



## **FORM ADV PART 2A**

### **NISA Investment Advisors, LLC**

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**March 29, 2017**

This brochure provides information about the qualifications and business practices of NISA Investment Advisors, LLC. If you have any questions about the contents of this brochure, please contact us at 314-721-1900. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority. The terms "registered" and "registered investment adviser" do not imply a certain level of skill or training.

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

The following statement is required by the rules of the Commodity Futures Trading Commission (the "CFTC"): Pursuant to an exemption from the CFTC in connection with accounts of qualified eligible persons, this brochure or account document is not required to be, and has not been, filed with the CFTC. The CFTC does not pass upon the merits of participating in a trading program or upon the adequacy or accuracy of commodity trading advisor disclosure. Consequently, the CFTC has not reviewed or approved this trading program or this brochure or document.

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## **ITEM 2 – MATERIAL CHANGES**

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This section describes important updates to this document made since it was filed with the SEC on March 29, 2016. In addition to formatting changes and clarifications of our processes and procedures, the information below represents what NISA views as the material changes to our disclosure:

### **Item 4 – Advisory Business.**

**About NISA:** In May 2016, NISA updated this section to include information about NISA's recently completed organizational restructuring, including the creation of a new holding company.

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

Throughout this section, we added language to include international fixed income and international equity investments as asset classes which NISA manages. We added a General Investment Risk section as well as Cyber and Technology Risk section. We also added and reformatted sections relating to Select Risks that are more specific to Domestic and International Fixed Income, Domestic and International Equity and Synthetic Exposure. Finally, we clarified our process relating to the prohibition of short sales of fixed income securities.

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

**Code of Ethics:** Standards of Professional Conduct: We added a section on the processes followed when NISA commits a non-trading related error.

### **Item 12 – Brokerage Practices.**

**Trading Errors:** We clarified the language in this section relating to the notification of Trade Errors.

### **Item 13 – Review of Accounts.**

We added a paragraph to this section which clarifies, among other things, that NISA's client reporting is not investment advice and that NISA is not acting as a fiduciary when providing these reports.

### **Item 15 – Custody.**

We added a paragraph which disclaims responsibility for NISA with respect to any agreements between a client and its custodian.

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

We added international securities proxy voting practices and new language in response to the Department of Labor's new rules on proxy voting for ERISA portfolios.

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## ITEM 4 – ADVISORY BUSINESS

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### About NISA

NISA Investment Advisors, LLC. ("NISA") is registered as an investment adviser under the Investment Advisers Act of 1940. NISA began advising clients in April 1994. NISA's ultimate principal owners are:

- Jess Yawitz, Chairman and Chief Executive Officer, through Parkridge, Inc., and
- William (Bill) Marshall, President, through Marshall Holdings, Inc.

In April 2016, NISA undertook an organizational restructuring with the creation of a new holding company named NISA, LLC. (the "Holding Company") in order to provide more flexibility in our product offerings. As a result, NISA is now a wholly owned subsidiary of the Holding Company. The ownership interests in the Holding Company are substantially similar to the previous ownership interests in NISA. The entity providing all current services to clients will continue to be NISA, and as such, we do not view this change as having a material effect on our current clients.

### Types of Advisory Services

NISA manages assets on a fully or partially discretionary basis. Refer to Item 16 – Investment Discretion for more information about the requirements for NISA to accept discretion for client assets.

NISA is focusing on the following investment sectors:

- domestic high-grade fixed income;
- domestic publicly traded equity;
- international high-grade fixed income;
- International publicly traded equity; and
- synthetic exposure to domestic and international fixed income, equity, currency, and commodity markets.

Additionally, NISA provides services to clients that have or wish to establish completion mandates. Completion mandates are strategies where the client targets specific interest rate and credit spread hedge ratios, and NISA rebalances to those targets on a periodic basis. A client frequently allocates some, or all, of its completion mandate assets to a strategy specifically designed to only obtain beta exposure. The investment approach for this type of fixed income portfolio generally differs from actively managed strategies.

NISA has established the DC Solutions Group that is designing strategies to provide glide path management services including initial modeling and testing of the glide path for defined contribution clients using market and demographic assumptions developed by NISA. These services may also include management of some of the plan assets and/or trading on behalf of the plan.

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NISA also provides other investment advice. This advice is frequently more general in scope than the advice normally given in a typical asset management assignment. Examples of this advice include asset/liability management, rebalancing policy, and stable value wrap selection and administration. Typically, NISA tailors this advice to the client's investment objectives and circumstances. NISA provides this type of advice on a discretionary or non-discretionary basis.

The services provided by NISA and all of the fees to be paid by the client are detailed in the client's Investment Management Agreement, as amended from time to time.

### **Investment Restrictions and Guideline Violations**

NISA assists each client in developing investment guidelines tailored to the client's specific needs. The guidelines generally specify limits on the type and amount of securities held. The client sometimes specifies limits at the issuer, industry, rating or other level. NISA will accept other restrictions if we believe we can comply with them.

NISA uses automated systems and manual checks to seek to confirm that all client portfolios are managed in accordance with their stated objectives and restrictions. A trade that is inconsistent with a client's objectives or restrictions that is detected and corrected prior to settlement of the trade at no cost to the client is not considered a guideline violation. In addition, a passive market move that takes a portfolio over a limit is also not considered a guideline violation.

### **Wrap Fee Programs**

NISA does not participate in or sponsor wrap fee programs.

### **Assets Under Management**

NISA calculates assets under management for use in our client and promotional presentations, regulatory filings, consultant databases, composite calculations and for other similar uses. NISA's assets under management calculation normally includes actively managed cash assets such as regular cash portfolios, including those that utilize derivatives to manage duration, actively managed cash collateral portfolios, and the marked-to-market value of:

- derivatives used in cash securities portfolio management;
- derivatives used to adjust the duration of a cash securities portfolio in which the use of derivatives is incidental to the investment strategy;
- cash securities resulting from a repurchase agreement transaction; and
- derivatives used in synthetic exposure portfolios that are secured by collateral.

NISA generally excludes the following assets when calculating assets under management:

- derivatives in overlay-only engagements managed as part of an overlay of cash assets not managed by NISA;
- derivatives in a duration overlay engagement

- the market value of accounts over which NISA has no discretion, such as an account that has been liquidated for withdrawal or for which NISA has received a termination notice;
- stable value assets for which NISA only provides wrap administrative services; and
- collateral posted by a counterparty to a client.

As of December 31, 2016, NISA managed the following assets under management:

<b>Discretionary</b>	\$141,350,122,723.26
<b>Non-Discretionary</b>	\$1,997,298.33
<b>Total</b>	\$141,352,120,021.59

Additionally, as of December 31, 2016, NISA managed over \$70 billion notional value in derivatives. Repurchase Agreements are reported in both physical securities and derivative notional.

The assets NISA manages are predominantly U.S. dollar denominated securities. NISA also manages some portfolios that hold Canadian dollar denominated securities, and other non-U.S. denominated securities. In these cases, NISA uses the then-current exchange rate to convert the market value of these portfolios into U.S. dollars when calculating NISA's assets under management.

**Additional Information with Respect to Regulatory Assets Under Management Found in Part 1 of this Form ADV.** The SEC has created a classification of assets under management called "regulatory assets under management" or "RAUM." NISA's RAUM calculation, as defined by the SEC, includes more assets than NISA normally includes when calculating assets under management. In addition to requiring the inclusion of more assets, the RAUM also requires definitions of discretionary and non-discretionary assets that are different from those NISA uses when reporting assets under management.

NISA's RAUM includes the assets of all client accounts that meet the SEC's definition of a securities portfolio, including cash and cash equivalents, for which NISA provides continuous and regular supervisory or management services. Some of these assets include, but are not limited to:

- the absolute value of the marked-to-market positions of each derivative instrument, as well as cash and cash equivalents held in these accounts. Using the absolute value of these positions means NISA counts a negative marked to market value as a positive;
- the market value of cash and cash equivalents (generally, Short Term Investment Fund ("STIF") and/or T-Bills) set aside to meet derivative collateral requirements;
- temporary portfolios holding securities that are set aside to raise cash for upcoming withdrawals; and
- stable value assets for which NISA provides wrap administrative services.

The following is a non-exhaustive list of assets that NISA does not include in RAUM:



- the market value of broker-dealer owned collateral posted to client accounts; and,
- any measure of derivative notional exposure.

RAUM is a higher number than the assets under management number NISA uses in our promotional materials. In fact, NISA does not use RAUM in any place other than Part 1 of our Form ADV.

### Other Information

NISA provides similar services to many clients. NISA's advice to one client frequently does not relate to, and often differs from, the advice given and/or timing of NISA's advice to another client. As a result, NISA has the potential to be buying a security for one client while we are selling the security for another client.

NISA has the potential to acquire material, non-public information or "inside information" about companies or their securities. If NISA believes we have inside information about a security or issuer, we will not trade based on that information. Having actual material, non-public information would limit the universe of securities in which NISA can invest for our clients. NISA does not believe that these restrictions will materially affect our ability to provide investment advisory services to our clients.

## ITEM 5 – FEES AND COMPENSATION

### Fees

Fee schedules and the manner in which fees are calculated are negotiable. All fees paid by a client are set forth in the client's Fee Schedule, which is part of the Investment Management Agreement between NISA and the client. The client's Investment Management Agreement also specifies the payment frequency and timing and the party that provides the market value for billing purposes.

The following are NISA's standard annual fee schedules.

<u>Fixed Income Credit and Equity</u>	<u>Synthetic Exposure</u>
0.225% on the first \$100 Million	0.10% on the first \$1 Billion
Negotiable on the balance	Negotiable on the balance
<u>Treasury</u>	<u>TIPS</u>
0.20% on the first \$100 Million	0.14% on the first \$50 Million
Negotiable on the balance	Negotiable on the balance

Typically, Fixed Income Credit and Equity, Treasury, and TIPS management fees are based on the market value of the account as determined by the client's custodian. Synthetic Exposure fees are based on a measure other than market value, for example, notional value, to seek to fairly compensate NISA for our services.

Fee agreements typically specify an adjustment to market value or other measure to pro-rate for contributions and withdrawals during the billing period. NISA frequently requires a minimum quarterly or annual fee.

