

## Research Affiliates, LLC

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March 28, 2016

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This Form ADV Part 2A (Brochure) provides information about the qualifications and business practices of Research Affiliates, LLC. If you have any questions about the contents of this Brochure, please contact us at (949) 325-8700 or [compliance@rallc.com](mailto:compliance@rallc.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (SEC) or by any state securities authority. Research Affiliates, LLC is a registered investment adviser with the SEC. Our registration as an Investment Adviser does not imply a certain level of skill or training.

Additional information about Research Affiliates, LLC is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Material Changes

This Brochure, dated March 28, 2016, is a document amended at least annually and prepared by Research Affiliates, LLC according to the SEC's requirements and rules relating to Form ADV Part 2A. This item describes the changes made to the Brochure since it was previously amended.

Item 4 – Advisory Business: As of December 31, 2015, Research Affiliates, LLC managed approximately \$42 billion in regulatory assets under management, \$7 billion on a discretionary basis, and \$34 billion on a non-discretionary basis. In addition, licensees of Research Affiliates, LLC managed approximately \$115 billion.

Item 4 – Advisory Business: As of March 2016, Research Affiliates, LLC offers the following strategy:

**RAE® Low Volatility Foreign Equity** – The RAE® Low Volatility Foreign Equity strategy applies our RAFI® Fundamental Index® concept along with additional active insights to listed, global developed market equities (excluding Japan), emphasizing companies that display lower systematic risk.

Item 4 – Advisory Business: This item has been updated to reflect that Jason Hsu is no longer a member of the Investment Committee and following April 2016 Michael Larson will no longer be part of the senior management of Research Affiliates.

Items 4, 5, and 12 – These items have been updated since Research Affiliates no longer offers or has any wrap fee accounts.

Item 10 – This item has been updated to reflect that Rayliant Global Advisors (formerly Research Affiliates Global Advisors Limited, which was previously a wholly owned subsidiary of Research Affiliates Global Holdings, LLC) is now minority owned by Research Affiliates Global Holdings, LLC.

Item 10 – This item has been updated to eliminate any mention of the following private funds since they have been dissolved and their assets have been transferred to various vehicles managed by PIMCO and sub-advised on a discretionary basis by Research Affiliates, LLC: Research Affiliates Equity® International, L.P., Research Affiliates Equity™ US Small, L.P., Research Affiliates Equity® Emerging Markets, L.P., Research Affiliates Equity® Small International, L.P., Research Affiliates Equity® Global All Country Ex-US, L.P., and Research Affiliates Equity® Global All Country, L.P.

Research Affiliates will ensure that clients receive, at a minimum, a summary of material changes to this Brochure within 120 days of the close of its fiscal year. This information will be provided to existing clients without charge.

If you would like a copy of our Brochure, please contact our Chief Compliance Officer, Jeffrey A. Smith at (949) 325-8700 or [smith@rallic.com](mailto:smith@rallic.com). Additional information about Research Affiliates, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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## Item 4 – Advisory Business

Research Affiliates, LLC was founded in 2002 and is a global leader in innovative investment, smart beta, and asset allocation strategies. One of its competitive advantages rests in the strength of its research and development capabilities and ability to respond to the current needs of the global investment community. Leveraging its strong research focus, Research Affiliates designs and creates innovative products and services, which are distributed through some of the world's leading financial institutions. These strategic alliances Research Affiliates has with major financial institutions throughout the world take the form of sub-advisory and licensing relationships.

During 2011, Research Affiliates Global Holdings, LLC was formed as a holding company. Effective January 1, 2012, Research Affiliates Global Holdings, LLC acquired 100% ownership of Research Affiliates, LLC, when the owners of Research Affiliates, LLC exchanged all ownership interests in Research Affiliates, LLC for equivalent interests in Research Affiliates Global Holdings, LLC. Investment advisory activities are provided by Research Affiliates, LLC, a SEC registered investment adviser. Robert D. Arnott, founder and CEO, directly and indirectly controls more than 50% of Research Affiliates Global Holdings, LLC. The office for Research Affiliates is located in Newport Beach, California.

Research Affiliates is registered in Ireland with the Central Bank of Ireland and acts as investment manager to certain Irish authorized collective investment schemes offered by an unaffiliated third party.

### **Direct Asset Management**

Research Affiliates provides direct asset management services to institutional investors such as pension plans and state or municipal government entities through a broad range of investment strategies for institutional investors through separately managed accounts. Separately managed account clients may impose investment restrictions on investing in certain securities or types of securities.

