolio turnover can result in the realization of short-term capital gains, which could adversely affect the after-tax return for taxable clients.

### *Risks Applicable to our Fixed Income Strategies*

- *Fixed Income Market Risk:* Our fixed income strategies involve investing in U.S. or foreign fixed income securities (including obligations of foreign issuers denominated in U.S. dollars). The value of these securities and other investments may move up or down, sometimes rapidly and unpredictably. Securities markets are volatile. Regardless of how an individual company performs, the value of its securities can decrease if financial markets fall.
- *Credit Risk:* Fixed income securities are exposed to credit risk. This is the risk that the issuer, the guarantor or the insurer of a fixed-income security, or the counterparty to a contract, may be unable or unwilling to make timely principal and interest payments or to otherwise honor its obligations. Additionally, the securities could lose value due to a loss of confidence in the ability of the issuer, guarantor, insurer or counterparty to pay back debt. The longer the maturity and the lower the credit quality of a bond, the more likely its value will decline.
- *Interest Rate Risk:* Fixed income securities are subject to interest rate risk. This is the risk that fixed income securities could lose value because of interest rate changes. For example, bonds tend to decrease in value if interest rates rise. Debt obligations with longer maturities generally are more sensitive to interest rate changes. In addition, short-term and long-term interest rates do not necessarily move in the same direction or by the same amount. An instrument's reaction to interest rate changes depends on the timing of its interest and principal payments and the current interest rate for each of those time periods. Instruments with floating interest rates can be less sensitive to interest rate changes. Certain types of debt obligations are also subject to prepayment and extension risk. When interest rates fall, the issuers of debt obligations may prepay principal more quickly than expected, and the account may be required to reinvest the proceeds at a lower interest rate. This is referred to as "prepayment risk." When interest rates rise, debt obligations may be repaid more slowly than expected, and the value of the account's holdings may fall sharply. This is referred to as "extension risk."
- *Fixed-Income Obligations Risk:* As with credit risk, market risk and interest rate risk, our fixed income strategies' yield and total return may fluctuate in response to bond market movements. Certain types of fixed income obligations also may be subject to call and redemption risk where the issuer may call a bond held by an account for redemption before it matures and the account may lose income.
- *U.S. Government and Agency Securities Risk:* Our fixed income strategies invest in U.S. government securities and agency securities. In addition to carrying market risk, interest rate risk and credit risk, such securities may limit potential for capital appreciation. Not all U.S. Government securities are insured or guaranteed by the U.S. Government; some are only insured or guaranteed by the issuing agency, which must rely on its own resources to repay the debt. The maximum potential liability of the issuers of some U.S. Government securities may greatly exceed their current resources, including their legal right to support from the U.S. Treasury. It is possible that these issuers will not have the funds to meet their payment obligations in the future. In September 2008, Fannie Mae and Freddie Mac were placed into a conservatorship by their



regulator, the Federal Housing Finance Agency ("FHFA"). It is unclear what effect this conservatorship will have on securities issued or guaranteed by these entities. Although the U.S. Government has provided support to Fannie Mae and Freddie Mac, there can be no assurance that it will support these or other government-sponsored enterprises in the future.

- *Mortgage-Backed Securities Risk:* Our fixed income strategies invest in mortgage-backed securities, which are affected by, among other things, interest rate changes and the possibility of prepayment of the underlying mortgage loans. Mortgage-backed securities are also subject to the risk that underlying borrowers will be unable to meet their obligations.
- *Asset-Backed Securities Risk:* Our fixed income strategies also invest in asset-backed securities. Payment of principal and interest on asset-backed securities is dependent largely on the cash flows generated by the assets backing the securities and asset-backed securities may not have the benefit of any security interest in the related assets.

#### *Risks Applicable to Our Equity and Fixed Income Strategies*

- *Derivatives Risk:* Some of our non-wrap equity strategies invest in derivatives such as total return swaps and exchange-traded and OTC options from time to time. Our fixed income strategies may invest in exchange-traded futures contracts and options on futures contracts and interest rate swaps. Investing in derivative contracts involves risks different from or possibly greater than the risk associated with investing directly in a security. Risks include 1) the value of the derivative may not correlate with the value of the underlying security or may correlate inversely; 2) any potential risk reduction may be offset with gain limitations; 3) derivatives may be difficult to price, thus involving additional payments by the portfolio; 4) possible adverse tax consequences; 5) possible unforeseen redemption request by a derivative counter party increasing possible portfolio losses or costs, or preventing a portfolio from implementing its investment strategy; and 6) other risks, including but not limited to stock market, interest rate, credit, currency, liquidity, and leverage risks.
- *Foreign Securities Risk:* Our non-wrap equity strategies typically have some (and in some cases all) of their investments in securities of non-U.S. issuers, whether in the form of ADRs or U.S.-traded securities or securities traded in non-U.S. markets. Our fixed income strategies may invest in U.S. dollar denominated foreign bonds. Investing in securities of non-U.S. issuers can involve more risk than investing in those of U.S. issuers. Foreign political, economic and legal systems, especially in developing and emerging countries, may be less stable and more volatile than those in the U.S. Foreign legal systems generally have fewer regulatory requirements than does the U.S. legal system. The changing value of foreign currencies could also affect the value of securities. Foreign countries may impose restrictions on the ability of their issuers to make payment of principal and interest or dividends to investors located outside the country, due to the blockage of foreign currency exchanges or other problems. Investments in foreign securities may be subject to non-U.S. withholding and other taxes. Emerging market investments are typically subject to greater volatility and price declines.

- *Illiquid Securities and Restricted Securities Risk:* Some of our non-wrap strategies invest in instruments that trade in lower volumes and may make investments that may be less liquid than other investments. Additionally, some strategies invest in securities that are subject to legal restrictions on their sale. Restricted securities may be sold in privately negotiated transactions under exemptions from registration for sale to the public under applicable securities laws or in a public offering under applicable securities laws. Restricted securities are subject to the risk that we may not be able to find a willing private buyer when we want to sell or that we will have to hold the restricted security for a considerable period of time before it becomes registered, or that the restricted securities may never become registered, or that when the security becomes registered, we are subject to lock ups that require us to hold the security for a period of time and adverse market conditions develop for that security and we have to accept a less favorable price than we anticipated. When there is no willing buyer and investments cannot be readily sold at the desired time or price, we may have to accept a lower price or may not be able to sell the instrument at all. An inability to sell a portfolio position can adversely affect an account's overall value or prevent an account from being able to take advantage of other investment opportunities and could have an adverse effect on investment performance. Additionally, illiquidity and legal restrictions on sale can make a security difficult to value.
- *Short Sales Risk:* Our accounts that permit short sales (borrowing securities) are subject to short sales risk. These are primarily accounts that we manage in our long-short strategies. Our investment strategies may include short selling (borrowing securities). There is a risk in short selling if we are unable to cover a short position in a timely basis and the price of the stock goes up.
- *Leverage Risk:* Our accounts that permit short selling are exposed to leverage risk. Selling securities short is a form of leverage. The use of leverage may exaggerate the effect of any increase or decrease in the value of an account's holdings, and make any change in an account's investment performance greater than it would be without the use of leverage. This could result in increased volatility of investment returns. Securities that are posted as collateral cannot be sold while the position they are collateralizing is outstanding, unless they are replaced with similar securities. This may limit an account's investment flexibility, as well as its ability to meet withdrawal requests or other current obligations. Leverage may also increase interest expense, which may lower an account's investment returns.
- *Model Risk:* We use quantitative tools in our research processes to analyze securities and to help us to make investment decisions. These models may be flawed or incomplete and may not produce the desired results.
- *Security Selection Risk:* The value of an individual security and, similarly, the value of an investment in that security, may rise or fall. Our investment processes for a particular strategy may favor specific securities, industries or sectors that underperform investments in other securities, industries, sectors, or the market generally.