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When negotiating fees NISA takes into consideration asset levels, service requirements, special circumstances and any other factors that we believe, in our sole discretion, are relevant. We have the ability to offer some clients a lower fee schedule than that of other clients in the same investment style. We have the option to waive all or a portion of our fees for a given period.

The Fee Schedule for an engagement that requires greater initial costs for NISA has the potential to include a one-time set-up and/or start-up fee. These fees are not pre-paid fees. These fees are non-refundable and are payable at the time the Investment Management Agreement is executed. Clients have, in the past, also paid NISA a retainer fee or other type of fee for investment services. These types of fees are paid in arrears and are non-refundable.

NISA, under certain circumstances, has agreed to a fee based on the performance of the client's account relative to a specified benchmark over a specified period. Account performance typically includes income and realized and unrealized capital gains of the client's account. Typically, the client's custodian provides this information. NISA and the client agree to and specify the terms of the performance fee in the client's Investment Management Agreement. Refer to Item 6 – Performance-Based Fees and Side-By-Side Management for important disclosures related to performance fee agreements.

NISA frequently agrees to combine assets from related client accounts for billing purposes. As a result, in certain circumstances, the aggregated accounts receive the benefit of a lower fee by virtue of combining the accounts for billing purposes. The client determines the allocation of the fees among related accounts.

For some engagements, different fee schedules apply to different types of financial instruments used in the engagement. In such circumstances, NISA has the ability to affect the amount of fees we receive by our choice of investments. Consider the following example: An engagement includes a securities portfolio and a synthetic exposure portfolio. The fee schedule for the securities portfolio is higher than the fee schedule for the synthetic exposure portfolio. If NISA elects to cash out positive marked-to-market value of the synthetic exposure portfolio and invest the proceeds in the securities portfolio, the total fees paid to NISA will be higher.

As described in Item 4 – Advisory Business, NISA often provides other investment advice. NISA negotiates the fees for this advice with each client based on the overall client relationship and scope of such services.

### **How and When Fees are Billed and Paid**

NISA bills fees in arrears, typically quarterly. NISA does not deduct fees from the client's account, nor do we have the authority to do so. The client or its designee must direct fee payment.

In most cases, the client directs NISA to use the market value determined by the client's custodian for the fee calculation. However, in some cases, the client directs NISA to use the market value determined by NISA. If the client directs NISA to use our

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market value for the fee calculation, there is an incentive for NISA to overvalue the portfolio to increase the fees paid to us.

NISA does not use a pricing service for fixed income securities. NISA's internal Pricing Group determines fixed income security prices. For fixed income, the fee calculated using NISA's market value is often different than the fee calculated using a different market value source.

NISA uses a pricing service to price equity securities. The fee calculated using NISA's market value should not be materially different than the fee calculated using a commonly used market value source.

Synthetic exposure fees are typically based on the notional value determined by NISA. Fees calculated using NISA's notional value are often different than those calculated using a different valuation.

Additionally, at the custodian's or client's request, we provide custodians with pricing and valuation information about the securities we purchase, sell and hold. We also review differences, both positive and negative, between NISA's internal pricing and that of various pricing services or custodians. NISA often challenges the pricing service or custodian on such prices. The pricing services and custodians are free to accept our challenge and change their pricing or they have the right to reject our information and maintain their own valuations. Moreover, if the client has directed NISA to use the market value determined by the custodian for the fee calculation, NISA has the ability to be able to influence our fees by providing custodians with pricing information or challenging prices at the custodian or the pricing service that would result in a higher market value at the custodian.

### **Other Fees and Expenses**

NISA provides investment advisory services and certain ancillary services to investment advisory clients. These ancillary services vary among clients and include, but are not limited to: reporting, coordination and support services, document facilitation and information on benchmarks/investment products.

In addition to NISA's fees, a client must pay fees to other service providers for services such as custody, transaction settlement, pricing, record keeping, legal and audit. The client makes its own arrangements and negotiates the terms of these services. The client will incur brokerage and other transaction-related costs. These costs are included in the net settlement costs/proceeds of the trade. Please see Item 12 – Brokerage Practices for a description of NISA's brokerage practices.

NISA's clients usually elect to sweep cash from their accounts to a cash management fund the client selects. NISA does not manage these cash management funds. NISA typically bills clients on a total account value, without a reduction for cash held in the cash management fund. As a result, NISA's clients will likely end up paying multiple advisory fees for cash balances.

If the client's guidelines permit, NISA has the option to choose to purchase exchange-traded funds ("ETFs") and/or other securities that charge investment fees in addition to NISA's fees. As a result, the client pays multiple advisory fees for those assets.

NISA will automatically credit client invoices for third-party overdraft or compensation charges of less than \$50 if the custodian does not reimburse when challenged, provided the net charge for the quarter is greater than \$10. For individual charges greater than \$50, NISA will continue to investigate the charges and work with either the custodian or broker-dealer to reimburse the client.

### **Advance Payment of Fees**

NISA or the client has the right to terminate the Investment Management Agreement without penalty. NISA does not require advance payment of fees, but if applicable, NISA will reimburse any unearned fees due to the client upon termination of the agreement.

### **Other Compensation**

Neither NISA nor any of our employees receive compensation for selling securities or other investment products to clients.

Some of NISA's clients or vendors extend a discount on their products or services to all NISA employees. NISA only accepts these discounts if they are provided as part of broader discount programs available to all of the client's service providers or the vendor's customers who meet the criteria.

## **ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

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As described in Item 5 – Fees and Compensation, NISA has agreed to receive a performance-based fee in certain circumstances. NISA also manages accounts that pay non-performance or asset based fees. Managing these accounts side-by-side creates conflicts of interest between NISA and our clients. When allocating investment opportunities, NISA has an incentive to favor a performance-based fee account over accounts with other fee arrangements. Strong portfolio returns increase the performance-based fee and therefore the compensation paid to NISA. For clients that pay a performance fee, NISA could also elect to pursue strategies or make investments that are more risky or speculative than we would in the absence of such a fee.

NISA has several policies that seek to mitigate these conflicts of interest. NISA's Standards of Professional Conduct and Conflicts of Interest policies provide guidance for treating all clients fairly. NISA's Trade Allocation policy establishes guidelines for allocating investments in a manner so as not to intentionally or consistently favor or disfavor a client or a class of clients over time. Under these policies, non-investment factors, such as fee arrangements, are not considered by members of NISA's portfolio management groups when allocating trades. In most cases, employees setting up, executing and documenting trades are unaware of a portfolio's fee structure.

NISA's Compliance Group periodically reviews investment activities to assess compliance with these policies.

See Item 12 – Brokerage Practices for more information on trade allocation practices.

## ITEM 7 – TYPES OF CLIENTS

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NISA provides investment advice only to institutional clients. Our clients include:

- Pension and profit sharing plans and other post-retirement benefit programs
- Nuclear Decommissioning Trusts
- Not-for-profit entities such as charitable, educational, healthcare, religious organizations and endowments
- Insurance companies
- Corporations
- Investment vehicles
- Financial Institutions
- Other investment advisers

NISA does not require a specified minimum account size to open or maintain an account, but frequently requires a minimum fee as referenced in Item 5 – Fees and Compensation.

## ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

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### OVERVIEW

Each client specifies a benchmark index or other criteria and investment guidelines that reflect the client's investment objectives and risk tolerance for the portfolio.

**General Investment Risk:** Investing in securities involves the risk of loss that a client should be prepared to bear. All investments are subject to many risk factors, including, but not limited to, risks arising from economic conditions, government regulations, market sentiment, local and international political events and environmental and technological issues. While NISA seeks to mitigate these risks, there is no guarantee that client portfolios will achieve their objectives or that their results will not lag relevant benchmarks or other portfolios with similar objectives. In addition to general investment risks, there are also more targeted risks depending on the asset class, sector, instrument or geographical location of an investment. These potential risks are mentioned below. This discussion of risks, or their potential magnitude or impact, are not meant to be exhaustive. There are many risk factors that may impact a client's portfolio. For a more detailed discussion on the risks associated with your portfolio or proposed portfolio, please contact your Client Services representatives.

**Cyber and Technology Risk:** NISA uses technology, including proprietary and third-party software and data, in every facet of our investment management process. We use systems to set up and execute trades, communicate those trades to custodians and broker-dealers, and to monitor compliance with client guidelines. We believe we have developed, and that we maintain reasonable controls to confirm that these systems are protected and working as intended. We conduct reasonable due diligence on our material third party systems and data, and work with what we believe to be

many of the most reputable names in the industry. Despite the capital and resources that NISA has dedicated to these protections, we expect that from time to time we will encounter data errors, issues or breaches of our systems. These issues could affect the trading or monitoring of our client portfolios or the operations of NISA. We have plans in place to respond to breaches with appropriate resources and to restore our operations as promptly and prudently as reasonably practicable. Should a breach of our system result in a material compromise of confidential client information, we will make reasonable efforts to notify any affected client.

## **STRATEGIES**

### **DOMESTIC AND INTERNATIONAL FIXED INCOME**

#### **Select Risks**

In addition to the risks in the Overview section above, there are risks associated with fixed income investing, which include, but are not limited to the following. The market value of fixed income securities will fluctuate in response to, among other things, changes in interest rates, currency values and the creditworthiness of the issuer. Rising interest rates will usually cause the prices of bonds and other debt securities to fall. Falling interest rates may cause an issuer to redeem, call or refinance a debt security before its stated maturity, which may result in NISA having to reinvest the proceeds in lower yielding securities. Floating rate securities are typically less sensitive to interest rate changes. However, their value may decline if the spread at which the note floats relative to the benchmark rate is adversely impacted by a deterioration in the market's perception of the creditworthiness of the issuer or the liquidity of the note. Longer maturity debt securities generally have greater sensitivity to changes in interest rates and may be subject to greater price fluctuations than shorter maturity debt securities. The creditworthiness of the issuer is determined, in part, by the credit ratings of the issuer; however, ratings are only the opinions of the rating agencies and are not guarantees as to credit quality.