### **Sub-Advisory Services**

Research Affiliates provides investment sub-advisory services on a discretionary and non-discretionary basis to registered investment companies by creating a model portfolio, and providing updated input data and consulting services regarding the models. Research Affiliates also acts in a discretionary sub-advisory capacity to separately managed accounts, private funds, registered investment companies and UCITS offered by an unaffiliated third party. Many services described and offered by Research Affiliates are based on its patented and patent-pending intellectual property.

### **Licensing**

Research Affiliates licenses intellectual property for use by third parties, including mutual funds, exchange traded funds and index providers for a fee. Licensees may use this intellectual property to develop investment strategies for managing accounts. In addition, services may include the development of model portfolios and indexes for a licensee's use.

## Strategies

Research Affiliates has developed multiple investment strategies, many based on patented and patent-pending intellectual property. Research has shown that an index based on market capitalization has the characteristic of overweighting overvalued stocks and underweighting undervalued stocks, resulting in a performance drag. The RAFI® Fundamental Index® methodology is designed to capture the benefits of passive indexing while avoiding the performance drag associated with capitalization-weighted indexes. It does this by selecting and weighting stocks in an index using fundamental measures of company size (e.g., cash flow, book value, sales, and dividends). The RAE® Fundamental strategies apply our RAFI® Fundamental Index® methodology along with additional active insights (e.g., quality of earnings or financial distress) and more frequent rebalancing.

The current investment strategies that are the basis for various investment accounts or products for which Research Affiliates acts as an investment adviser or a discretionary sub-advisor, respectively, include the following:

**RAE® Fundamental US Large** - The RAE® Fundamental US Large strategy applies our RAFI® Fundamental Index® concept along with additional active insights to large U.S. listed equities.

**RAE® Fundamental US Small** - The RAE® Fundamental US Small strategy applies our RAFI® Fundamental Index® concept along with additional active insights to small U.S. listed equities.

**RAE® Fundamental International** - The RAE® Fundamental International strategy applies our RAFI® Fundamental Index® concept along with additional active insights to internationally listed equities.

**RAE® Fundamental Emerging Markets** - The RAE® Fundamental Emerging Markets strategy applies our RAFI® Fundamental Index® concept along with additional active insights to listed equities in the emerging markets.

**RAE® Fundamental Global All Country** - The RAE® Fundamental Global All Country strategy applies our RAFI® Fundamental Index® concept along with additional active insights to global, including emerging market, equities.

**RAE® Fundamental Global All Country ex US** - The RAE® Fundamental Global All Country ex US strategy applies our RAFI® Fundamental Index® concept along with additional active insights to foreign developed and emerging market equities.

**RAE® Fundamental Global Developed** - The RAE® Fundamental Global Developed strategy applies our RAFI® Fundamental Index® concept along with additional active insights to listed, global developed market equities.

**RAE® Fundamental Europe** - The RAE® Fundamental Europe strategy applies our RAFI® Fundamental Index® concept along with additional active insights to listed European equities.

**RAE® Low Volatility Foreign Equity** – The RAE® Low Volatility Foreign Equity strategy applies our RAFI® Fundamental Index® concept along with additional active insights to listed, global developed market equities (excluding Japan), emphasizing companies that display lower systematic risk.

From time to time, Research Affiliates may develop other investment strategies based on specific parameters, including facilitating certain investment restrictions. Such strategies may be tailored around an investment policy statement, objectives or unique restrictions.

As of December 31, 2015, Research Affiliates, LLC managed approximately \$42 billion in regulatory assets under management, \$7 billion on a discretionary basis, and \$34 billion on a non-discretionary basis. In addition, licensees of Research Affiliates, LLC managed approximately \$115 billion.

**Education and business background of our senior management:**

ROBERT D. ARNOTT

Year of Birth: 1954

(Member of Investment Committee)

Education: B.A. Applied Mathematics, Computer Science and Economics, University of California, Santa Barbara. Business Background: Member, Chairman and CEO, Research Affiliates, LLC, since May 2002; Registered representative, PA Distributors LLC, February 2003 - December 2004; Chairman, First Quadrant, L.P. (“FQ”), May 2002 - April 2004; Chief Executive Officer, FQ, March 1996 - May 2002; President and Board Director, First Quadrant Corp., April 1988 - March 1996; Strategist, Salomon Brothers, March 1987 - April 1988; President, TSA Capital Management, March 1984 - February 1987; Vice President, The Boston Company, June 1977 - March 1984.