- Management Risk: Actively managed strategies are subject to management risk. Our portfolio managers apply investment techniques and risk analyses in making investment decisions, but there can be no guarantee that these techniques will produce the desired results. Additionally, the securities selected by our portfolio managers may underperform the markets in general, the account's benchmark and other accounts with similar investment objectives.
- Dispersion Risk: Performance dispersion among client portfolios may result from differences in cash flows and client imposed restrictions.
- Data Sources Risks: We subscribe to external data sources that we use to enforce investment restrictions and to assist in making investment decisions. We also use external software applications to analyze performance attribution and to assist in investment decision making or investment research. As a result, if information that we receive from a third party data source is incorrect, we may not achieve the desired results. Although we have found the third party data sources to be generally reliable, we typically receive these services "as is" and cannot guarantee that the data received from these sources is accurate.
- Technology and Cyber Security Risks: We, our clients and funds we manage depend heavily on telecommunication, information technology and other operational systems, whether ours or those of others (e.g., custodians, financial intermediaries, transfer agents and other parties to which we or they outsource the provision of services or business operations). These systems may fail to operate properly or become disabled as a result of events or circumstances wholly or partly beyond our or their control. Further, despite implementation of a variety of risk management and security measures, our information technology and other systems, and those of others, could be subject to physical or electronic break-ins, unauthorized tampering or other security breaches, resulting in a failure to maintain the security, availability, integrity and confidentiality of data assets. Technology failures or cyber security breaches, whether deliberate or unintentional, including those arising from use of third-party service providers or client usage of systems to access accounts, as well as failures or breaches suffered by the issuers of securities in which our strategies invest, could delay or disrupt our ability to do business and service our clients, harm our reputation, result in a violation of applicable privacy and other laws, require additional compliance costs, subject us to regulatory inquiries or proceedings and other claims, lead to a loss of clients and revenues or financial loss to our clients or otherwise adversely affect our business or the portfolios of clients and funds we manage.

#### *Risks Related to Regulation*

Laws and regulations affecting our business change from time to time, and we are currently operating in an environment of significant regulatory reform. We cannot predict the effects, if any, of future legal and regulatory changes on our business or the services we provide.

#### *Risks Related to Conflicts of Interest*

Various conflicts of interest are discussed throughout this document. Please review this information carefully and contact us if you have any questions.

Like other investment advisers, we are subject to various conflicts of interest in the ordinary course of our business. We strive to identify potential risks, including conflicts of interest, which are inherent in our business, and conduct formalized annual conflict of interest surveys. When actual or potential conflicts of interest are identified, we seek to address such conflicts through one or more of the following methods:

- elimination of the conflict;
- disclosure of the conflict; or
- management of the conflict through the adoption of appropriate policies and procedures.

We follow our policies on business ethics, insider trading, personal trading and information barriers. We have adopted a code of ethics (see Item 11), allocation policies and conflicts of interest policies, among others, and have adopted supervisory procedures to assess compliance with our policies. We cannot guarantee, however, that our policies and procedures will detect and prevent, or lead to the disclosure of, each and every situation in which a conflict may arise.

## **Item 9 – Disciplinary Information**

We are required to disclose all material facts regarding any legal or disciplinary events that would be material to an evaluation of us or the integrity of our management. We have no facts or events to report in response to this Item.

## Item 10 – Other Financial Industry Activities and Affiliations

### **Our Broker-Dealer Affiliations**

Certain of our management persons and other employees are registered representatives of Prudential Investment Management Services LLC (PIMS), an affiliated SEC-registered broker-dealer.

We provide investment advisory services to wrap fee account clients of Pruco Securities LLC (Pruco), an affiliated SEC-registered broker-dealer and SEC registered investment advisor. Pruco executes the transactions for the Pruco wrap fee account clients.

### **CFTC Exemptions**

We are not registered with the CFTC as a commodity pool operator or as a commodity trading advisor in reliance on exemptions from registration and no action letter positions. As such, our ability to provide advice with respect to commodity interests, such as exchange traded futures contracts and options on futures contracts is limited to the scope of the exemptions.

### **Our Relationships with Affiliates and Related Conflicts of Interest**

As an indirect wholly-owned subsidiary of Prudential Financial, we are part of a diversified, global financial services organization. We are affiliated with many types of financial service providers, including broker-dealers, insurance companies and other investment advisers. Some of our employees are officers of some of these affiliates.

- *Relationships with Affiliated Broker-Dealers*

PIMS provides marketing and administrative support in connection with the offer and sale of securities of commingled vehicles that we advise or subadvise for affiliated persons. As noted above, certain of our management persons and other employees are registered representatives of PIMS.

- *Relationships with Affiliated Investment Vehicles*

- *Insurance Company Separate Accounts.* We are the subadviser of certain separate accounts of PICA and PRIAC. In addition, we manage certain separate accounts in which Prudential Financial's retirement plan invests, and some of these separate accounts are also investment options under Prudential Financial's 401(k) plan.
- *Mutual Funds.* We serve as subadviser to mutual funds managed or co-managed by our affiliate Prudential Investments LLC (Prudential Investments). These funds include the Prudential Investments family of funds, The Prudential Series Fund, and Advanced Series Trust mutual funds. Some of these mutual funds (as well as certain mutual funds sponsored by third party clients) are investment options in Jennison's defined contribution pension plan.

- *Collective and Commingled Trust Funds.* Our affiliate Prudential Trust Company (Pru Trust), a trust company organized under the Pennsylvania Banking Code, is the trustee of the Prudential Trust Company Collective Trust and the Prudential Trust Company Master Commingled Investment Fund for Tax Exempt Trusts. We provide investment advice to the funds under these trusts, and certain of our employees are officers and directors of Pru Trust.
- *Affiliated Foreign Funds.* We act as investment adviser to certain funds domiciled in Italy that are sponsored and organized by UBI Pramerica SGR S.p.A., a joint venture owned, in part, by our affiliate Prudential International Investments Corporation. We also act as subadviser to certain funds of UBI SICAV, which is domiciled in Luxembourg, through our affiliate Prudential International Investment Advisers, LLC.
- *Private Funds and Hedge Funds.* We serve as general partner and provide investment management services to private funds that we organize and sponsor.
  - *Master-Feeder Funds.* We are the investment manager of the Jennison Global Healthcare Master Fund, Ltd. (the “Master Fund”) which is a master-feeder hedge fund structure. This structure has a master fund that is domiciled in the Cayman Islands and U.S. and non-U.S. feeder funds. Each feeder fund invests all or substantially all of its assets in the master fund. The directors of the Master Fund and the non-U.S. feeder fund, that are organized as corporations, are employees of Jennison. We serve as the general partner of the U.S. feeder fund that is organized as a limited partnership. Some employees, including the portfolio managers, have investments in the fund.
  - *Side Letters.* With respect to the hedge fund listed above and that we may manage in the future, we or the fund at times enter into side agreements with investors (including affiliated investors) that grant such investors terms and conditions that are more advantageous than the terms and conditions granted to other investors. For example, investors may have side letters granting more favorable redemption rights, reduced fees or expenses, or access to more frequent or detailed information regarding the fund's investments. We have multiple side letters with respect to a single fund, each with a different investor.
- *Relationships with Affiliated Investment Advisers.*
  - As described above, we provide subadvisory services for mutual funds or other funds managed or co-managed by Prudential Investments.
  - We currently provide or may in the future provide subadvisory services to our other affiliated investment advisers, which include PIM, Prudential Investment Management

Japan Co., Ltd., Pru Trust, Global Portfolio Strategies, Inc., Pramerica Investment Management Limited and Prudential International Investment Advisers, LLC.