Duration is the price sensitivity of a bond to changes in interest rates and is a primary determinant of risk in fixed income investing. Additionally, since bonds are not exchange-traded, but rather traded "over-the-counter" some securities have at times been difficult to sell, particularly in times of market turbulence. Finally, certain securities have structural features that have the ability to impact their realized return. For example, some bonds are callable – that is, the issuer can redeem the security at a date prior to its maturity. Similarly, for structured securities such as asset-backed securities and mortgage-backed securities, the expected cash flows have been known to vary with the cash flow of the assets collateralizing those securities. If the cash flow of the underlying assets is different than expected, the cash flow of the security might also vary and change the realized return.

NISA does not generally use out of benchmark asset classes in our fixed income strategies. NISA will, under certain circumstances, use futures contracts within a client's fixed income portfolio if permitted by the client's investment guidelines. NISA additionally often manages synthetic overlay strategies in conjunction with fixed income portfolios. The client determines the extent of derivatives use in a synthetic overlay strategy.

NISA typically invests cash balances held in client portfolios in a cash management fund selected by the client or in U.S. Treasury Bills maturing in less than one year. NISA does not generally monitor the investments of a STIF, however, if we become aware that the client has selected a STIF (or other client-specified cash equivalent vehicle) that holds securities other than U.S. Treasury securities, NISA has the option to choose to invest a larger portion of the client's cash balance in U.S. Treasury Bills, which, in turn, has the potential to impact the return of the portfolio.

NISA is active in certain international fixed income capital markets. Securities issued by entities domiciled, or with significant operations, outside the U.S. may also lose value due to, among other things, political changes, social instability, regional conflicts, terrorism and war in the countries or regions in which they operate. These securities may experience loss of value (in U.S. dollar terms) due to changes in the foreign currency exchange rates against the U.S. dollar. Foreign investments may be subject to different settlement and accounting practices and different regulatory standards. Valuing these securities may be more difficult than those in the U.S. Finally, there are foreign tax considerations, including foreign withholding taxes on interest, which may further reduce the value of these securities.

## **Overview**

NISA seeks to achieve portfolio returns that closely track the relevant benchmark returns. NISA's secondary objective is to seek to achieve excess returns vis-à-vis the benchmark, commonly known as alpha.

Our clients generally define risk as tracking error vis-à-vis the relevant benchmark. We evaluate each position net of the benchmark to determine "active" risks. We strive to structure risk-controlled portfolios with diversified sources of risk. This strategy does not generally include large or volatile active positions. Rather, we seek to generate profits for our clients from a large number of small, diversified active positions. Our goal is to implement active positions that we believe meet the client's active risk/reward thresholds either on an individual basis or when viewed in the context of the entire portfolio.

As described in Item 4 – Advisory Business, the client's guidelines specify limits on the amount and types of investments NISA is permitted to hold in the portfolio. These limits provide general guidance to NISA in determining the amount and type of active risk NISA is able to take in the portfolio.

NISA utilizes what we believe to be a highly analytical and quantitative approach toward investing which emphasizes research of the overall economy, sectors, industries, issuers and individual securities. This enables us to look at a wide variety of opportunities rather than depend on a single strength.

NISA does not believe that interest rate timing can produce excess returns that justify the volatility associated with such strategies. Therefore, we generally seek to keep each portfolio's duration approximately neutral to its benchmark and do not expect interest rate timing to contribute to alpha.

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Our investment strategy includes strategic (yield curve positioning and sector selection) and tactical (security selection and trading) decisions.

### **Strategic Decisions**

NISA's Investment Committee develops strategic themes based on market and economic research.

**Yield Curve Positioning.** NISA closely monitors the yield curve exposure of each portfolio relative to its benchmark. We engage in yield curve positioning to reflect views on relative value, path of forward interest rates, volatility and to take advantage of what we believe to be technical aberrations in yield curve slope and curvature.

**Sector Selection.** In making sector selection decisions, we evaluate the relative compensation for bearing the risks inherent to each sector. We evaluate these risks in the context of our market and economic research.

### **Tactical Decisions**

We implement tactical decisions when structuring the portfolio to reflect the desired strategic positioning. Tactical decisions include industry and issuer under/over weights based on relative value analysis, as well as active trading. Generally, NISA's Fixed Income and Derivatives Portfolio Management Group is responsible for making tactical decisions.

**Security Selection.** We seek to profit for our clients from relative value opportunities. We believe that relative value opportunities frequently result from the specific preferences of some investors due to, for example, tax status, investment horizon, liquidity needs, risk tolerance or regulatory constraints. In analyzing these opportunities, we utilize our quantitative expertise and analytical approach. By breaking down complex securities into their fundamental parts, we are able to value each component (i.e., cash flows and embedded options) individually, and sum the component values. While certain investors often do not focus on an unfamiliar structure, NISA seeks to verify that the security is "cheap" or "rich" relative to comparable investments and to measure the risks it brings to a portfolio. We use the same process in both our buy and sell decisions.

**Active Trading.** As active or frequent traders, we find frequent opportunities to trade similar bonds for small gains at little or no incremental risk. Every position is for sale every day, and we frequently sell a position if there is another bond that represents better value to replace it or if the conditions that warranted its purchase no longer exist.

**A note about active or frequent trading.** In certain circumstances, frequent trading could result in increased transaction costs and reduced returns. NISA evaluates the transaction costs and client custodian charges inherent in our trading strategies and on each trade. Transaction costs are included in NISA's performance calculations and reporting. Transaction-related custodial costs,



however, are not included in NISA's performance calculations and reporting. Each client negotiates its own custodial fees and arrangements. If the client's custodian charges a per trade fee, the client's realized return will be reduced by the amount of those fees.

**Shorting Securities.** Short sales of fixed income securities are prohibited. However, NISA may sell an off-the-run Treasury to buy an on-the-run Treasury during the trading day in order to facilitate the purchase of a non-Treasury security. At the close of business on any trading day, no fixed income portfolio shall have any short security positions. For cash management purposes or due to the systems used to account for certain transactions, some portfolios may show negative trade date cash if NISA is expecting a contribution, payment of principal or interest, or if trades are settling to cover the shortfall prior to its occurrence.

## Pricing

All of NISA's clients retain their own custodian that is responsible for pricing the holdings in the client's portfolio. Clients coordinate with their custodian to receive performance returns for their portfolios.

NISA also prices all holdings for our own internal purposes, including: portfolio management, guideline testing, and calculating our portfolio performance returns. When NISA uses its internal pricing for guideline testing, we have the potential to affect guideline checks by either undervaluing or overvaluing holdings. Portfolio and benchmark return comparisons will vary to the extent that NISA prices holdings differently than the index provider. NISA also has the potential to inflate performance calculations by overvaluing securities used in composite presentations. This has the potential to impact NISA's performance returns, alpha and tracking error. NISA has compliance policies in place, including the Pricing and Valuation and the Promotional Materials and External Communications policies that seek to mitigate these conflicts of interest.

To determine NISA's internal valuations, NISA has a Pricing Group comprised of employees who report to the Director, Operations and are responsible for day-to-day details of fixed income pricing. To oversee these processes, NISA formed a Pricing Committee consisting of senior representatives of Operations, Risk Management and Client Services that reports directly to the Management Committee. Members of the Fixed Income and Derivatives Portfolio Management Group do not have membership on the Pricing Committee but are invited to participate in meetings and may be asked to provide the Pricing Committee with documents to support any price challenges or fair value situations.

NISA's Pricing Group prices fixed income securities by applying standard, pre-determined price source selection rules for each security or class of securities. The price source selection rules for different types of securities are approved by the Pricing Committee based on the objective source's ability to most consistently provide accurate and timely pricing for an individual security or a given class of securities. The Pricing Committee also makes pricing determinations about a security or securities when market quotations are not readily available or are not deemed reliable. The

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Compliance Group periodically tests to confirm that the Pricing Group and the Pricing Committee are following their written procedures.

For internal pricing purposes, the Fixed Income and Derivatives Portfolio Management Group has the ability to challenge the prices of securities or security classes. The Pricing Group reviews and acts on these challenges in accordance with its established policies. A copy of the Pricing and Valuation policy is available upon request.

### **Additional Considerations for Stable Value Clients**

NISA manages fixed income portfolios for stable value funds. NISA has, in certain circumstances, agreed to select a wrap provider for the portfolio NISA manages for the stable value fund and provide wrap administration services. NISA's primary considerations for selecting a wrap provider are its contract terms and creditworthiness. In addition to the fixed income investing risks described above, a stable value fund is also exposed to the wrap provider's credit risk.

### **Additional Considerations for Taxable Clients**

**NISA does not purport to be experts in, and does not provide, tax, legal, accounting or any related services or advice. Tax, legal or accounting related statements are for analysis purposes only and are based upon limited knowledge and understanding of these topics. You should consult your advisors with respect to these areas.**

When selecting a benchmark, the client also considers its tax circumstances. Clients in lower tax brackets typically select taxable bond benchmarks, while clients in the higher tax brackets generally select tax-exempt municipal bond benchmarks.

NISA works closely with each taxable client to understand the tax circumstances and objectives of the engagement. Active tax management includes detailed analysis of unrealized gains and losses at the tax lot level. NISA monitors, on a daily basis, the estimated book value of each security in the portfolio and the approximate after-tax contribution to portfolio performance of holding or selling a security.

**Taxable Bond Benchmarks.** Our primary objective is to achieve excess after-tax returns vis-à-vis the benchmark. We employ the same risk-controlled strategy described above, with two additional considerations.

First, we sometimes overweight certain taxable bonds that receive preferential tax treatment. In particular, clients with very high state tax rates generally benefit from holding certain U.S. Government securities that are exempt from state taxes. Additionally, we frequently hold state tax-exempt municipal bonds that we believe offer attractive after-tax returns.

Second, turnover in our taxable portfolios is generally lower than it is for non-taxable portfolios since the client must pay taxes on recognized gains. Therefore, in periods of declining interest rates (increasing prices), we generally

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trade taxable portfolios less frequently. In periods of rising interest rates (declining prices), we are likely to trade taxable portfolios more frequently.