JASON C. HSU, PhD

Year of Birth: 1974

(Member of Investment Committee Thru March 2016)

Education: B.S., Summa Cum Laude, Physics, California Institute of Technology, 1996; Ph.D., Finance, University of California, Los Angeles, 2004. Business Background: Vice Chairman, Research Affiliates, LLC, since April 2014 and Managing Director thru March 2016; Managing Director, Chief Investment Officer, Research Affiliates, LLC, January 2009 – April 2014; Managing Director, Research & Investment Management, Research Affiliates, LLC, May 2002 - January 2009; Assistant VP, Derivatives Research and Trading, Far Eastern Securities 1998 - 1999; Consultant to Farmers Insurance Group, Global Window Partners, the VirtualStockExchange.com, Taiwan National Association of Securities Dealers; Instructor Financial Management, Taiwan National University of Political Science (NCCU) 1997 - 1998; Instructor Financial Economics, Shanghai University, 1998; Research fellow, Center for Business Economics and Computational Finance at NCCU.

KATRINA F. SHERRERD, PhD, CFA

Year of Birth: 1957

(Member of Investment Committee)

Education: B.S. Finance, McIntire School of Commerce, University of Virginia, 1979; M.S. Transportation Studies, Massachusetts Institute of Technology, 1983; Ph.D. Finance, Darden School, University of Virginia 1987. Business Background: Managing Director, President, Research Affiliates, LLC, since April 2014; Managing Director, Chief Operating Officer, Research Affiliates, LLC, since January 2009; Managing Director, Strategic Planning and Affiliate Relations, Research Affiliates, LLC, November 2006 - January 2009; Managing Director, CFA Institute, 1987 - 2007. Visiting professor, Darden School, University of Virginia, 2004 - 2006. Lecturer, McIntire School of Commerce, University of Virginia, 1983 - 1992.

FEIFEI LI, PhD

Year of Birth: 1978

(Member of Investment Committee)

Education: B.A. Finance, Tsinghua University, 2000; Ph.D. Finance, University of California, Los Angeles, 2005. Business Background: Director, Head of Product Research, Research Affiliates, LLC, since November 2014; Director, Head of Product Management, Research Affiliates, LLC, since August 2014; Director, Research, Research Affiliates, LLC, January 2009 – July 2014; Associate Director, Research, Research Affiliates, LLC, December 2007 - December 2008; Vice President, Manager, Research, Research Affiliates, LLC, May 2007 - December 2007; Vice President, Research, Research Affiliates, LLC, January 2007 - April 2007; Senior Research Associate, Research, Research Affiliates, LLC, July 2005 - December 2006.

JOHN M. WEST, CFA

Year of Birth: 1973

(Member of Investment Committee)

Education: B.S. Finance, University of Arizona, Business Administration, 1996. Business Background: Managing Director, Head of Client Strategies, Research Affiliates, LLC, since March 2014; Managing Director, GTAA Product Management, Research Affiliates, LLC, January 2013 – February 2014; Director, Product Specialist, Research Affiliates, LLC, January 2009 - December 2012; Associate Director and Product Specialist, Research Affiliates, LLC, April 2008 - December 2008; Associate Director, Marketing and Affiliate Relations, Research Affiliates, LLC, December 2007 - March 2008; Vice President and Product Specialist, Research Affiliates, LLC, September 2007 - December 2007; Vice President, Research Affiliates, LLC, June 2006 - August 2007; Senior Consultant and Vice President, Research, Wurts & Associates, 1997 - 2006; Performance Analyst, Wurts & Associates, 1996 - 1997.

CHRISTOPHER BRIGHTMAN, CFA

Year of Birth: 1961

(Member of Investment Committee)

Education: B.A. Finance, Virginia Tech, 1983; MBA, Loyola University Maryland, 1989. Business Background: Managing Director, Chief Investment Officer, Research Affiliates, LLC, since April 2014; Managing Director, Head of Investment Management, Research Affiliates, LLC, January 2013 – April 2014; Director, Strategy, Research Affiliates, LLC, May 2010 – December 2012; Chief Executive Officer, UVIMCO, December 2004 – March 2010; Chief Investment Officer, Strategic Investment Group, March 2001 – December 2004.