- One of our other affiliated investment advisers, Quantitative Management Associates LLC (QMA), provides asset allocation services to affiliates and third parties. QMA allocates their clients' assets to both third parties and affiliated investment advisers, including us.
- *Relationships with Affiliated Insurance Companies*  
As described above, we provide advisory services with respect to the separate accounts of PICA and PRIAC.

### **Recommendation of Investment Advisers**

We do not currently select other investment advisers for our clients.

### **Conflicts Related to Our Affiliations**

- *Conflicts Arising Out of Side by Side Management of Affiliated Accounts with Non-Affiliated Accounts.* Please see discussion of Side by Side Management in Item 6.
- *Other Conflicts Relating to Co-investment by Affiliates.* As described in Item 6, our affiliates may provide initial funding to start a new track record for a new strategy or product or otherwise invest in vehicles managed by us. When an affiliate provides "seed capital" or other capital for a fund, it may do so with the intention of redeeming all or part of its interest at a particular future point in time or when it deems that sufficient additional capital has been invested in that fund. In addition to the conflicts related to Side by Side Management described in Item 6, co-investment by affiliates can give rise to other conflicts described below.
  - The timing of a redemption by the affiliate redeeming its interest in a fund could benefit the affiliate. For example, the fund may be more liquid at the time of the affiliate's redemption than it is at times when other investors may wish to withdraw all or part of their interests.
  - A consequence of any withdrawal of a significant amount, including by our affiliate, is that investors remaining in the fund will bear a proportionately higher share of fund expenses following the redemption.
  - We could also face a conflict if the interests of an affiliated investor in a fund we manage diverge from those of the fund.
- *Conflicts Arising Out of Legal Restrictions.* We may be restricted by law, regulation or contract as to how much, if any, of a particular security we may purchase or sell on behalf of a client, and as to the timing of such purchase or sale. These restrictions may apply as a result of our relationship with Prudential Financial and its other affiliates. For example, our holdings of a security on behalf of our clients may, under some SEC or other regulations, be aggregated with the holdings of that security by other Prudential Financial affiliates. These holdings could, on an



aggregate basis, exceed certain thresholds unless we limit holdings and restrict purchases. We are also restricted from purchasing or selling securities of Prudential Financial or its affiliates for client accounts. In addition, we could receive material, non-public information with respect to a particular issuer from an affiliate and, as a result, be unable to execute purchase or sale transactions in securities of that issuer for our clients. We are generally able to avoid receiving material, non-public information from our affiliates by maintaining information barriers to prevent the transfer of information between affiliates. (For additional information about our information barriers, please see Item 11.) Additionally, we could limit or restrict trading of an issuer in certain client accounts where a portfolio manager is related to a person who is senior management or a director of a public company.

- *Conflicts Relating to Research by Our Affiliates.* Some of our affiliates develop and may publish research that is independent from our research. We and our affiliates may hold different opinions on the investment merits of a given security, issuer or industry. As a result, we may purchase or hold a security for a client and an affiliate may simultaneously be selling or recommending a sale of the same security or other securities of the same issuer, or vice-versa. While these conflicting positions between us and our affiliates may lead to different investment results for our respective clients, we believe that our exercise of judgment that is independent of that of our affiliates is part of our fiduciary obligations.
- *Conflicts Relating to Securities Lending by Our Affiliate.* PIM may provide securities lending services to some of our affiliated advisory and subadvisory clients. PIM may also cause the collateral generated from its securities lending transactions to be invested in a mutual fund managed by an advisory affiliate and advised by PIM, thereby yielding a benefit to both itself and the affiliated mutual fund. While PIM does not receive compensation for its advisory services to the mutual fund, it is entitled to reimbursement of its costs and expenses. We could have an incentive, with respect to those affiliated accounts for which PIM provides securities lending, to invest in securities that would yield higher securities lending rates to PIM and additional assets for the affiliated funds. However, we believe that this risk is minimized because of informational barriers between PIM and Jennison.
- *Conflicts Arising Out of Our Business Relationships.* We and our affiliates may have service agreements with various vendors that are also investment consultants or brokers used to execute trades for client accounts or prime brokers. Under these agreements, we or our affiliates from time to time compensate these vendors for certain services, including software, market data and technology services, or conferences. Our clients may also retain these vendors to provide investment consulting services or other services. The existence of these service agreements with us or our affiliates may provide an incentive for the investment consultants to favor us when they advise their clients. We do not, however, purchase services from investment consultants because they recommend us to their clients. Similarly, services provided by brokers or prime brokers can create an incentive for us to select these brokers who provide these services to execute client transactions over those that do not provide these services. We have policies and procedures relating to the selection of brokers and the use of client commission that are designed to manage

and mitigate this conflict. For additional information about these policies, please see our response to Item 12.

Additionally, we may invest client assets in securities of companies with whom we have a business relationship, such as another client, a vendor or investment consultant. The existence of these business relationships can create a conflict that we will invest client assets into those securities in order to gain a benefit for ourselves. While we cannot eliminate this conflict, we believe that our policies and procedures are designed to manage and mitigate this conflict. We believe that our investment decisions are based upon our independent judgment and consistent with our fiduciary obligations to our clients.

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

### *General*

We maintain a code of ethics as required by applicable SEC rules. Our code of ethics requires employees to conduct business in an honest and forthright manner in accordance with the highest of ethical standards. In addition, the code of ethics requires employees to put client interests ahead of our own and disclose actual and potentially meaningful conflicts of interest. The code of ethics incorporates our insider trading policies and personal trading policies that are described in greater detail below. Our employees are required to report any violation of the code of ethics promptly to our chief compliance officer.

We will provide a copy of our code of ethics to clients or prospective clients upon request.

### *Policy on Insider Trading and Information Barrier Policy*

We have policies and procedures relating to material non-public information (MNPI). Our policies require our employees to escalate and report the receipt of potential MNPI to the compliance and legal department. Additionally, Prudential Financial's information barrier policy, which applies to us, is designed to prevent the communication of MNPI across the various Prudential Financial U.S. asset management investment sectors. Under the policy, an employee of one investment sector, including Jennison, may not communicate MNPI to an employee of another investment sector without approval from each sector's compliance department. The information barrier policy also restricts physical access to an investment sector's offices by employees of a different investment sector.

We maintain a restricted list of issuers about which we have MNPI (Restricted List). Our client and personal trading activities are screened on a pre-trade basis against our Restricted List. Any transaction in an issuer on the Restricted List must be approved by our compliance department.