**Municipal Bond Benchmarks.** NISA believes that the primary benefit of investing in municipal bonds is the tax advantage associated with the sector and that opportunities for over or underperformance due to changes in the credit outlook of an issuer are rare. Our objective is to construct portfolios that are high quality and well diversified, with more liquid securities.

We invest primarily in tax-exempt municipal bonds that have been “pre-refunded” or “escrowed to maturity.” A pre-refunded or escrowed to maturity municipal bond is a security where a third party trustee holds U.S. Treasury and/or other U.S. Government securities sufficient to pay interest and principal on the municipal bond. Even though the municipal bond has been defeased with U.S. Government securities, the income from these bonds continues to be federally tax-exempt.

We also seek to construct portfolios to benefit, to the extent possible, from the client’s specific tax situation. For example, we frequently overweight in-state municipals if they are state-tax exempt for a specific client. The amount of the overweight is a function of the state tax rate and the after-tax yields of in-state versus out-of-state bonds.

### **Investing Contributions and Divesting for Disbursements and the Timing of Client Instructions**

NISA generally executes trades to invest contributions at or near the market close on the day that the client’s custodian confirms deposit of funds in the client’s account, provided that the confirmation occurs prior to 9 a.m. central time. For new accounts, the bank account must also be open and ready to accept trades by 9 a.m. central time. If the 9 a.m. deadline is not met, NISA will make reasonable efforts to invest on the date of the contribution. If NISA is not able to invest on the date of a contribution, NISA will invest, at a time of NISA’s choosing, the following day unless we receive specific timing instructions from the client.

Withdrawals require at least an additional business day of advance notice because NISA generally executes the necessary trades the day before the intended withdrawal date. An authorized client signatory must provide instruction to NISA by 9 a.m. central time on the business day before the day of the intended withdrawal. Instructions received after this deadline will be accommodated on a reasonable efforts basis. NISA will execute the necessary trades at times other than the close of business if directed by the client, required due to the standard settlement convention of the securities being sold or required due to custodian requirements or market constraints. NISA may need additional time to create liquidity for a withdrawal depending on the type of securities and size of the positions involved.

If a client elects to terminate NISA as an investment manager of a portfolio, the client’s instruction for NISA to cease trading activities cannot be effective until the business day following NISA’s receipt of the client’s instruction.

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Other client instructions, such as derivatives trade directions and guideline amendment letters, must be received by NISA by 9 a.m. central time if NISA is to trade or take other actions on that same business day. Please note that instructions related to derivatives traded outside of the U.S. or Canadian markets and commodity derivatives must be provided to NISA by 9 a.m. central time on the business day before NISA is directed to trade. Instructions received after these deadlines will be accommodated on a reasonable efforts basis. Certain indices may require more notice, and in these situations, the client will be made aware of the different requirements.

### **Significant Cash Flows**

NISA uses a temporary portfolio methodology for significant portfolio cash flows as permitted by the Global Investment Performance Standards ("GIPS"). When a client makes a significant contribution to or withdrawal from its portfolio, as defined in NISA's Large and Significant Cash Flows policy, NISA accounts for it in a separate portfolio in our systems until it is fully invested in the strategy or liquidated. For certain trades, NISA allocates a trade to both the permanent and temporary portfolio. As a result, for those trades, NISA will send two trade instructions to the custodian. If the client's custodian charges a per trade or per settlement fee or an additional fee for each holding lot, this will result in additional fees.

## **DOMESTIC AND INTERNATIONAL EQUITY**

### **Select Risks**

General equity market risk is the primary determinant of risk in equity investing. Given NISA's tight tracking error objectives, we do not expect individual security performance to pose additional material risk. In certain cases, however, due to strategies, investment restrictions and/or factor exposure targets decided upon and imposed by clients, a portfolio may have greater tracking error. In addition to the risks discussed in the Overview section above, there are risks associated with equity investing, which include, but are not limited to, the following.

NISA is active in certain international equities markets. Securities issued by entities domiciled, or with significant operations, outside the U. S. may also lose value due to, among other things, political changes, social instability, regional conflicts, terrorism and war in the countries or regions in which they operate. These securities may experience loss of value due to changes in the foreign currency exchange rates against the U.S. dollar, or currencies of other countries. Foreign investments may be subject to different settlement and accounting practices and different regulatory standards. Valuing these securities may be more difficult than those in the U.S. Finally, there are foreign tax considerations, including foreign withholding taxes on dividends, which may further reduce the value of these securities.

### **Overview**

NISA seeks to achieve portfolio returns that closely track the relevant benchmark returns. For taxable investors, NISA's secondary objective is to achieve after-tax excess returns vis-à-vis the benchmark, commonly known as after-tax-alpha. For taxable and tax-exempt investors with preferred style, sector, or factor objectives, such as high dividend return, NISA seeks to incorporate those objectives into overall management.

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International equity and other “non-domestic equity” portfolio exposures may be obtained through individual foreign equity holdings and/or the utilization of ETFs.

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### **Strategic Decisions**

NISA’s Investment Committee, along with the Director, Equity Portfolio Management, evaluates the overall strategy for equity portfolios based on client objectives and market conditions.

### **Tactical Decisions**

The Equity Portfolio Management Group is responsible for making the tactical decisions for NISA’s equity portfolios. NISA’s objective is to achieve index-like pre-tax returns and enhance the portfolio’s after-tax return relative to the benchmark’s after-tax return. NISA seeks to achieve after-tax alpha by actively realizing losses and deferring the recognition of gains.

NISA works closely with each taxable client to understand the tax circumstances and objectives of the engagement. Active tax management includes detailed analysis of unrealized gains and losses at the tax lot level. NISA monitors, on a daily basis, the estimated book value of each security in the portfolio and the approximate after-tax contribution to portfolio performance of holding or selling a security.

NISA employs a quantitative approach to portfolio management, using a third-party multi-factor model to construct a portfolio with risk characteristics similar to its benchmark’s characteristics. Risk characteristics include factors such as price volatility, price momentum, stock capitalization, earnings volatility, dividend yield and economic industry. We construct and maintain the portfolio to closely track the benchmark’s industry, fundamental and technical risk characteristics.

We review and evaluate security and industry exposures, along with the unrealized gain/loss in each tax lot daily. We evaluate each position in terms of the tax cost/benefit of trading and the resulting impact on portfolio tracking error. We sell securities to realize losses and/or adjust or maintain the portfolio’s tracking error. NISA executes equity trades primarily through “market on close” orders. A market on close order is executed at or near the exchange closing time and typically at or near the closing price. However, NISA sometimes elects to execute trades throughout the day to seek to reduce the market impact of trades. Trades in less liquid securities, trades with irregular settlement requirements, ETFs or trades with other special circumstances are periodically executed at times other than market on close. We may utilize a counterparty, in accordance with our policies, in order to execute the foreign exchange transactions.

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## **Pricing**

Equity securities are priced using the exchange closing prices obtained from a third-party data provider.

## **SYNTHETIC EXPOSURE**

### **Select Risks**

In addition to the risks discussed in the Overview section above, there are risks associated with synthetic exposure which include, but are not limited to, the following. Changes in the value of a derivative instrument may not correlate perfectly with the underlying asset or index. An imperfect correlation could cause an investment designed to hedge a risk to miss its objectives. A derivative instrument may expose the holder to losses in excess of its initial investment. Derivatives may be difficult to buy and sell at a given time or price and may be difficult to terminate or otherwise offset. A counterparty to a derivative transaction may be unable or unwilling to honor its financial obligations in respect to the transaction.

Investments in currency futures, forwards or other similar instruments, as well as securities that are denominated in foreign currency, are subject to the risk that the value of a particular currency will change in relation to one or more other currencies.

Exposure to the commodities market may be more volatile than investment in traditional equity or fixed income securities. The value of commodity linked derivative instruments may be affected by broad market movements, commodity index volatility, interest rate changes or events affecting a particular commodity or industry, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments.

### **Strategic Decisions**

NISA's Investment Committee evaluates the overall strategy for synthetic exposure portfolios based on client objectives and market conditions. Many of the trades executed by the Fixed Income and Derivatives Portfolio Management Group are strategically directed by the client or are executed to meet a strategic hedge target established by the client. In the case of a completion mandate, derivative overlay or other similar service, NISA's Hedge Portfolio Management and/or Strategic Portfolio Management Groups coordinate portfolio strategy decisions. In mandates where NISA has been granted additional discretion in the implementation of a hedge strategy, the Strategic Portfolio Management Group is responsible for evaluating and monitoring these engagements.

### **Tactical Decisions**

The client determines the extent of potential derivatives use. The Fixed Income and Derivatives Portfolio Management Group uses derivatives to obtain synthetic exposure specified by the client. Clients may use synthetic exposure to hedge liabilities, overlay cash, rebalance asset allocation, and implement tactical views, among other things.

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NISA's clients commonly request synthetic exposure, which can be a long or short position, for the following:

- Duration
- Domestic and international equity indices
- Foreign currency
- Commodities
- Domestic and international fixed income indices

NISA's primary objective is to achieve portfolio returns that closely track the return of the benchmark, index or other criteria that reflects the client's objective. NISA uses many types of derivative instruments, including futures, forwards, interest rate and total return and other types of swaps, swaptions, options and repurchase agreements.

The client must establish certain documentation with a counterparty in order to transact in most derivative instruments. Please refer to Item 12 – Brokerage Practices for more information.

### **Duration Overlay**

NISA's pension plan clients may use a duration overlay strategy to reduce the interest rate sensitivity mismatch between the plan's assets and liabilities. We typically work closely with each client, its advisors and actuaries to understand the objective, customize the strategy, specify benchmarks and risk tolerances and develop investment guidelines.

### **Domestic and International Equity, Foreign Currency and Domestic and International Fixed Income**

Typically, NISA assists the client in determining the type(s) of instruments that offer a cost and tracking error trade-off that meets the client's objective for the strategy. The size of the program and/or target benchmark or index are significant considerations in the choice of instrument. From time to time, derivative instruments, other than futures, are more liquid and/or allow for customization to meet specific client needs.

Synthetic exposure to international equity indices may include a currency overlay. Additionally, NISA's clients from time to time direct NISA to obtain a specific currency exposure. NISA generally obtains currency exposure using forward transactions executed under an International Swaps and Derivatives Association Agreement.