MICHAEL LARSEN (Thru April 2016)

Year of Birth: 1962

Education: B.S. Business and Accounting, University of Nebraska, 1985; M.A. Asian Studies, Darden School, University of Virginia 1991. Business Background: Director, Global Strategic Partnerships, Research Affiliates, LLC, since April 2014; Director, Head of Strategic Relationships and Head of EMEA Region, Research Affiliates, LLC, since March 2014; Director, Global Head of Affiliate Relations, Research Affiliates, LLC, January 2013 – February 2014; Director, Affiliate Relations, Research Affiliates, LLC, January 2011 – December 2012; Associate Director, Affiliate Relations, Research Affiliates, LLC, January 2009 – January 2011; Vice President, Affiliate Relations, Research Affiliates, LLC, September 2007 – January 2009; Independent Consultant, October 2005 – September 2007; Managing Director, Investment Advisory Services and Chief Investment Officer, The Threshold Group, LLP, June 2004 – October 2005; Managing Director, Private Client Services, Trust Company of the West, June 1998 – May 2004.

DANIEL M. HARKINS

Year of Birth: 1949

Education: B.A. History, University of Kansas, 1971; J.D. University of Kansas Law School, 1974. Business Background: Chief Legal Officer, Research Affiliates, LLC, since September 2009; Chief Compliance Officer, Research Affiliates, LLC, September 2009 – September 2013; Associate Director, Investment Operations, Research Affiliates, LLC, May 2009 - February 2012; Chief Compliance Officer and Senior Counsel, Research Affiliates, LLC, March 2008 - May 2009; Compliance Counsel, Research Affiliates, LLC, November 2006 - March 2008; Partner, The Feldhake Law Firm, 2001 - 2006.

JEFFREY S. WILSON

Year of Birth: 1971

Education: B.S. Business Administration, University of Southern California, 1993; MBA, University of Southern California, 1995. Business Background: Head of Institutional Relations, Research Affiliates, LLC, since January 2013; Senior Vice President, Institutional Client Group, Research Affiliates, LLC, June 2010 - December 2012; Senior Associate, Maverick Capital, January 2008 - December 2009; Senior Vice President, The TCW Group, Inc., July 1997 - October 2007.



JOSEPH D. HATTESOHL, CFA

Year of Birth: 1963

Education: B.S. Accounting and Business Administration, University of Kansas, 1986; Business Background: Head of Direct Management, Research Affiliates, LLC, since March 2014; Chief Financial Officer, Research Affiliates, LLC, since January 2012; Managing Director, Trust Company of the West, February 2010 - November 2010; Managing Director, Chief Financial Officer, Metropolitan West Asset Management, LLC, November 2000 - February 2010.

JEFFREY A. SMITH

Year of Birth: 1973

Education: B.S. Accounting, University of Kentucky, 1996; J.D., University of Kentucky College of Law, 1999; LL.M. Securities & Financial Regulation, Georgetown University Law Center, 2011; CRCP, University of Pennsylvania, Wharton School of Business/FINRA Institute, 2008; CRM, IIPER Business School, 2008; IACCP, NRS/IAA, 2010; Business Background: Chief Compliance Officer, Research Affiliates, LLC, since October 2013; Assistant General Counsel, Research Affiliates, LLC, since August 2013; Director of Compliance, Athene Asset Management, LLC, July 2012 – August 2013; Senior Counsel, The Rock Creek Group, LLC, July 2010 – July 2012; Investigative Attorney, Financial Crisis Inquiry Commission, April 2010 – July 2010; LSOP, U.S. Securities and Exchange Commission, Office of Director of Enforcement, January 2010 – April 2010; Legal Officer, Risk Officer, and Compliance Team Leader, Consulting Services Support Corporation, May 2006 – April 2009; Managing Partner, Smith & Associates, November 2001 – May 2006; Manager, Crowe Horwath, July 2000 – November 2001; Associate, Deloitte & Touche, August 1999 – June 2000.

### Item 5 – Fees and Compensation

Separately managed account fees for accounts that are directly managed by Research Affiliates are based on the terms of individual investment management agreements. Fees are negotiated on a case-by-case basis. Most separately managed accounts are billed quarterly, in arrears, based on a percentage of assets under management. Accounts may have fees based on a combination of a percentage of assets under management and a performance fee based on returns above a specific market benchmark. Each separately managed account may have its own fee schedule and structure for calculating assets under management for billing purposes. Most separately managed account clients are billed based on the average of the three month-ending custodian market values of the applicable quarter. Clients receive quarterly fee invoices and are responsible for arranging payment to Research Affiliates. Typically, payments for fees due are received by wire.