### *Personal Trading Policy*

We maintain a personal trading policy that governs the trading activities of our employees as well as their household members and dependents. Subject to certain limited exceptions, employees are required by the policy to:

- report personal securities transactions to our compliance department;
- pre-clear personal securities transactions;
- maintain brokerage accounts only with certain approved brokers that report transaction information to our compliance department; and
- annually report securities holdings to our compliance department.

We consider all of our employees to be “access persons.” All of our employees are subject to additional restrictions under the policy, including the following:

- employees are prohibited from purchasing securities in IPOs;
- employees are generally prohibited from trading any security within seven days before or after we trade such security (or an equivalent security) for client accounts;
- employees must disgorge any profits from the purchase and sale (in whatever order) of the same security within 60 days; and
- employees may not short sell or purchase put options or write call options on securities that represent a long position in any client portfolios.

We review personal trading activity versus firm trading and the Restricted List, and any matches are investigated by our compliance department. Our Compliance Council meets regularly to consider possible violations and take disciplinary action where appropriate.

All employees receive annual training regarding our personal securities trading and information barrier policies. In addition, employees must confirm quarterly that they have read and understand our code of ethics, including the personal securities trading and information barrier policies.

#### *Investment Professional Compensation*

Total compensation for our investment professionals, including portfolio managers and analysts, is comprised of a combination of base salary and performance-based incentive compensation, which consists of a discretionary cash bonus. We base the size of the overall incentive compensation pool on our profitability.

In determining an investment professional’s total compensation, we subjectively evaluate numerous qualitative and quantitative factors. Not all factors are applicable to every investment professional, and we have no particular weighting or formula for considering the factors. The factors considered for evaluating a portfolio manager will differ from those reviewed for a research analyst or a portfolio manager with research responsibilities. The factors that we consider may include:

- The investment performance of all of the accounts managed by the portfolio manager in the same strategy (composite) relative to indices and peers;
- Contribution to client portfolio performance of the investment professional’s recommended securities relative to the strategy’s benchmark and the investment professional’s coverage universe;
- Qualitative factors such as teamwork, responsiveness, experience, and other responsibilities such as being a team leader.

Additionally, senior investment professionals, including portfolio managers and senior research analysts, are eligible to participate in a voluntary deferred compensation program where all or a portion of the discretionary cash bonus can be deferred. Participants in the deferred compensation plan are permitted to allocate the deferred amounts among various options that track the gross-of-fee pre-tax performance of various mutual funds, nearly all of which are managed by Jennison, and composites of accounts managed by Jennison, which may include our private funds. Please see Item 6 for additional information about potential conflicts of interests related to our investment professionals' compensation.

*Conflicts Related to Compensation:* If a greater proportion of a portfolio manager's compensation could be derived from the revenue derived from a specific account or group of accounts than other accounts under the portfolio manager's management, there could be an incentive for the portfolio manager to favor the accounts that could have a greater impact on the portfolio manager's compensation. To address potential conflicts related to these financial interests, we have procedures, including supervisory review procedures, that we believe are designed to mitigate this conflict. We believe that these procedures seek to provide that each of our accounts is managed in a manner that is consistent with our fiduciary obligations, as well as with the account's investment objectives, investment strategies and restrictions.

*Conflicts Arising Out of Securities Holdings.*

Prudential Financial, PICA's general account, our proprietary accounts and accounts of other affiliates of ours (collectively, affiliated accounts) may, at times, have various levels of financial or other interests in companies whose securities we may hold, purchase or sell in our client accounts. This may occur because affiliated accounts hold public and private debt and equity securities of a large number of issuers and may invest in some of the same companies as our client accounts. The interests of affiliated accounts may also include loan servicing, debt or equity financing, services related to advising on merger and acquisition issues, strategic corporate relationships or investments and the offering of investment advice in various forms. Their investments may be at different levels in the capital structure of a company. At any time, these interests could be inconsistent or in potential or actual conflict with positions held or actions taken by us on behalf of our client accounts. For example, we may invest client assets in the equity of companies whose debt is held by an affiliate. While these conflicts cannot be eliminated, we have implemented policies and procedures, including adherence to Prudential Financial's information barrier policy, described above, that seek to provide that, notwithstanding these conflicts, investments of its clients are originated and managed in their best interests.

*Conflicts Relating to Our Trading*

- *Personal Trading by Our Employees.* Personal trading by our employees creates a conflict when they are trading the same securities or types of securities as we trade on behalf of our clients. This conflict is mitigated by our personal trading policy and procedures, described above.
- *Side-by-side Management of Accounts.* Please see Item 6 for a description of conflicts of interest related to our side-by-side management of accounts.

- *Aggregation of Affiliated Account Transactions with Unaffiliated Account Transactions.* Please see Item 12 for a description of conflicts related to aggregation of affiliated account transactions with unaffiliated account transactions.

#### *Conflicts Relating to Our Research Activities*

In addition, from time to time, our employees may come into possession of MNPI during the course of conducting routine business matters, *e.g.*, meeting with senior management of publicly held companies or voluntarily accepting nonpublic information relating to an issuer's financing activities. When we are in possession of such information, we typically restrict all accounts from purchasing or selling securities or implement other restrictions or procedures.

#### *Conflicts Related to the Offer and Sale of Securities*

Certain of our employees may offer and sell securities of commingled funds that we manage. Employees may offer and sell securities in connection with their roles as registered representatives of PIMS or officers of Pru Trust. (Please see discussion of these affiliations in Item 10.) There is an incentive for our employees to offer these securities to investors regardless of whether the investment is appropriate for such investor since increased assets in these vehicles will result in increased advisory fees to us. While such sales could result in increased compensation to the employee, none of these employees receive compensation directly related to the sale of such securities. (Please see "Other Compensation" in Item 5.)

#### *Other Conflicts*

- *Gifts & Entertainment.* Our employees may occasionally give or receive gifts, meals or entertainment of moderate value, subject to compliance with applicable laws and regulations and rules of self-regulatory organizations. We maintain a gifts and entertainment policy to address the conflicts of interest related to gifts and entertainment, such as the appearance of having given or received something of value that influenced our business decisions or the business decisions of our clients. The policy requires the reporting and preclearance of gifts, meals and entertainment received which exceed certain thresholds. In addition, our employees are prohibited from soliciting the receipt of gifts, meals or entertainment. Our compliance department periodically reviews gifts and entertainment logs for trends and to confirm compliance with the policy.
- *Political Contributions.* Due to the potential for conflicts of interest, Jennison has established policies and procedures relating to political contributions that are designed to comply with applicable federal, state and local law. Under this policy, all employees (and their immediate family members living in the same household, including but not limited to their spouses and dependent children) must obtain preapproval before making any political contribution. This policy also prohibits Jennison employees from making any political contributions with the intent of influencing a public official regarding the award of a contract to Jennison or its affiliates.

## Item 12 – Brokerage Practices

### **Brokerage Generally**

Transactions in equity securities are usually executed through brokers that act as agent and receive a commission paid by the client account for which the transaction is executed. Fixed income and over-the-counter securities are generally traded with dealers acting as principal without a stated commission. The dealer's compensation (margin or spread) for principal transactions is reflected in the price of the security. Money market obligations may be transacted directly with the issuer. Underwritten offerings of stock and intermediate and long-term debt securities may be purchased at a fixed price including an amount of compensation to the underwriter.