### **Commodities**

Generally, the client specifies its desired commodity exposure in terms of specific commodity futures contracts or a commodity index. Commodity indices are typically based on commodity futures contracts rather than physical commodities. Depending on the client's objectives, NISA frequently uses different types of derivatives instruments to obtain commodity exposure.

### **Futures**

The counterparty for futures transactions is the futures exchange clearinghouse. Thus, one market participant is not directly exposed to the risk of another market participant

as a counterparty. The clearinghouse reduces its risk to market participants with initial and variation margin requirements and rules for liquidating positions if a participant fails to post required margin. Market participants are exposed to the bankruptcy risk of the Futures Commission Merchant ("FCM") and the clearinghouse.

In order for NISA to execute futures transactions, the client must establish certain documents with an FCM as described in Item 12 – Brokerage Practices. Futures documentation provides the FCM with broad rights in the event a client defaults, including specific contractual liquidation and close-out rights with respect to the client's transactions. In exercising its liquidation and close-out rights, the FCM will be acting solely in its own best interests, and not in the best interests of the client. The terms of the future documentation present additional risks to clients.

### **Cleared Derivatives Transactions**

The counterparty for cleared swap transactions is the clearinghouse. Thus, one market participant is not directly exposed to the risk of another market participant as a counterparty. The clearinghouse reduces its risk to market participants with initial and variation margin requirements and rules for liquidating positions if a participant fails to post required margin. Market participants are exposed to the bankruptcy risk of the clearing member and the clearinghouse.

In order for NISA to execute cleared derivatives transactions, the client must establish certain documents with a clearing member as described in Item 12 – Brokerage Practices. Clearing documentation provides the clearing member with broad rights in the event a client defaults, including specific contractual liquidation and close-out rights with respect to the client's transactions. In exercising its liquidation and close-out rights, the clearing member will be acting solely in its own best interests, and not in the best interests of the client. The terms of the clearing documentation present additional risks to clients.

### **Uncleared Derivative Transactions**

Uncleared derivative transactions are between a client and counterparty and do not currently trade, settle or clear on an exchange or through a clearinghouse. As such, the client is at risk to the counterparty. In order for NISA to execute uncleared derivative transactions, the client must establish certain documents with a counterparty as described in Item 12 – Brokerage Practices. The client can include certain protections in its counterparty agreements, including terms regarding collateral. Certain terms in collateral agreements can mitigate much of the potential counterparty risk. The specifics of the collateral agreement will determine the degree of risk reduction. Collateral agreements specify, among other things, timeframes for requesting and posting collateral. NISA makes reasonable efforts to request collateral, if applicable, before the first deadline. If NISA's business is interrupted, and NISA is not able to request collateral in a timely manner, we will contact the affected clients as soon as practicable.

Most NISA clients have been required to clear interest rate swaps and credit default swaps since September 2013. It is anticipated that other instruments will become subject to the clearing mandate over time.



## Pricing

For futures and cleared derivatives, NISA uses the exchange or clearinghouse settlement valuation.

NISA does not use independent pricing sources to value uncleared derivatives. NISA's traders internally value these derivative instruments using market data provided by the relevant index provider, when possible. From time to time, NISA's traders use other data sources or our own judgment in valuing these instruments. Generally, NISA's values are compared daily with independent valuations obtained from the counterparty as part of the collateral management process.

These internal calculations are used to create our performance returns that are shown to prospective and current clients, although NISA believes that current clients also receive performance returns from their independent custodians. The internal valuation practices NISA uses will impact NISA's calculated and reported performance returns, alpha and tracking error. The performance returns, alpha and tracking error calculated using other valuations will be different from those that NISA reports. NISA will provide a summary of our Pricing and Valuation policy upon request.

NISA also uses internal valuations and pricing to determine whether NISA is in compliance with a client's investment guidelines. By under or overvaluing an instrument, NISA could affect these guideline checks.

## ITEM 9 – DISCIPLINARY INFORMATION

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We are required to disclose all material facts regarding any legal or disciplinary events that may be material to a client's evaluation of NISA or the integrity of NISA's management. Events we are required to disclose include, but are not limited to:

- criminal or civil action for investment-related activities;
- an administrative proceeding before a regulatory agency for investment-related activities; and
- a self-regulatory organization proceeding related to investment activities.

NISA has no information to disclose. Based on reasonable inquiries and annual certifications made by all our employees, NISA also does not believe any current employee has any information to disclose.

The Securities and Exchange Commission initiated a routine periodic examination of NISA in February 2013. The SEC closed its examination in July 2015. Other than additional disclosure in the event we reinstate the Inter-Portfolio Sell Buy ("IPSB") process described below, no further material actions were required.

The Department of Labor ("DOL") conducted an examination of NISA in February 2014 related to NISA's investment management activities on behalf of ERISA pension plans. The DOL raised concerns about NISA's IPSB process. The IPSB process consisted of NISA selling a scarce non-Treasury security on behalf of a client and subsequently attempting to repurchase the same scarce security on behalf of a different client or clients. The IPSB process related to trades that were executed in the same or similar

amounts on the same day in different portfolios with the same broker-dealer. The trades that were subject to the IPSB process represented a very small percentage of the total trades executed by NISA, usually less than 1% of the market value of NISA's corporate bond trades annually. Each sell transaction and each buy transaction was an independent, at-risk, bona fide, separate arms-length transaction between the relevant client portfolio and the broker-dealer. No transaction was conditioned on any other transaction. The broker-dealer was "at risk" on each transaction.

The DOL asserted its belief that IPSBs violated section 406(b)(2) of ERISA, which prohibits a fiduciary for a plan from acting in a transaction on behalf of a party whose interests are adverse to those of the plan. NISA and its outside counsel, however, believe that the IPSBs engaged in by NISA did not violate ERISA or any other applicable law and were in our clients' best interests.

The DOL requested that NISA suspend the IPSB process or seek further guidance from the DOL. NISA had already suspended the IPSB process and NISA's counsel advised the DOL that it will be given 30 days advance written notice if any facts regarding NISA's suspension of the IPSB process should change. We do not believe that the suspension will materially impact expected portfolio alpha or tracking error.

By letter dated February 11, 2016, the DOL informed NISA that no legal action will be commenced by the DOL at this time. NISA is considering whether to address this issue with the DOL to seek further guidance.

## **ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

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### **Broker-Dealer Affiliation**

NISA is not registered nor does NISA have an application pending to register as a broker-dealer. No NISA employee is registered or has an application pending to register as a representative of a broker-dealer.

### **Derivatives Industry Activities**

NISA is registered as a Commodity Trading Advisor with the National Futures Association ("NFA"). Some of NISA's employees are registered with the NFA as Principals and/or Associated Persons. NISA will consider including derivative instruments in a portfolio if the portfolio's Investment Guidelines permit such instruments, and the portfolio meets certain regulatory requirements.

Please refer to Item 5 - Fees and Compensation for information on the conflicts of interest NISA has identified when managing both securities and derivatives in an engagement.

### **Other Industry Relations and Arrangements**

NISA is registered as a "Portfolio Manager" and a "Commodity Trading Manager" in certain provinces of Canada.

NISA does not have any other relations or arrangements that we believe are material to our business or in conflict with our clients' interests.

### **Other Adviser Recommendations**

NISA does not recommend or select other investment advisers for our clients.

## **ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

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### **Code of Ethics**

All NISA employees and, in certain circumstances, certain interns and contractors (for the purposes of this section, "Employees") are "access persons" and are subject to NISA's Code of Ethics. The primary objective of the Code of Ethics is to prevent Employees and their immediate family members from engaging in activities that create a conflict of interest between NISA or our Employees and NISA's clients. NISA will provide our Code of Ethics to clients and prospective clients upon request. NISA's Code of Ethics includes policies that cover the following:

**Standards of Professional Conduct.** This policy requires all Employees to, among other things:

- act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, NISA, other Employees, colleagues in the investment profession, and other participants in the global capital markets.
- place the interests of clients and integrity of the investment profession above their own personal interests.
- use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities.

A NISA Error occurs if a NISA employee takes an action such that NISA has to execute a trade that otherwise would not have been needed. A NISA Error is distinct from errors that are outlined in NISA's "Trading Errors and Revision Policy". In addition, a NISA Error occurs when a NISA Employee acts or fails to act such that a guideline violation, a breach of a client's Investment Management Agreement, or a violation of Federal Securities law occurs. A NISA Error includes, but is not limited to, an incorrectly implemented corporate action or a missing or incorrect instruction from Client Services to an Authorized Trader. NISA's practice is to notify the relevant client of any NISA Error that NISA determines to be material. The Compliance Group will investigate any NISA Error. NISA will attempt to correct an error as expeditiously as is prudent and practicable. Actions to correct an error are determined on a case-by-case basis. After correcting an error, if the net result is a gain in the client account, that gain is retained by the client. An error that results in a net economic loss to the client account must be resolved in a manner consistent with the client's contractual provisions governing the resolution of errors, if any, NISA's overall fiduciary duty to its clients and any applicable laws.

**Insider Trading.** This policy prohibits all Employees from, among other things:

- trading in securities, either personally or on behalf of others (including accounts managed by NISA), while in possession of material non-public information related to those securities.
- communicating material non-public information to anyone other than the General Counsel or Chief Compliance Officer.

**Personal Securities Transactions.** See the section “Employee Personal Trading” for more information.

**Conflicts of Interest.** All Employees are required to:

- discharge their duties for the sole benefit of each NISA client.
- avoid activities, interests, and relationships that appear to conflict or interfere with NISA’s fiduciary duty to our clients.
- not take any action with respect to a client’s account in order to benefit any person or entity other than NISA’s client.
- not favor one client at the expense of another client.

**Outside Activities.** Employees are required to obtain prior approval:

- to serve on the board of directors or a creditors committee of any company with publicly available securities outstanding.
- for outside employment.
- to serve on the finance, investment or similar committee for a not-for-profit entity.