For investment companies, private funds, UCITS and separately managed accounts that Research Affiliates sub-advises, fees are paid to Research Affiliates by the independent third-party investment adviser for such sub-advised accounts. These fees are paid in arrears and are an allocation of the fees received by the third-party investment adviser. Each related sub-advisory agreement is negotiated on a case-by-case basis with the respective third-party investment adviser.

For licensing arrangements, compensation is received in arrears. In general, fees are based on a percentage of average daily asset value of applicable assets under management of the licensee. In other cases, Research Affiliate's fees may be based on a portion of the fee collected by the licensee

from its client. Each licensing arrangement, including fee compensation structure, is negotiated on a case-by-case basis.

All accounts, in addition to the advisory fees payable to Research Affiliates, may incur brokerage and other transaction costs in connection with the management of such accounts. The costs are paid directly to an unaffiliated broker-dealer, custodian, or other service provider. Research Affiliates does not receive, directly or indirectly, any of these costs charged to the clients. Please refer to Item 12 Brokerage Practices for more information.

No employees receive, directly or indirectly, any compensation from the sale of securities or investments that are purchased or sold for client accounts. As a result, Research Affiliates is a “fee only” investment adviser. Research Affiliates does not have any potential conflicts of interest that relate to any additional and undisclosed compensation from its clients or the assets that Research Affiliates directly manages or sub-advises.

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

Within any given investment strategy that Research Affiliates provides through its direct management services, it may have separately managed accounts with different fee schedules. One client may have an asset-based fee, while another client has an incentive-based fee. On the accounts for which Research Affiliates acts as a sub-advisor, it generally receives from the investment adviser an allocation of the investment advisory fees they receive. While there is a potential conflict of interest due to the possibility Research Affiliates could earn a higher fee on one account versus another, Research Affiliates’ investment discipline is quantitative and rules based, and where possible, all accounts within a strategy are traded at the same time, which mitigates the conflicts. Changes in portfolio construction and transactions are based on a stated timetable or on client controlled contributions and withdrawals.

### **Item 7 – Types of Clients**

Research Affiliates provides direct investment management services to institutional investors including pension and profit sharing plans and state or municipal government entities. Research Affiliates also provides discretionary and non-discretionary sub-advisory services to an independent, third-party investment adviser to unaffiliated registered investment companies, UCITS, separately managed accounts and private funds.

### **Privacy Notice to Clients**

Research Affiliates does not disclose nonpublic personal information about its current or former clients except as permitted or required by law. Access to nonpublic personal information about clients is restricted to only those who need to know the information to perform specific job functions. Physical, electronic and procedural safeguards that comply with federal standards to safeguard nonpublic information are maintained. Subject to applicable disclosures, clients may be identified on Research Affiliates’ representative client lists.

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

As discussed in Item 4 Advisory Business, Research Affiliates offers several investment strategies, including many based on a variation of its patented and patent-pending Fundamental Index<sup>®</sup> methodology. The RAFI<sup>®</sup> Fundamental Index<sup>®</sup> methodology uses financial accounting measures of company size to gauge the economic footprint of a company (e.g. cash flow, sales, book value and dividends) rather than market capitalization, to select and weight stocks and create an indicative portfolio or index. The RAE<sup>®</sup> Fundamental strategies incorporate additional active insights (e.g., quality of earnings or financial distress) along with more frequent rebalancing.

To assist in the model portfolio construction process, Research Affiliates utilizes a broad spectrum of information from industry vendors including, financial publications, corporate actions, third-party research materials, annual reports, prospectuses and regulatory filings. Each strategy offered is rules-based and offers broad market exposures and investment diversification. Since our model portfolio construction and modification processes require computer programming, an error in related computer coding could result in a loss to an investor in a strategy or vehicle dependent upon the given model portfolio. Research Affiliates mitigates the risks of such coding errors, in part, by testing methodology as set forth in the respective technical document using different programmers, a different programming language and by reconciling differing results. Non-methodology changes to portfolio construction code are generally tested for repeatability of past-delivered portfolios and results are analyzed. Model portfolios also undergo quality assurance reviews before delivery.

Investing in securities involves risk of loss that each client should be prepared and able to bear. Stock and bond markets fluctuate significantly over time, and certain strategies may impose more risk than others. As a result, clients with exposure to Research Affiliates strategies risk loss of the assets invested in products or accounts managed according to these strategies. Research Affiliates does not guarantee any level of performance or that clients will not experience a loss in the value of their assets. Any past performance is not a guarantee of future performance.