### **Factors Considered in Selecting Brokers/Dealers**

In selecting a broker/dealers to handle a specific transaction, we consider factors such as the following:

- ☐ price;
- ☐ commission;
- ☐ order size;
- ☐ liquidity;
- ☐ expertise in handling the asset class;
- ☐ expertise in the relevant geographic region and/or with the relevant securities exchange;
- ☐ preservation of confidentiality;
- ☐ efficient execution;
- ☐ ability to work orders over time;
- ☐ quality of back office operations, settlement processes, and the absence of errors;
- ☐ willingness to commit capital;
- ☐ trading infrastructure, such as access to trading algorithms or networks, or basket trading capabilities;
- ☐ counterparty risk;
- ☐ conflicts of interest;

- ❑ provision of research;
- ❑ regulatory limitations;
- ❑ client directed guidelines;
- ❑ counterparty concentration.

We do not consider sales of mutual fund shares or the compensation paid in connection with the sales of mutual fund shares in selecting brokers to execute transactions for our clients' accounts.

#### *Wrap Accounts and UMAs and Non-Discretionary Models*

We typically place all transactions for our clients in wrap programs and dual contract programs with the sponsor of the wrap program or a broker/dealer designated by the sponsor or dual contract client. We do not negotiate commission rates for these clients because the commissions are included in the overall fees charged by the sponsor or are negotiated by the client with the sponsor. If we place trades for wrap program clients away from the sponsor, these costs will be typically paid by the wrap program client in addition to the wrap program fee. We do not place trades for UMA programs or other clients that use our nondiscretionary models. Clients in wrap, dual contract, UMA programs or other clients that use our nondiscretionary models should satisfy themselves that the sponsor or designated broker/dealer is able to meet their needs.

#### **Execution of Trades**

We seek to obtain efficient executions for client accounts at a price (including commissions where applicable) that provides the most favorable total cost or proceeds reasonably attainable in the circumstances (best execution). In light of the factors above, our clients may pay transaction costs in excess of that which another firm might have charged for executing the same transaction.

Subject to our duty to seek best execution, when we believe it to be appropriate under the circumstances, we use "step outs," where the executing broker steps out all or a portion of a transaction to another broker which receives the commission and settles the trade. Typically, step outs enable us to place aggregated transactions with our primary execution brokers, satisfy client directed brokerage arrangements or pay for research provided by a nonexecution broker.

We have policies and procedures to review and assess brokers/dealers and the quality of their executions. We periodically review the allocation of brokerage, commission rates where applicable, the services that they provide, the quality and cost of research provided, and other relevant information.

#### **Soft Dollar Benefits**

As noted above, we consider a broker's provision of research and the value of that research as factors in allocating brokerage. We receive both proprietary research (created or developed by the broker-dealer) and third party research (research developed or created by third party) that aid in our investment decision making or services that aid in trade execution from brokers (brokerage services). Under the safe harbor



provided under Section 28(e) of the Securities Exchange Act of 1934, our equity business pays for these research and brokerage services with our equity clients' brokerage commissions (soft dollars). Our fixed income business does not pay for research with soft dollars. The use of soft dollars to pay for this research is a benefit for us because we do not have to pay for this research using our own money (hard dollars). The receipt of soft dollar benefits creates a conflict of interest because we may have an incentive to select or recommend a broker-dealer based on our desire to receive research or brokerage services rather than our clients' interest in receiving best execution.

We use soft dollar research to benefit one, a few or all of our clients, including accounts of our affiliates that we manage. We also use soft dollar research to benefit client accounts other than the client accounts that paid the soft dollar commissions.

We use soft dollars to pay for a broad range of proprietary and third party research that is used to supplement our internal research and aid in investment decision-making. These research services can include the following: information on the economy, industries, groups of securities and individual companies, statistical information, market data, accounting and tax law interpretations, information regarding political developments, pricing and appraisal services, credit analysis, technical analysis, risk measurement analysis, performance analysis and other information regarding matters that may affect the economy and/or security prices. Research may be received in the form of written reports, periodicals, investment seminars, software, computer databases, access to corporate management and industry spokespersons, security analysts, economists and government representatives. We also utilize expert networks.

When selecting a broker to execute client transactions in return for soft dollar benefits, we seek the best execution and most advantageous price in light of the overall quality and reliability of brokerage taking into account the factors outlined above.

We may use agency or eligible riskless principal transactions to generate soft dollar credits to pay for the research and brokerage services and products described above. We do not make binding commitments as to the level of brokerage commissions we will allocate to a broker, nor do we commit to pay cash if informal targets are not met.

We may pay higher commissions than would be obtainable for execution by other brokers where research is not obtainable in recognition of the value of the soft dollar benefits. In such cases, we make a good faith determination that the higher commission is reasonable in relation to the value of research and brokerage services provided, viewed in terms of either that particular transaction or our overall responsibilities with respect to all of our clients' accounts.

To the extent that we receive both administrative benefits and research and brokerage services provided by brokers, we make a good faith allocation between the administrative benefits and the research and brokerage services and pay for the administrative benefits in hard dollars. From time to time, we independently acquire for uses other than its investment management of client accounts the same services as those provided by a broker. In such instances, we pay hard dollars for those services.

We have policies and procedures that address and track the use of client commissions to pay for eligible soft dollar services. We regularly review the amount of brokerage allocated to brokers that provide us with soft dollar services.

### **Brokerage for Client Referrals**

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

### **Directed Brokerage**

We do not typically recommend, request or require that clients direct us to execute transactions through a specified broker-dealer.

We do not permit our fixed income clients to direct the use of a particular broker-dealer for their accounts. However, we permit our equity clients to direct the use of a particular broker-dealer for US equity trades in their account subject to our ability to obtain best execution. Any such instructions should be in writing. We may also accommodate arrangements certain clients have with brokers under which the clients recapture a portion of the commissions paid to such brokers.

We will seek on a best efforts basis to meet the client directed brokerage target rates, subject to our need to seek best execution with respect to all trading activity. We typically limit the percentage of commissions that can be subject to client direction by investment strategy. The percentage of directed brokerage trades is calculated based on total U.S. dollar denominated commissions generated by each directed brokerage client where the broker-dealer is not committing capital to facilitate the trade (“non-risk commissions”). In designating the use of a particular broker, dealer or other person, the client must understand:

1. All brokerage transactions, including directed brokerage transactions, are subject to best execution. As such, we will use our best efforts to honor the client’s request to direct non-risk commissions transactions to a particular broker, provided that we believe we can obtain best execution for the client.
2. We may or may not be able to negotiate commission rates on the client’s behalf and, as a result, the client may pay higher commissions, depending on its arrangements with the broker-dealer and on other factors such as the volume of shares, the market for the security, and market-making capabilities of that particular broker-dealer;
3. The client may lose the possible advantage which non-directed clients derive from the aggregation of orders for multiple clients as a single “batch” transaction, where we would, in some instances, be in a better position to negotiate brokerage commissions if the brokerage were not directed;
4. In an arrangement a client may have with a broker to recapture a portion of the commissions paid to such broker, the client may not receive best execution and, if execution costs

do increase, the commissions the client recaptures may be less than the additional execution costs; and

5. We do not make commitments to allocate fixed or definite amounts of commissions to brokers. As such, we may be unable to fulfill a client's request for direction due to the reasons stated above.