**Confidentiality.** Protecting confidential information is vital to NISA’s interests and success. All Employees must:

- not reveal any confidential information except to Employees at NISA who need to know that information in order to carry out their duties on behalf of clients.
- take care not to disclose information about any client to a third party except as necessary to establish and manage the client’s account, as requested or permitted by the client, as required by applicable law or as directed by the President, General Counsel, or CCO or a designee. Employees are not prohibited from reporting possible violations of law to an applicable regulatory authority, including disclosures protected under whistleblower regulations.

NISA utilizes various technological solutions in connection with the services it provides to clients. From time to time, in NISA’s discretion, certain client data are transmitted through third party vendors whom NISA reasonably believes are subject to confidentiality obligations with respect to such data.

**Supervisory Duties.** This policy requires supervisors to, among other things:

- establish procedures and a system for applying such procedures, that are reasonably expected to prevent and detect violations of the Compliance Manual and NISA’s other policies and procedures.
- promptly report violations of policies and procedures in the Compliance Manual to the CCO.

- establish procedures that could be reasonably expected to monitor the accurate and timely performance of each employee's duties and responsibilities.

In addition to the policies in our Code of Ethics, NISA has two other policies that seek to mitigate conflicts of interest: the Gifts and Entertainment policy and the Political Contributions policy.

**Gifts and Entertainment.** This policy prohibits Employees from giving gifts to or receiving gifts from persons:

- doing business or seeking to do business with NISA, other than de minimis gifts.
- for the purpose of influencing clients, prospective clients, their agents or consultants.

**Political Contributions.** This policy covers political contributions made by Employees and their immediate family members. The policy, among other things:

- permits contributions to a candidate for state or local office in an amount no greater than \$250 per election and only to a candidate for whom the Employee is eligible to vote, with the pre-approval of the Compliance Group.
- prohibits the making of, or soliciting of any third party to make, contributions to state or local political parties, political action committees, or any official related to transition or inaugural expenses or election/campaign debts.

### **Charitable Donations**

From time to time, NISA is asked to make a donation to a charitable organization that is a client or that is supported by a client, prospective client, consultant or their employees. NISA reviews the donation request and determines on a case-by-case basis whether or not to contribute. One of the many factors NISA takes into account when determining whether to make a donation is the nature of the relationship NISA has with the person requesting our donation.

### **Participation or Interest in Client Transactions and Personal Trading**

The following sections address NISA's and our Employees' trading and investment activities. This information applies only to Reportable Securities. "Reportable Securities" is defined in the Investment Advisers Act of 1940. Most securities other than U.S. Treasuries and unaffiliated open-end mutual funds are Reportable Securities.

The CCO will determine on a case-by-case basis whether an intern or contractor is required to report and certify to their trading and investment activities.

### **Investment in Securities NISA Recommends to Clients**

NISA does not have a material interest in securities that we recommend, buy or sell for our clients. NISA monitors Employees' investments and trading as described below. We do not believe that any Employee holds an amount of securities that would be material to any publicly traded security or issuer. NISA does not believe it is likely such a situation will occur due to the types of securities that NISA buys or sells for our clients.

## **Employee Personal Trading**

NISA's Personal Securities Transaction policy governs Employee accounts. The policy includes, but is not limited to, the following requirements for trading Reportable Securities:

- Employees must obtain pre-approval for trades from their supervisor and the Managing Director or Director, or a designee, of the applicable portfolio management group. In certain cases, pre-approval is also required from the CCO or a designee;
- Employees must enter and/or verify transactions in NISA's monitoring system;
- Employees must permit NISA to receive duplicate account statements and/or electronic feeds of transactions and holdings; and
- Employees must review their transactions and holding reports quarterly and certify as to their accuracy.

NISA's Compliance Group monitors compliance with the policy. This process includes, but is not limited to:

- regular reviews of NISA's monitoring system;
- reviewing Employees' quarterly reports;
- comparing each Employee's holdings and transactions to the brokerage statement; and
- comparing Employee trades to client trades. The CCO determines the timing and need, if any, of comparing employee trades to client trades.

## **Timing of NISA's Employee Trades**

NISA's policy specifies that the Managing Director or Director, or a designee, of the applicable portfolio management group is allowed to approve an Employee's personal trade if NISA did not trade the security or related security on the prior business day, and does not anticipate trading the security or related security on the requested day or the following business day.

All violations of the Code of Ethics, including those involving personal securities trading, are taken seriously and may result in disciplinary action up to and including reprimand, probation, the levying of fines, suspension, termination of employment and legal action. Any violation of the Code of Ethics is reported by the Compliance Group to the President on a monthly basis and Human Resources on an annual basis.

## **ITEM 12 – BROKERAGE PRACTICES**

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### **General Trading Practices**

NISA's policies specify that each trade executed by NISA must be an independent, at-risk, bona fide, separate arms-length transaction between NISA and the broker-dealer. No transaction is allowed to be conditioned on any other transaction. The broker-dealer must be "at risk" on each transaction. No trades can be pre-arranged or parked. NISA's Compliance Group frequently tests to confirm that Authorized Traders are executing trades consistent with our policies, procedures and our fiduciary duties to our clients.

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In general, except for derivatives transactions mandated to be traded through a Swap Execution Facility, Authorized Traders have wide latitude as to how they execute trades. This gives them the maximum flexibility to seek to achieve best execution and to act in the best interests of our clients.

Authorized Traders frequently use electronic methods (such as Bloomberg or MarketAxess), telephone or email to contact two or more broker-dealers for bids or offers in competition. However, Authorized Traders are generally permitted to contact one broker-dealer who, in the trader's judgment, affords the best opportunity for the most favorable price and execution with the least amount of impact or disruption to the market, in addition to other considerations for seeking best execution. Additionally, Authorized Traders are, many times each day, contacted by broker-dealers with securities to sell or seeking securities to purchase. In these cases, before accepting a bid or offer from one broker-dealer, Authorized Traders must determine, in their professional judgment, that the trade is the most favorable combination of price and execution given all relevant circumstances at the time of the trade.

**Fixed Income:** NISA is a substantial trader of both Treasury and non-Treasury fixed income securities. For some of our strategies, NISA buys and sells the same security as opportunities present themselves with the goal of achieving incremental gains for our clients. Moreover, frequently we sell one bond to purchase a different bond of that same issuer when we believe there is better value in the bond purchased. These trades are generally not put out for explicit bids and offers. Instead, NISA is in regular contact with one or more broker-dealers via Bloomberg or telephone, in addition to viewing information available on various industry sources, and, based on this market information, selects the bid or offer which, in the Authorized Trader's professional judgment, is the best combination of price and execution. It often happens that the broker-dealer that bought securities at one point becomes the seller of such securities at a later point, and NISA can enter into transactions with such broker-dealers.

When NISA receives assets from a new client or a contribution for a current client, we generally buy highly liquid Treasuries to keep the duration of the portfolio neutral to the benchmark. As we begin to transition the new account to its benchmark or invest the contribution, we sell those Treasuries as we purchase securities that best fit the client's benchmark. We reverse this process when a client terminates or requests a withdrawal. The transition process can take minutes, days or months, depending on the percentage of the portfolio being transitioned, the asset classes and the benchmark chosen. These trades are frequently executed in competition employing a trading platform like MarketAxess. Authorized Traders often use the same broker-dealer that had the best price and execution on the bond trade to do the offsetting transaction in Treasuries.

There are times when one client is required to sell a scarce security that does not trade very often, due to a downgrade or withdrawal, for example, that NISA had been seeking for other clients. NISA understands that there is a heightened sense of concern for potential abuse when the same less frequently traded security is traded in the opposite direction in the same or similar amount with the same broker-dealer on the same day. As an additional measure of protection, NISA is not allowed to purchase such securities on the same day if the sale transaction was with the same dealer for the

same or similar amount. Moreover, the Compliance Group conducts additional testing on these types of trades.

**Derivatives:** It is rare for NISA to buy and sell the same derivative instrument on the same day in the derivative strategies we manage for our clients. The Authorized Trader will not place orders such that offsetting trades (trades in which one account is a buyer and another account is a seller of an index, rate, etc.) are packaged or linked together. Offsetting transactions include transactions in the same instrument (e.g., 10-year interest rate swap, S&P 500 swap) as well as transactions in instruments that may have similar market impact (e.g., one account entering into a swap to receive 30-year fixed, pay floating and another account is entering into a swap to pay 10-year fixed, receive floating).

**Equity:** NISA typically executes trades at “market on close” and using that technique, frequently purchases a security for one or more clients that it is also selling for one or more clients through an exchange. These trades are automatically executed at or near the closing price of the exchange.

### **Brokerage Selection and Recommendations**

The following describes the factors NISA considers when selecting or recommending broker-dealers and assessing the reasonableness of the broker-dealer’s compensation.

**Fixed Income and Equity.** When placing a trade with a broker-dealer, NISA considers the quality, quantity, nature and scope of the brokerage firm’s professional services. NISA considers factors such as:

- the ability to transact the desired volume;
- price;
- commission rate (if any);
- market impact;
- responsiveness;
- timeliness;
- handling of confidential information;
- settlement efficiency; and/or
- statistical and other research information that is of either general or specific benefit to one or more clients.

The factors taken into consideration and the importance of a specific factor will vary depending on the nature of the trade, the market and the number of broker-dealers capable and willing to execute the trade.

**Futures:** NISA generally transacts in futures in derivatives portfolios. If allowed by investment guidelines, NISA also is permitted to use futures contracts in a client’s fixed income portfolio. To execute trades in futures, the client must first establish an account and certain documents with an FCM. The documents specify certain terms that apply to all transactions between the client and the FCM. Alternatively, the client has the ability to choose to use NISA’s “umbrella” documents that NISA has established with certain FCMs. NISA generally suggests FCMs to our clients. NISA considers the FCM’s execution and settlement capabilities in the contemplated contracts to



determine the FCMs to suggest to the client. The client determines the FCMs with whom it will establish an account. The FCMs that NISA suggests to clients frequently, but are not required or obligated to, provide research on futures and other products to NISA as part of their commitment to the general business relationship.

NISA seeks to negotiate the most favorable commission schedule available for our clients. NISA is allowed to execute transactions with an FCM that charges a higher commission if the Authorized Trader believes, among other possible considerations, that using that FCM enables NISA to obtain the best available price and most favorable execution by limiting market impact.