In general, the strategies Research Affiliates offers may involve more trading activity and related costs as compared to traditional passive indexing strategies, but may involve less trading activity compared to traditional active management strategies. When comparing investment managers or strategies, trading frequency is one of many factors to consider. Frequent trading of securities can have a negative effect on investment performance due to the increased brokerage commissions and related costs involved.

Investments in the private funds for which Research Affiliates acts as a discretionary sub-advisor are subject to risks such as: dependence on key individuals, increased regulatory scrutiny, lack of liquidity, restrictions on resale, heavy reliance on market data and investment selection process, activities of the managing member and investment adviser, changing economic and market conditions, index calculation errors, misapplication of corporate actions, data errors, portfolio construction errors, and general investment and trading risks. Actual securities holdings in a private fund's portfolio are under the control of the fund's investment manager and managing member.

Investments in registered investment companies (e.g., mutual funds and ETFs) or UCITS that Research Affiliates sub-advises are subject to a number of risks that are identified in detail within each fund's respective offering documents (e.g., prospectus, statement of additional information, etc.). All investors in such funds should receive and carefully review these documents.

## Item 9 – Disciplinary Information

Research Affiliates is obligated to disclose any disciplinary event that would be material to clients and prospective clients evaluating Research Affiliates. At this time, Research Affiliates does not have any disciplinary events to report. This statement applies to the company and every employee.

## Item 10 – Other Financial Industry Activities and Affiliations

Research Affiliates licenses its intellectual property to registered investment advisers, investors and index providers on a customized basis. The terms, fees and services provided under each arrangement are negotiated on a case-by-case basis.

Research Affiliates, LLC is the investment adviser for and provides non-discretionary investment management services to an affiliated limited partnership, Research Affiliates Capital, L.P. This limited partnership is a single client of Research Affiliates and is not open to outside investors.

Arnott Family Trust, a related person of Research Affiliates, LLC, is the general partner of Research Affiliates Capital, L.P. A related affiliate, Research Affiliates Management, LLC, which is a wholly owned subsidiary of Research Affiliates Global Holdings, LLC, is the general partner of Research Affiliates Equity<sup>®</sup> US Large, L.P., which currently has no investors and will be dissolved in the future.

Research Affiliates Global Advisors (Europe) Limited is a UK company, providing support services to certain, non-advisory licensees of Research Affiliates, LLC in Europe. Research Affiliates Global Advisors (Europe) Limited is a wholly owned subsidiary of Research Affiliates Global Holdings, LLC and does not have any clients other than Research Affiliates, LLC.

Rayliant Global Advisors (formerly Research Affiliates Global Advisors Limited, which was previously a wholly owned subsidiary of Research Affiliates Global Holdings, LLC) is now minority owned by Research Affiliates Global Holdings, LLC. In January 2016, Jason Hsu acquired a controlling interest in Research Affiliates Global Advisors Limited.

Research Affiliates provides sub-advisory services related to certain unaffiliated private funds, investment companies, UCITS, and separately managed accounts ("sub-advised accounts"). Research Affiliates receives an allocation of the fees investors pay to third-party investment advisers serving the sub-advised accounts. The fees paid by an investor that invests in any sub-advised accounts may be higher or lower than the fees an investor may pay elsewhere for similar investment strategies or services. Research Affiliates provides advisory services to both directly managed accounts (some of which charge incentive-based fees) and sub-advised accounts utilizing similar investment strategies and the fees received by Research Affiliates for each of these services varies. While there is a potential conflict of interest due to Research Affiliates earning a higher

fee on one account versus another, Research Affiliates addresses this conflict by exercising an investment discipline, which is quantitative, and rules based, and where possible, all accounts within a strategy are traded at the same time.

### Item 11 – Code of Ethics

Research Affiliates does not, directly or indirectly, buy from or sell securities to any client. Employees may have positions in securities recommended for investment. Employees and accounts in which they have a beneficial interest are not permitted to purchase individual, publicly traded securities or related derivatives, including securities offered in an initial public offering. Research Affiliates has developed policies and procedures requiring pre-approval by its compliance department of certain securities transactions. Employees are restricted from any transactions in their own account, or accounts in which they have a beneficial interest, where such transactions may be detrimental to a client.

All employees are required to provide authorization for Research Affiliates to receive brokerage account activity and/or duplicate copies of brokerage statements. Daily brokerage account trading activity is fed into a web-based personal trading compliance application and monitored for compliance with personal trading policies and restrictions. As applicable, duplicate copies of brokerage account statements are reviewed quarterly by our compliance department to monitor compliance with personal trading policies and restrictions. All employees perform periodic personal trading electronic certifications, such as quarterly reporting of transactions, annual holdings reports, and annual brokerage account reports.