ERISA accounts may be subject to additional requirements and restrictions with respect to directed brokerage.

Clients should evaluate the relative costs, advantages and disadvantages to them of directed brokerage when considering whether or not to direct us to use one or more specific brokers.

### **Cross Trading**

Subject to applicable law and rules, from time to time, we may effect cross transactions between US registered investment company accounts. We do not receive additional compensation in connection with such cross transactions.

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

Our trade aggregation and allocation policies and procedures are intended to produce fairness over time but may not produce mathematical precision in the allocation of individual purchases and sales of securities because of the transaction costs that may be incurred to do so. Our policies and procedures are also intended to be consistent with our duty to seek the best reasonably available price based on the facts and circumstances at the time of execution, *i.e.*, "best execution" for all accounts under our management.

### **Aggregation of Trades**

Our general practice is to aggregate orders for multiple client accounts (including affiliated accounts) participating in the order as a single bunched order where appropriate to obtain best execution. When we aggregate orders for our affiliated accounts with orders for nonaffiliated accounts, we have a potential conflict of favoring our affiliated accounts over our unaffiliated accounts. In order to mitigate this conflict, we have adopted policies and procedures that require (1) all accounts that participate in the same order receive the same average price and same commission rate on the transaction; (2) we maintain documentation specifying each account or strategy that is participating in the order and its allocation prior to the entry of the order (pre-allocation statement); and (3) allocation of a fully executed order in accordance with the pre-allocation statement or if a partially executed order, on a pro-rata basis. Any exceptions to these procedures must be documented as further described below under Trade Allocation.

Certain clients may be subject to restrictions that prohibit the use of one or more broker/dealers. Accordingly, these restrictions may prevent a client's account from being aggregated with other clients' orders. If a client's account cannot be aggregated with other clients' orders, we may place the order for the client with the restriction with a different broker/dealer and at a different time than the aggregated order which will likely result in the orders being executed at different prices.

### Trade Allocation for Equity Accounts

Generally, we allocate orders to purchase and sell securities on behalf of clients' accounts pro-rata based on size of the eligible clients' accounts that are participating in the order by the portfolio manager. Orders that are not allocated pro-rata based on size of participating accounts require either a description of the allocation methodology being used or the order falls within one of the exemptions set forth in our policy. The conditions under which a portfolio manager may deviate from allocating pro-rata, based on the size of the account, that do not require approval from the head of an investment group or area include but are not limited to the following: restrictions based on investment guidelines or under a specific strategy's objectives; the availability of cash for investment; the instructions of the portfolio manager (e.g., limit orders, percent weighting in the portfolio, etc.); whether an account is a new account; and whether an account has received a cash flow or needs to raise funds for a withdrawal. Order allocation is not based on account performance, fee structure, or any proprietary interest that we or our affiliates may have in an account. Traders who select brokers to execute clients' orders are required to then allocate such orders after they have been executed in accordance with the pre-allocation instructions.

Conflicts in the allocation of investments can arise when orders are not filled or when we were not able to purchase the investment in sufficient quantity for all participating accounts, such as in the purchase of an IPO. In order to mitigate the conflict of favoring one account over another in the allocation of limited investment opportunities, we have adopted allocation policies specific to IPOs.

### Initial Public Offerings (Equity)

The IPO allocation policy is intended to provide that over time, IPOs are allocated in a fair and equitable manner to all eligible accounts and across all of our eligible equity investment strategies. The Portfolio Manager for a given account or strategy makes a decision to participate in an IPO. We allocate IPO shares pro rata to each participating account based on the account's assets under management.

### Trade Allocation for Fixed Income Accounts

The following applies to all fixed income trades, including those of new issues. We typically allocate fixed income trades on a pro rata basis (in proportion to the market value of the account or by size of holding) among participating eligible accounts. If the security is an existing holding or in the same sector as other existing holdings, we may increase or decrease the amounts allocated to each account in order to true up percentages held or sector weights in each account. If the trade is not of a size to permit broad distribution among all eligible accounts, we may allocate the trades on the basis of a computer generated list of eligible accounts in a random order. If an account receives a de minimis allocation based on the random list method, the portfolio manager may decline the allocation and we will allocate the amount among the other eligible accounts on the list or next eligible account on the list.

### Trade Allocation and Aggregation for Wrap Fee Accounts

The following applies to all trades that we place on behalf of accounts that are in wrap fee programs. Our traders for our JMA accounts place orders to purchase and sell securities on behalf of our JMA accounts with the various program sponsor's designated broker-dealers. We aggregate trades for multiple JMA

accounts with the same sponsor where possible for either the same or multiple strategies. Generally, orders are placed with our JMA traders either directly by a portfolio manager or are generated by investment models created and managed by portfolio managers. We typically allocate executed transactions on a pro-rata basis in proportion to the order size among participating eligible accounts. When a JMA trader receives a buy or sell order directly from the portfolio manager, and is not relying on the model to generate the order, we generally pre-allocate such order pro-rata based on size of account, unless there is a specific documented reason to allocate otherwise. We do not purchase securities in underwritings (IPOs for example) for accounts in managed account programs.

#### Order Placement of Institutional and Wrap Fee Account Transactions

Our JMA trading desk for block transactions is combined with and functions as a separate part of our institutional equity trading desk, and is managed and supervised by our head institutional trader (Head Trader). When a portfolio manager places orders to purchase or sell securities that are held in both institutional and managed accounts, the Head Trader and the JMA trader are responsible for developing trading strategies for each order that are fair to all participating clients and expected to yield the best available execution quality.

Under normal circumstances the Head Trader often aggregates the order on behalf of all participating institutional client accounts and begins trading. After the Head Trader executes no more than 50% of his order, he will typically instruct the JMA trader to begin communicating trades to JMA sponsors, or to broker/dealers designated by such sponsors. This practice will result in a delay in the placement and execution of JMA account orders with their corresponding sponsor brokers relative to institutional orders. The Head Trader and the JMA trader communicate on an ongoing basis in an effort to reduce market impact. The Head Trader and the JMA trader will typically seek to avoid competing against one another for available liquidity. The preceding guidance represents Jennison's most common order placement strategy, but the Head Trader and the JMA trader may deviate from this strategy when both individuals agree that a different approach is fair to all participating clients and expected to provide best execution. For example, depending on market dynamics, the Head Trader may place more than 50% of his order before instructing the JMA trader to begin trading. The Head Trader may also instruct the JMA trader to begin trading before placing any orders on behalf of institutional clients.

#### Rotation Among Managed Account Platforms

JMA traders use a computer based randomizer to set the order with which JMA sponsors and designated broker/dealers will be contacted. The randomizer sets a daily order in which sponsors and broker/dealers will be notified of trade recommendations. The JMA trader must place orders in accordance with the randomizer's output. When placing orders, depending on market conditions, we may wait for the execution of the prior placed order before placing the next order. If no orders are placed during a day, the JMA trader will re-run the randomizer at the start of the next trading day.

The JMA randomizer lists the sequence in which each JMA strategy should be traded, and then lists the specific order in which sponsors and broker/dealers should be contacted within each strategy. If a particular security is being traded on behalf of more than one strategy, all trades in the security should be placed in connection with the first strategy for which the security is to be traded.