**Cleared Derivatives Transactions:** To execute cleared derivative transactions, the client must establish certain documents with a clearing member. The documents specify certain terms that apply to all transactions cleared by the clearing member on the client's behalf. Alternatively, the client has the ability to choose to use NISA's "umbrella" documents that NISA has established with certain clearing members. Umbrella documents are currently available only to ERISA clients. In order to use NISA's umbrella documents, the client must provide certain certificates and other documents to NISA.

NISA from time to time suggests potential clearing members to our clients. NISA's considerations when suggesting a clearing member include, but are not limited to:

- clearing and settlement capabilities;
- margin requirements and procedures;
- documentation terms;
- collateral transformation capabilities; and
- fees and commissions.

**Uncleared Derivatives:** To execute uncleared derivative transactions, the client must establish certain documents with a counterparty. The documents specify certain terms that apply to all transactions between the client and counterparty. Alternatively, the client has the ability to choose to use NISA's "umbrella" documents that NISA has established with certain counterparties. Umbrella documents are currently available only to ERISA clients. In order to use NISA's umbrella documents, the client must provide certain certificates and other documents to NISA. Prior to the execution of an uncleared derivatives trade, NISA negotiates a standard form of confirmation for each financial instrument type that it intends to trade with a given counterparty.

NISA from time to time suggests potential counterparties to our clients. NISA's considerations when suggesting counterparties include but are not limited to:

- execution capabilities for the proposed strategy;
- settlement capabilities for the proposed strategy;
- collateral exchange requirements and procedures;
- documentation terms; and
- creditworthiness.

**Exchange-Traded Funds:** Clients have the option to instruct NISA to gain exposure to certain benchmarks by purchasing certain ETFs or to provide NISA with an investment

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objective that is met through the purchase of ETFs. We also invest in ETFs in the management of our discretionary assets if permitted by the client's investment guidelines. ETFs charge an investment management fee in addition to the fee charged by NISA for our advisory services.

### **Limitations on Broker-Dealers, Counterparties, Clearing Members or Futures Commission Merchants**

**Client Restrictions:** For various reasons, clients from time to time elect to impose certain restrictions on NISA's use of specific broker-dealers, even if they are approved for trading by NISA. If a client chooses to restrict the broker-dealers with which NISA is allowed to trade, the client has the potential to be left out of trades, could pay higher transaction costs or could receive less favorable net prices than would be the case if NISA were not restricted.

For derivatives programs, the client in its discretion, selects the pool of potential counterparties, clearing members or FCMs with which NISA is allowed to trade, in its discretion.

NISA will seek to achieve the best price and most favorable execution taking into account any limitations or restrictions.

**Please note that NISA will not be able to accept a client's restriction for certain transactions in ERISA accounts.**

**Other Restrictions:** In addition, NISA from time to time creates internal counterparty diversification objectives that NISA believes are of benefit to clients in certain situations. Based on these objectives, NISA, in our sole discretion, has the potential to omit an otherwise eligible counterparty from the counterparty selection process.

### **Research and Other Soft Dollar Benefits**

NISA does not participate in soft dollar programs. NISA does not have any arrangement that specifies the amount of transactions for NISA to direct to any brokerage firm, FCM, clearing member or counterparty (collectively, for this section, "Brokers"). NISA does not acquire any products or services through soft dollar benefits.

NISA receives certain research and services from Brokers as described below. If NISA did not receive these services from Brokers, NISA would incur additional costs. In seeking to mitigate the conflicts of interest from such services, NISA has a Best Execution and Trade Order Management policy. The policy requires NISA's traders to seek to achieve the best combination of price and execution for our clients.

NISA receives market, statistical and research information provided by Brokers at no cost. This frequently includes access to proprietary research databases, information websites and reports. The information NISA receives from Brokers may be of general or specific benefit to one or more clients.

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Additionally, certain Brokers have dedicated telephone connections to NISA's office. NISA can only use these connections for calls to/from the applicable Broker. NISA has no control over these connections other than to permit the Broker to have them installed.

NISA's employees from time to time attend conferences sponsored by Brokers. In such cases, NISA pays for the employee's transportation and lodging but typically does not pay for conference fees or meals or entertainment provided to all conference attendees on a non-individualized basis.

### **Brokerage for Client Referrals**

NISA does not receive client referrals in exchange for brokerage.

### **Directed Brokerage**

If a client requests NISA to direct brokerage to a specific broker-dealer or broker-dealers, NISA will require the client to make certain representations and acknowledgements about this practice. These currently include representations that the client understands that by asking NISA to direct brokerage that the portfolio has the potential to be omitted from trades that obtain prices that are the most favorable at that time and to be excluded from aggregated orders that NISA believes have the potential to benefit the client.

NISA will consider expressed client preferences with respect to broker-dealer selection and will periodically include those entities when putting broker-dealers in competition for trades.

**Please note that NISA will not be able to accept a client's direction for certain transactions in ERISA accounts.**

### **Best Execution**

NISA's Authorized Traders are required to seek to achieve the best available combination of price and execution for all transactions or "Best Execution." We consider Best Execution to be a process, not a result and as such, NISA's Compliance Group evaluates the trading processes and results over an extended period of time. The Compliance Group regularly tests to confirm that Authorized Traders are seeking to achieve the best available combination of price and execution.

### **Cross Transactions**

NISA does not engage in principal cross transactions. NISA does not engage in agency cross transactions. Prearrangement of a sell transaction and a subsequent buy transaction is prohibited. NISA's Authorized Traders are prohibited from "parking" securities with a broker-dealer. Packaging a sell transaction and a buy transaction of the same physical security is prohibited. All trades must be executed at arms-length and the risk must pass to the broker-dealer for each trade.

### **Trade Aggregation**

NISA has a Trade Allocation policy that establishes guidelines for allocating investments to client portfolios in a manner so as not to intentionally or consistently favor or disfavor a client or class of clients over time. NISA's goal is to seek to treat all client

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portfolios on a fair and equitable basis over time, even though a specific trade may seem to favor one portfolio over another when viewed in isolation.

NISA's Authorized Traders determine whether it is practical and in the clients' best interests to aggregate trades for multiple portfolios. Traders at NISA from time to time combine or bunch orders when negotiating trades with broker-dealers or other counterparties. NISA considers a trade to be "aggregated" if the trade blotter indicates one transaction that is allocated to a number of client portfolios. NISA does not consider trades to be aggregated if the portfolios are combined during negotiation but each portfolio has a separate trade ticket or a separate trade blotter entry.

**Fixed Income:** NISA generally aggregates trades in fixed income portfolios, including futures contracts in fixed income portfolios. When NISA aggregates trades and receives less than the desired quantity, it is not always practicable to allocate the trade pro rata across all accounts included in the trade order. In those cases, the Authorized Trader allocates the trade on a reasonable basis with the goal of treating all accounts equitably over the long term.

NISA has a process for allocating trades for non-Treasury fixed income securities that places portfolios in different groups as follows:

- all current client portfolios not in transition;
- portfolios with large, new contributions or large withdrawals;
- portfolios in transition to a new benchmark; and
- newly funded client portfolios.

If the broker-dealer is only able to partially fill NISA's order, NISA allocates the trade by group in the order listed above. Trades for each group must be filled before the trader can move to the next group. If the broker-dealer is unable to fill the order for the first group, NISA will generally, but not in all cases, allocate on a pro rata basis among the portfolios in the first group.

If the first group is filled but the second group cannot be completely filled, NISA will allocate the trade among the clients in the second group depending on the deadline for which the portfolio is scheduled to be fully invested or the withdrawal to be completed. These deadlines are set by NISA and take into account the time that NISA received the client's instructions, the type of securities to be traded, the benchmarks involved, market conditions and the relative size of the trades required to be executed. Typically, those portfolios closer to their deadline will receive their allocation before the portfolios in the second group that are further away from their deadline. When the second group is filled, the same process is followed for the third group, if NISA was able to fill the first two groups, but not completely fill the orders for the third group. If the third group is filled, but not the fourth group, the same process is followed for the fourth group until the transaction has been fully allocated.

NISA also has a process for allocating non-Treasury fixed income securities where an order is filled in multiple trades at different execution levels. This allocation process is designed with the goal of achieving the average execution level of the total order for each participating portfolio. In some cases, when determining whether a portfolio will

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be allocated to a richer or cheaper trade, a random method, such as a coin flip is used to determine the outcome.

Futures in fixed income portfolios are allocated pro rata in proportion to the order placed for each portfolio, so long as it is practicable to do so.

**Equity:** NISA does not aggregate equity trades; however, the broker-dealers with whom NISA trades do aggregate trades. Situations arise where NISA does not receive the number of shares requested from a broker-dealer to cover all trades. If that occurs, the broker-dealer will follow NISA's instructions to allocate the shares received on a pro rata basis based on the total number of shares requested for each portfolio in the original orders.

On the rare occasion that an equity holding in a client portfolio involved in a corporate action receives a warrant or other non-index security, those securities will be allocated by the client's custodian to each client portfolio based on its holding of the target security.

**Futures in Derivative Portfolios, Cleared and Uncleared Derivative Transactions:**

In many cases, trades in derivative portfolios are executed at the strategic direction of the client or based upon client specific circumstances and objectives, and as such, are not aggregated or even combined during negotiation. However, under certain conditions, NISA from time to time aggregates futures, cleared and uncleared derivative transactions. In these rare cases, there is the potential that the entire order cannot be filled. If that occurs, we handle as follows:

**Futures in a Derivative Portfolio:** The trader will allocate the trade pro rata in proportion to the order placed for each portfolio so long as it is practicable to do so.

**Cleared Derivative Transactions:** The trader will generally allocate pro rata among the portfolios.

**Uncleared Derivative Transactions:** The trader will allocate the trade pro rata across all portfolios, with units or amounts rounded to amounts generally accepted for the type of transaction being executed.

If pro rata allocations are not possible, or practical, the Authorized Trader must notify the Chief Compliance Officer. The Chief Compliance Officer, in conjunction with the Authorized Trader, will then determine an appropriate alternative allocation methodology, taking into consideration the facts and circumstances surrounding the trade.