Research Affiliates has adopted policies and procedures concerning the possession of and use of material non-public information. All employees receive a copy of the Research Affiliates Compliance Manual, including the Code of Ethics, and any updates, which include written policies and procedures relevant to personal trading and material non-public information.

Research Affiliates believes that its Code of Ethics complies with the Investment Advisers Act of 1940 and the Investment Company Act of 1940 (if applicable). The Code of Ethics establishes standards of business conduct, states that Research Affiliates will conduct its business in accordance with all applicable laws, rules and regulations, and outlines Research Affiliates' duties and responsibilities as a fiduciary to its clients. A copy of the Code of Ethics is available upon request.

### Item 12 – Brokerage Practices

Research Affiliates has engaged Parametric Portfolio Associates LLC (Parametric), a Seattle, Washington based independent SEC registered investment adviser, to handle front, middle and back office support functions for Research Affiliates' directly managed and discretionary, sub-advised accounts. Please refer to Parametric's disclosure document for more information on this Item. Parametric's disclosure document can be found on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Subject to the investment directives they receive from Research Affiliates, Parametric generally has the authority to make investment decisions without prior consultation with the client. At any

time, clients may place limitations or restrictions on Research Affiliates' discretionary authority in the management of their account. Clients communicate such limitations or restrictions in writing to Research Affiliates. In rendering advisory services, Research Affiliates complies with the investment policies, limitations, and restrictions of each client.

A client may give Research Affiliates discretion for selecting a broker on their behalf. This discretion is delegated to Parametric and in such cases Parametric considers the following factors when selecting a brokerage firm: quality of execution, clearance and settlement capabilities, financial stability, and commission rates and cost. Considering the circumstances, the overall objective in effecting portfolio transactions is to obtain the best combination of price and execution for clients.

For unaffiliated private funds, investment companies or UCITS for which Research Affiliates acts as a non-discretionary sub-advisor, Research Affiliates has no authority to determine the specific securities bought or sold, the amount of such securities, the broker-dealer used, or the commission rate to be paid.

For unaffiliated private funds, investment companies or UCITS for which Research Affiliates acts as a discretionary sub-adviser, it may have authority to determine the broker-dealer used or the commission rate to be paid. For such accounts, Research Affiliates delegates to Parametric the selection of a broker-dealer and the determination of the rate to be paid to any such broker-dealer.

Research Affiliates has a policy to not engage in "soft dollar" arrangements that are related to securities brokerage transactions. Parametric also follows this policy for all accounts for which they have been delegated by Research Affiliates, LLC any responsibilities. Research Affiliates may receive the use of products, research or services from third parties, but they are not paid for through brokerage activities. Research Affiliates does not receive compensation, benefits, products, research or services from any broker-dealer to whom brokerage transactions are directed beyond normal brokerage services.

### Item 13 – Review of Accounts

Estimated performance of portfolios delegated to Parametric is reviewed daily. This review includes performance over various time horizons and summary position information such as valuation ratios and weighted average market capitalization. Evidence of unusual performance or positions prompts a review of detailed portfolio positions. Parametric sends daily detailed position reports to Research Affiliates.

Final performance calculations for all portfolios and composites are reviewed and approved monthly by Research Affiliates' investment management and compliance departments. The GIPS Committee meets on a quarterly basis to review the performance of composites and related portfolios. Evidence of unusual individual portfolio performance compared to its composite prompts a review to explain the performance. The individuals participating in the GIPS Committee may include representatives from investment management, accounting, legal, compliance, client services, affiliate relations and strategic operations.

The nature and frequency of written reports provided to separately managed account clients for which Research Affiliates acts as the investment adviser are determined primarily by the particular needs of each client and client instructions. Generally, clients receive monthly reports from Research Affiliates. In addition, clients receive at a minimum, separate quarterly or more frequent, account statements from the broker-dealer, bank or other qualified custodian detailing all cash and asset transactions and activity within their account. In general, meetings with clients are held according to the stated desires of each client. Client reports may include a written analysis of all assets under management, portfolio characteristics, and current and historical performance.

For unaffiliated private funds, investment companies, and UCITS that Research Affiliates sub-advises on a discretionary basis, Research Affiliates provides to the respective investment adviser daily, monthly and annual reports relating to portfolio construction, portfolio performance, and/or other reports as required by the respective manager or SEC rules. Actual holdings in a fund's portfolio are under the control of the fund manager.