To the extent possible, we include sponsors of the UMA Programs that use our nondiscretionary models in the random list so that we can communicate changes to our recommendations to the nondiscretionary model in the order of the resulting rotation. However, some sponsors have either operational or other constraints that prevent us from including them in the rotation. In such cases, we may communicate the recommendations for these nondiscretionary models either after we have placed or executed orders for our discretionary JMA accounts or communicated changes to the sponsors using the nondiscretionary models not subject to such constraints.

### **Trade and Operational Error Correction Policy**

We maintain a trade and operational error correction policy that provides that errors governed by the policy are corrected as soon as reasonably possible in a fair and reasonable manner. When we calculate the financial impact of an error, we intend to provide a remedy that is fair to our clients so that our clients are reimbursed when a loss occurs but do not receive undue performance gain, or windfall. We notify clients of trade or operational processing errors and the methodology used to calculate the impact of the trade or operational processing error, as well as the resolution.

## Item 13 – Review of Accounts

### *Periodic Review of Client Accounts by the Investment Teams*

- *Asset Management Accounts in General*

We have a team approach to portfolio management, although each portfolio manager has individual accountability for the accounts under his or her supervision.

Each strategy group meets regularly to discuss such topics as the results of trading, the performance of client accounts and new or ongoing issues and to exchange ideas. Our Chief Investment Officer and investment team supervisors also have responsibility for reviewing client accounts on a periodic basis and providing oversight of their investment teams.

- *Commingled Vehicles*

Some of our assets under management are held in U.S. registered mutual funds, collective investment trusts and other pooled investment funds that we subadvise. In these subadvised accounts, we and the investment portfolios we manage are subject to the oversight of the investment manager for the account, in addition to oversight by the boards of directors, plan trustees or investment committees of each account, as applicable.

### *Additional Ongoing Review of Accounts*

Control functions such as our compliance team also review and assess data and processes relating to our management and trading. They report results of these analyses independently to our senior management. Some examples of these independent reviews include:

- daily compliance review of accounts to assess consistency with guideline restrictions;
- periodic review of trading to examine allocation, trade errors, and timing; and
- periodic review by the appropriate groups of individuals charged with oversight responsibility for our investment management, trading and related activities.

The groups of individuals (which may be constituted as committees, councils, or advisory groups) charged with oversight responsibility as mentioned above include our:

- trade management oversight committees;
- pricing committees;
- proxy committee; and
- compliance council.

## *Reports to Clients*

We offer written reports regularly to all of our clients regarding their accounts. Our written reports to institutional and subadvised clients generally include the following:

- *Non-Wrap Equity Clients*

- Monthly:           (1) Statement and Appraisal of Assets  
                      (2) Statement of Activity  
                      (3) Summary of Security Transactions  
                      (4) Statement of Performance Evaluation
- Quarterly:       (5) Reports 1 through 4 above on a quarterly basis  
                      (6) Statement of Realized Gains and/or Losses

- *Fixed Income Clients*

- Monthly:   (1) Statement and Appraisal of Assets  
              (2) Statement of Activity  
              (3) Cross Section Analysis (Accounts that do not trade futures only)  
              (4) Cash Analysis  
              (5) Analysis of Bond Transactions  
              (6) Statement of Performance Evaluation
- Quarterly: (7) Reports 1 through 6 above on a quarterly basis  
              (8) Statement of Realized Gains and/or Losses

Additionally, some of our clients receive commentaries in which our investment professionals discuss the general performance of the strategy during the preceding quarter. They describe economic and market conditions that may have influenced performance, as well as other factors, such as particular industry, sector, security or other weightings.

We understand that our clients may have varying requirements to complete their due diligence and ongoing monitoring programs, and we work with our clients to provide the necessary information.

- *Wrap Program Clients*

Clients in wrap fee or managed account programs (including Dual Contract accounts) receive reports from the sponsor or financial intermediary.



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

Other than research and brokerage-related services described in Item 12 under the caption “Soft Dollar Benefits,” we do not receive economic benefits from anyone who is not a client in connection with the advisory services we provide to our clients.

We may, from time to time, have arrangements where we compensate, either directly or indirectly, affiliated and/or unaffiliated solicitors for client referrals. The manner and amount of compensation would typically be negotiated on a case-by-case basis.

Previously, we had an agreement with a third-party solicitor who introduced investors to our global healthcare hedge funds and provided client service to such investors. Although we terminated the agreement with this third-party solicitor, we are still obligated to pay this solicitor a portion of the fees that we earn from the management of the hedge funds attributable to those investors introduced by the solicitor for so long as such investors are fund investors. Under this arrangement, the third-party solicitor does not receive any compensation directly from fund investors.

We have an agreement with a third party solicitor based in Australia to introduce prospective advisory clients in Australia. Under this agreement we pay the solicitor a monthly fee as well as an additional referral fee based upon a percentage of the investment advisory fee we receive from clients introduced by this third party solicitor.

## **Item 15 – Custody**

We do not take physical custody of the assets of our clients. Client assets are held in custodial accounts with banks, broker-dealers or other qualified custodians typically retained by our clients under arrangements negotiated by them. Although we do not have possession of client assets, under SEC rules we may be deemed to have custody of client assets if an affiliate is deemed to have custody of them in connection with advisory services we provide to clients.

For example, we may be deemed to have custody of client assets when we or one of our affiliates act as a general partner of a limited partnership, managing member of a limited liability company or comparable position for a pooled vehicle or trustee of a trust that we manage or where an affiliated wrap fee program sponsor such as Pruco has possession of our advisory clients' assets.

We believe that our Pruco wrap fee clients and clients that have appointed Prudential Bank & Trust, FSB ("PB&T") as directed trustee will receive account statements from their qualified custodians no less frequently than quarterly, and should carefully review those statements. As described in Item 13 above under "Review of Accounts: Reports to Clients," we also generally provide reports to our clients. Some of the types of information we provide in those reports are comparable to information in the account statements clients receive from their custodians. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities or sources of market data. We urge our clients that have appointed PB&T as a directed trustee to compare the account statements they receive from their qualified custodians with those statements that they receive from us.

Private funds managed by Jennison are subject to an annual independent audit and the audited financial statements are distributed to investors within 120 days of the end of the funds' fiscal year.

## Item 16 – Investment Discretion

We typically have the discretionary authority to purchase and sell assets for client accounts. For most of our clients, this authority is granted pursuant to a written investment management or similar agreement between the client and us. For clients in wrap fee programs, clients enter into wrap fee account agreements with the sponsor that contain a power of attorney appointing us to manage the client's wrap fee account in the selected strategy. Clients in dual contract wrap fee programs enter into investment management agreements directly with us to grant us authority to manage their account in the selected strategy.

Our discretionary authority to manage client accounts is in all cases subject to the specific objectives, guidelines and limitations set forth in the investment management agreement, separate agreement or other written instruction by an authorized party.

Investment guidelines generally set forth the universe of eligible investments and issuers. As noted in Item 4, guidelines may also contain restrictions or limitations such as the following:

- a list of prohibited issuers or types of issuers;
- percentage limitations regarding the investment in certain issuers, groups of issuers or instruments or types of investments;
- limitations on the use of derivatives;
- percent limitations on foreign securities.

Certain regulated clients, such as U.S. mutual funds and ERISA accounts, are subject to additional investment, diversification and other limitations imposed by applicable law.