**Offsetting Trades**

With respect to derivatives, the Authorized Trader will not place orders such that offsetting trades (trades in which one portfolio is a buyer and another portfolio is a seller of an index, rate, etc.) are packaged or linked together. Offsetting transactions include transactions in the same instrument (e.g., 10-year interest rate swap, S&P 500 swap or total return swap), as well as transactions in instruments that have similar

market impact (e.g., one portfolio entering into a swap to receive 30-year fixed, pay floating and another portfolio is entering into a swap to pay 10-year fixed, receive floating).

### **Trading Errors**

NISA has designed our trading processes and procedures to seek to minimize the possibility of errors when trading in our clients' portfolios. However, it is inevitable that errors will occur. Errors in the placement, execution or settlement of trades are often due to a unique set of circumstances, which makes it difficult to specify in advance the procedures for addressing each case as it may arise. Therefore, this policy focuses on the procedures in place for reporting and investigating routine errors while providing more general guidance for promptly resolving errors.

**Under no circumstances will any error ever be resolved through the use of soft dollars or through a reciprocal arrangement with the broker-dealer, counterparty, futures commission merchant, a trading platform or a similar third party (for the purposes of this section, collectively, a "Broker").**

A potential error is generally categorized as one of the following: Trade Error, Process Error, Documentation Error, or Policy Error. A Trade Error occurs if an Authorized Trader or a Broker executes a trade incorrectly that requires the modification of a trade blotter after it is loaded into the portfolio accounting system or that requires an additional trade, in order to fix an error. In addition, a Trade Error is failing to execute a trade that results in a guideline violation, a breach of a client's Investment Management Agreement or a violation of Federal Securities law. A Trade Error includes, but is not limited to, placing an order for the wrong client, buying or selling the incorrect quantity or security, placing a buy order as a sell, or vice versa, allocating the wrong number of securities or allocating securities to the wrong portfolio. NISA's practice is to notify the relevant client of any Trade Error committed by NISA that significantly impacted their account.

NISA will attempt to correct all errors as expeditiously as is prudent and practicable. If the end result of the error is a gain in the client portfolio, that gain is retained by the client. An error that results in an economic loss to the client portfolio will be resolved in a manner consistent with the client's contractual provisions governing the resolution of errors, if any, NISA's overall fiduciary duty to our clients and any applicable laws. NISA will not be responsible for any indirect, consequential or punitive damages. A copy of NISA's Trading Error and Revision policy is available upon request.

## **ITEM 13 – REVIEW OF ACCOUNTS**

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### **Account and Financial Plan Review**

Each client chooses the benchmark or other criteria, and specifies the risk and return objectives for its account. NISA does not review our clients' financial plans.

NISA reviews accounts as described below. The client determines the timing and frequency of meetings to review its account(s).

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## **Fixed Income**

The Fixed Income and Derivatives Portfolio Management Group and the Compliance Group monitor each portfolio for compliance with its investment guidelines. The Fixed Income and Derivatives Portfolio Management Group also monitors the active risk in each portfolio and reviews each portfolio's structure against its targets.

## **Equity**

The Equity Portfolio Management Group and the Compliance Group monitor each portfolio for compliance with its investment guidelines.

## **Synthetic Exposure**

The Fixed Income and Derivatives Portfolio Management Group and the Compliance Group monitor each portfolio for compliance with its investment guidelines. The Fixed Income and Derivatives Portfolio Management Group also monitors the risk in each portfolio and reviews each portfolio's structure against its targets.

## **Reports**

NISA typically provides quarterly reports for each managed account based on NISA's internal pricing. These reports generally include the following:

- portfolio performance comparison and attribution versus the benchmark;
- portfolio and benchmark characteristics; and
- portfolio holdings and market value.

NISA frequently provides additional reports as agreed upon between NISA and the client, with such reports typically provided at no cost to clients beyond the fees paid to NISA for the provision of investment management services pursuant to the Investment Management Agreement.

NISA does not provide legal, accounting, tax, recordkeeping or valuation services. NISA provides reports containing accounting or valuation information to clients with the understanding that NISA does not provide these services. Each client should compare and verify the information on NISA's reports with the information on the statements it receives from its recordkeeper.

NISA values securities and other financial instruments held in clients' accounts for its internal use, including guideline compliance and performance calculations. NISA provides reports containing such information to clients solely for the purpose of evaluating NISA as an investment manager.

Reports and presentations provided by NISA to its clients are not, and should not be regarded as "investment advice" or as a "recommendation" regarding a course of action, including without limitation as those terms are used in any applicable law or regulation. NISA provides reports to its clients with the understanding that (i) NISA is not acting in a fiduciary or advisory capacity under any contract with its clients, or any applicable law or regulation, (ii) clients will make their own independent decision with respect to any course of action related to such reports, and (iii) clients are capable of

understanding and assessing the merits of a course of action and evaluating investment risks independently.

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## **ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION**

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NISA's only compensation is the fees that clients pay to NISA. The only compensation that NISA's employees receive for providing investment advice to NISA's clients is the compensation the employees receive from NISA. NISA does not pay any third-party for client introductions or referrals.

NISA manages assets for pension plans whose sponsors or affiliates provide services to other NISA clients and prospective clients. These sponsors include investment or pension plan consultants that have the potential to be able to influence a client to hire NISA. NISA does not directly compensate, provide reduced fees or provide other benefits to these plans or sponsors in exchange for recommendations or referrals. NISA discloses such relationships on our client list if the client permits NISA to do so. If the client is not included on NISA's client list, NISA will require the client or its affiliate to tell NISA that they have disclosed its relationship with NISA to any common client and to any prospective client of NISA before NISA and the prospective client enter into an Investment Management Agreement.

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## **ITEM 15 – CUSTODY**

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NISA's clients deposit the assets we manage on their behalf in accounts maintained by a third party custodian that the client selects. NISA does not have possession, or the ability to obtain possession, of our client's assets. Notwithstanding, NISA has established internal controls designed to help safeguard client assets. NISA separates portfolio management, operations and client service responsibilities. We maintain systems designed to confirm that trades are authorized and meet the client's guideline requirements. NISA's Operations Group reconciles cash on a daily basis and holdings on a monthly basis with the client's custodian. NISA also reminds our clients that they should carefully review any statements or reports that they receive from NISA and compare them to the client reports provided by their custodian.

NISA is not a party to the agreements in place between our clients and their custodians. Accordingly, NISA disclaims and does not agree to any provisions in such custodial agreements that could be deemed to impart custody or any related responsibility or liability on NISA in any manner.

In addition, NISA has an Anti-Money Laundering Program that is reasonably designed to detect and prevent NISA from being used to facilitate money laundering or the financing of terrorist activities and to achieve and monitor compliance with applicable AML laws. This program covers all of NISA's investment advisory activities, including any activities that do not entail the management of money.

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## **ITEM 16 – INVESTMENT DISCRETION**

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NISA manages assets on a fully or partially discretionary basis. The client must execute an Investment Management Agreement before NISA will accept discretionary authority.



Please refer to Item 4 – Advisory Business for information about the limitations a client has the ability to place on NISA’s authority.

## **ITEM 17 – VOTING CLIENT SECURITIES**

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The following is an overview of NISA’s policies for voting client domestic securities; international securities may be handled according to different procedures. NISA will provide a copy of its securities voting policies for both US and international securities upon request by the client as well as a record of any votes cast for securities held in the client’s account.

NISA will vote client securities for a client unless the client retains such authority. NISA will accept a client’s direction as to how to vote that client’s securities only if the client has retained voting authority for that matter in its Investment Management Agreement. If the client wishes to direct NISA how to vote a proxy or to discuss a particular proxy matter, it should contact NISA at the phone number on the cover page of this brochure. If the client retains authority to vote its proxies, the client must arrange with its custodian to receive proxies or other solicitations.

NISA votes proxies in the client’s best interest. NISA’s Proxy Voting Committee determines how to vote proxies. The Committee specifies proxy voting guidelines to reduce conflicts of interest. The Committee determines how to vote proxies not covered by the guidelines on a case-by-case basis. If a case-by-case vote poses a material conflict of interest between NISA and its clients’ accounts, NISA from time to time will contact the affected clients.

NISA will abstain from voting a proxy if the economic effect on the client’s interest or the value of the account holding is indeterminable or insignificant, the cost of voting the proxy outweighs the benefits or the account no longer holds the security.

NISA uses a third-party vendor for proxy voting and record keeping. The vendor votes proxies pursuant to NISA’s guidelines or instructions. The vendor also maintains, reconciles, tracks proxy-voting records and has the ability to provide non-recommendation research and analysis. NISA does not rely on proxy voting recommendations from any third party but has the ability to purchase research from third parties that include recommendations.

**Additional Considerations for ERISA Plans.** NISA will consider those factors that may affect the value of the plan’s investment and will not subordinate the interests of the plan’s participants and beneficiaries in their retirement income to any unrelated objectives. NISA will not vote in favor of a proposal related to public policy matters, political activities or other social issues unless NISA reasonably believes that such a proposal is in the plan participants’ and beneficiaries’ best economic interests. If an ERISA plan client submits a proxy voting policy to NISA that is inconsistent with NISA’s policy, in certain circumstances NISA will need to revert proxy voting authority back to the client.

## **Other Issues**

NISA votes on other security matters as part of its investment discretion. These votes relate to economic decisions, such as tender offers, security exchanges, or consent to an indenture change, among others. NISA votes these matters solely in the best economic interests of each account, as determined by NISA.

NISA does not act, participate in, file or advise clients on securities class action suits. NISA does not seek out potential or pending class action suits. Upon request, NISA will provide the client or its designee with the account's holdings and/or transactions of a particular security and other supporting information.

NISA does not participate in, file or advise clients with respect to bankruptcy claims. If an account holds a security or other obligation of an issuer that files for bankruptcy, NISA has the right to sell or assign that interest to another party. If NISA cannot sell or assign the interest to another party or NISA believes that doing so is not in the client's best interest, NISA will notify the client.

## **ITEM 18 – FINANCIAL INFORMATION**

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NISA does not require or solicit prepayment of advisory fees.

NISA does not believe that we have any financial condition that will impair our ability to meet our contractual commitments to clients.

NISA has not been the subject of a bankruptcy petition in the past ten years.