### Item 14 – Client Referrals and Other Compensation

Currently, Research Affiliates does not have any third party referral relationships.

### Item 15 – Custody

Under federal securities law, Research Affiliates may be deemed to have custody of client assets because an affiliate acts as the general partner to the affiliated Research Affiliates Capital, L.P. Research Affiliates does not have, and does not accept, physical care or custody of any assets of any client. Limited partnership assets are held in the name of the limited partnership. Separately managed account assets are held in the name of each separately managed account client. The limited partnership and each separately managed account selects a custodian and may be required to pay custodian fees. In the course of managing the limited partnership and each separately managed account, clients incur brokerage and other transaction costs. See Item 12 Brokerage Practices for a discussion of how brokerage decisions that affect client accounts are made.

In all applicable cases, custody shall be maintained with a qualified custodian (brokers/dealers, banks, trust companies, or other qualified institutions). The qualified custodian will maintain client assets and typically send directly to each directly managed limited partnership and separately managed account quarterly or more frequent account statements detailing all cash and asset transactions and activity within their accounts. Clients are strongly urged to compare the account statements they receive from their qualified custodian to the statements provided by Research Affiliates. Account statement balances may occasionally differ from custodial statements due to accounting practices, reporting dates, currency valuations, or security valuation methodologies of certain securities. For tax and other purposes, the custodial statement is the official record for the account and assets.

### Item 16 – Investment Discretion

For each separately managed account for which Research Affiliates acts as the investment adviser, Research Affiliates generally has the authority to make investment decisions without prior consultation with the client. Contracts with each Research Affiliates client provides for such authority. Client directed investment guidelines may limit the scope of investment discretion. As a result, clients can impose restrictions on investing in certain securities or types of securities. Clients communicate such restrictions to Research Affiliates in writing.

A client may give Research Affiliates discretion for selecting a broker on their behalf. In such instances, Research Affiliates delegates this authority to Parametric since it implements trades for Research Affiliates. Parametric considers the following factors when selecting a brokerage firm: quality of execution, clearance and settlement capabilities of the broker, its financial stability, and commissions and cost.

For the unaffiliated accounts to which Research Affiliates is a non-discretionary sub-advisor, it has no authority to determine the specific securities bought or sold or the amount of such securities. For unaffiliated private funds, investment companies or UCITS for which Research Affiliates acts as a discretionary sub-advisor, it has authority, subject to investment restrictions and objectives, to determine the specific securities bought or sold and the amount of such securities bought or sold.

As of December 31, 2015, Research Affiliates, LLC managed approximately \$7.0 billion on a discretionary basis.

### Item 17 – Voting Client Securities

For certain separately managed accounts, Research Affiliates has retained the services of a third party vendor to vote proxies absent any prior client directive. To the extent Research Affiliates votes proxies in-house, it is responsible to act in the best interest of its clients. To the extent that an engaged third party votes proxies on behalf of the firm and its clients, the third party provider shall vote proxies in a manner consistent with proxy voting policies and procedures. Each client retains the right at all times to withdraw the proxy voting authority by providing Research Affiliates with a written notice of withdrawal of authorization. A copy of proxy voting policies and procedures is available upon request.



Research Affiliates' proxy voting policies and procedures and proxy voting guidelines provide guidance so that Research Affiliates and the third party to which it has delegated responsibility for voting proxies act in a manner intended to be prudent, diligent and in the best interests of clients. The occasions when ballots may not be voted include, but are not limited to, when the cost of voting the proxy exceeds the expected benefit to the client, where a jurisdiction imposes share blocking restrictions which may impact the ability to affect trades in the related security, or when voting is inconsistent with Research Affiliates' fiduciary obligations. Research Affiliates' proxy voting shall be conducted in compliance with its proxy voting guidelines unless a client instructs otherwise. In the event that Research Affiliates is required to vote a proxy that could result in a conflict between a client's best interests and the interests of Research Affiliates, the advice of a knowledgeable, independent third party regarding how to vote may be sought. Clients may request at any time a report of all proxies voted for their account. Proxies are not voted where the receipt of proxy materials or related shareholder communications is untimely.

### Item 18 – Financial Information

Research Affiliates is required in this Item to provide certain financial information or disclosures about its financial condition that is reasonably likely to impair its ability to meet contractual commitments to its clients. Research Affiliates has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of any bankruptcy proceeding.