Some clients impose certain investment limitations on purchasing securities of companies that engage in certain types of businesses (for example, prohibit investment in tobacco companies). If the client has not provided a list of prohibited securities, we rely on the list provided by a third-party vendor. These vendors provide the information "as is" and we cannot guarantee the accuracy of such information. We are not responsible for incomplete or inaccurate data.

Some clients impose limitations or restrictions on the receipt of unrelated business taxable income or U.S. effectively connected income. The clients should be aware that certain publicly traded investments are structured in a manner that could result in the allocation of income that could be treated as unrelated business taxable income ("UBTI") if the security is held by tax exempt entities, such as corporate pension plans, foundations or endowments, or treated as effectively connected income ("ECI") to non-U.S. clients. Although we seek to identify and avoid such investments for these clients, due to the difficulty in identifying these securities and the reliance on third party vendor information that can be inaccurate, we cannot guarantee that a client will not receive UBTI or ECI.

## Item 17 – Voting Client Securities

### *In General*

We accept the authority to vote proxies on securities held in our clients' accounts when our clients wish to provide us with this authority. Our investment management agreements with our clients will generally specify whether or not we have the authority to vote proxies on their behalf. Typically, where we have the authority to vote proxies, we vote in accordance with our proxy voting policy and procedures as further described below.

### *Our Proxy Voting Policy and Procedures*

Our policy is to vote proxies in the best long-term economic interests of our clients without regard to our interests or the interests of our affiliates. In the case of pooled accounts, our policy is to vote proxies in the best long-term economic interest of the pooled account. We may consider on a secondary basis the public or social value of the proposal.

Our proxy voting guidelines contain detailed voting guidelines on a wide variety of issues commonly voted upon by shareholders. These guidelines reflect our judgment of how to further the best long-term economic interest of our clients (i.e. the mutual interest of clients in seeing the appreciation in value of a common investment over time) through the shareholder voting process. Our guidelines for some ballot issues recommend deciding on a case-by-case basis. Additionally, from time to time, our investment professionals may, after considering their responsibilities under this policy, vote differently from our guideline recommendation for a particular situation. Such overrides of guideline recommendations are reviewed by our Proxy Voting Committee.

Our Proxy Voting Committee includes representatives from our operations, risk, legal and compliance areas. This committee is responsible for interpreting our proxy voting policy as well as reviewing potential conflicts of interest, and annually assessing the policy's effectiveness. The committee seeks to address any issues that may come up in the proxy voting process. Any proxy vote that represents a potential material conflict is reviewed by our Proxy Voting Committee. The committee also reviews the performance of our proxy voting vendor annually to determine if we should retain their services.

We use the services of a third party vendor that provides proxy voting research and voting administrative services, which include the receipt of and tracking of ballots, the implementation of our proxy voting guidelines, acceptance and recording of our vote instructions, recordkeeping and reporting. We typically rely on the issuer or our clients' custodians to forward any materials regarding shareholder meetings to our vendor and we do not always receive all ballots in advance of voting deadlines. When ballots are received in a timely fashion, we strive to meet our voting obligations within industry standards. However, we cannot guarantee that every proxy will be voted prior to its deadline.

With respect to international holdings, in addition to the principles outlined above, we take into account additional restrictions in some countries that might impair our ability to trade those securities or have

other potentially adverse economic consequences. For example, we do not typically vote foreign proxies for meetings where routine matters are considered if shares must be restricted from trading in order to vote at the meeting. We generally vote foreign securities on a best efforts basis if we determine that voting is in the best economic interest of our clients.

From time to time, clients may deposit securities that are not actively researched by our fundamental equity research analysts into the accounts that we manage. Additionally, other accounts may be invested in securities that are selected through our quantitative investment process. In voting proxies for these securities, for issues where we have established a proxy voting guideline, we will vote in accordance with our proxy voting guideline recommendation. Additionally, in those circumstances where no specific guidelines exist, Jennison will consider the recommendations of the proxy voting vendor.

Any client may obtain a copy of our proxy voting policy, guidelines and procedures, as well as the proxy voting records for that client's securities, by contacting the client service representative responsible for the client's account.

#### *Note with Respect to the Voting of Securities on Loan*

Jennison may be unable to vote proxies when the underlying securities have been lent out pursuant to a client's securities lending program. Jennison does not know when securities are on loan and are therefore not available to be voted. In rare circumstances, our investment professionals may ask our Proxy Team to work with the client's custodian to recall the shares so that Jennison can vote. Efforts to recall loaned securities are not always effective since such requests must be submitted prior to the record date for the upcoming proxy vote; therefore, voting shares on loan is on a best efforts basis. In determining whether to call back securities that are out on loan, the investment professional will consider whether the benefit to the client in voting the matter outweighs the benefit to the client in keeping the security out on loan.

#### *Client Direction of Voting*

Although most of our clients for whom we vote proxies authorize us to vote in accordance with our proxy voting policy, a client may request that we vote its proxies in accordance with a different policy. We try to accommodate such requests. Where we have accepted client specified proxy voting guidelines, if the client guidelines do not address a proposal, we will vote in accordance with our proxy guidelines and procedures. In addition, a client may direct us to vote its securities in a particular way on a particular proposal and we will seek to do so, assuming timely receipt of the instruction.

#### *Conflicts of Interest in the Voting Process*

Occasionally, a conflict of interest may arise in connection with proxy voting. For example, the issuer of the securities being voted may also be a client of ours. When we identify an actual or potential conflict of interest between our firm and our clients, we vote in accordance with our pre-established guidelines. In that manner, we seek to maintain the independence and objectivity of the vote.

### *Accounts for Which We Do Not Vote Securities*

Some of our clients elect to retain voting authority for themselves. Those clients receive proxies and other solicitation materials from their custodians, and if we receive these materials for the account of such a client, we will forward them to the client's custodian. If a client has a question about a particular solicitation, the client may contact its client service representative and we will try to address the client's question.

### *Class Actions and Corporate Actions*

In addition to voting rights with respect to securities held in our clients' portfolios, there may be other rights associated with those securities, including the right or opportunity to participate in class action settlements and corporate actions.

We have agreed with some of our clients to file notices of claims for class action lawsuits relating to securities held, or formerly held, in their portfolios while managed by us. Other clients may have their custodians or other service providers handle notices of claim or may handle such notices themselves.

Where we have agreed to handle notice of claim filings for a client, we will generally seek and use our best efforts to file such notices in all class action lawsuits in which the client is eligible to participate. In so doing, we will not inquire into the particular circumstances of any client. As a result, we will not seek to determine on an individual basis whether facts and circumstances relevant to that client would suggest that non-participation in the class action is appropriate or more advantageous to that client. For example, a client on whose behalf a notice of claim is filed may, as a result of having joined the class, waive or relinquish other claims that it may have against the target of the class action. The client may also have an interest or position with respect to the nature of the class action claim that is adverse to that of the class of plaintiffs. We would generally not be aware of those circumstances. Had the client elected to handle class action lawsuits for itself, it might have determined not to file the notice of claim in such a class action. We do not provide any legal advice or services in connection with class actions or bankruptcies.

With respect to corporate actions (such as an issuer's merger, tender offer, dividend distribution, etc.), we participate on behalf of clients who authorize us to do so, taking such action as we deem to be in the best interest of the clients' accounts.

## **Item 18 – Financial Information**

We have no financial commitment that impairs our ability to meet contractual and fiduciary commitments to our clients.