


# Penn Mutual Asset Management, LLC

## Part 2A of Form ADV: Brochure

March 31, 2017



600 Dresher Road  
Horsham, PA 19044  
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March 31, 2017

This brochure provides information about the qualifications and business practices of Penn Mutual Asset Management, LLC (“Penn Mutual Asset Management”). If you have any questions about the contents of this brochure, please contact us at [PMAMCompliance@pennmutualam.com](mailto:PMAMCompliance@pennmutualam.com) or 215-956-8114.

The information in this brochure has not been approved or verified by the U.S. Securities and Exchange Commission (“SEC”), any state securities authority or non-U.S. regulatory authority.

Additional information about Penn Mutual Asset Management is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Penn Mutual Asset Management is an investment adviser registered with the SEC. Registration as an investment adviser does not imply any level of skill or training.

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### **Item 2: Material Changes**

As of December 31, 2016, Vantis Life Insurance Company, a company domiciled in the state of Connecticut, and Vantis Life Insurance Company of New York are affiliated insurance companies.

Penn Mutual Asset Management may advise clients that are subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). Penn Mutual Asset Management qualifies as a “Qualified Professional Asset Manager” (“QPAM”) as defined by ERISA. Related disclosure has been added.

Penn Mutual Asset Management operates as a Commodity Pool Operator (“CPO”) and a Commodity Trading Advisor (“CTA”) to trade certain types of derivatives deemed to be commodity interests (such as futures contracts, options on futures contracts, and swaps). Related disclosure has been added.



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### **Item 4: Advisory Business**

Penn Mutual Asset Management, LLC (“Penn Mutual Asset Management”) was organized in June 1989, under the name of Independence Capital Management, Inc. The home office of Penn Mutual Asset Management is located at 600 Dresher Road, Horsham, Pennsylvania 19044.

Penn Mutual Asset Management is a wholly owned subsidiary of The Penn Mutual Life Insurance Company (“Penn Mutual”), a mutual life insurance company that has been in the insurance and investment business since the mid 1800s. As of December 1, 2015, Penn Mutual Asset Management is managing approximately \$20b in client assets, all of which is managed on a discretionary basis.

Penn Mutual Asset Management offers investment management services to: affiliated insurance company general and separate accounts and other affiliated corporate entities; third-party U.S. institutional clients; registered investment companies; private funds; and other pooled investment vehicles.

Penn Mutual Asset Management generally manages client investment portfolios in a manner consistent with each client’s written investment objectives, guidelines, limitations and restrictions. Also, in the case of investment portfolios under our separate account management services, we manage these investment portfolios in accordance with the investment objectives and policies as set forth in their respective registration statements filed with the SEC, and in accordance with the terms and conditions of the investment agreement.

Penn Mutual Asset Management manages client investment portfolios based on various investment strategies. Penn Mutual Asset Management may perform day-to-day investment management services directly or hire sub-advisers to manage a portion or all of client investment portfolios.


### **Item 5: Fees and Compensation**

Penn Mutual Asset Management receives fees based on contractually specified percentages of the assets of each client’s investment portfolio. Fees for advisory services performed by Penn Mutual Asset Management are negotiable. Penn Mutual Asset Management’s clients are generally large institutional investors or qualified purchasers, as defined in Section 2(a)(51)(A) of the Investment Company Act of 1940.

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From time to time, Penn Mutual Asset Management may waive all or a portion of its fee or reimburse a client for adviser expenses, as deemed appropriate or as negotiated with the client in writing. The rates and conditions of such waivers or reimbursements are set forth in client documents.

In valuing a client's portfolio for fee billing purposes, Penn Mutual Asset Management generally utilizes pricing information provided by an independent pricing vendor. To the extent a vendor is unable to provide pricing information for a particular security or instrument or when market quotations are not readily available, Penn Mutual Asset Management may "fair value" such security or instrument to reflect what we believe accurately reflects the value of the security or instrument. When this occurs, a potential conflict of interest may arise as we could have an incentive to value such security or instrument in an effort to generate greater fees or higher investment returns. To mitigate this potential conflict, Penn Mutual Asset Management has adopted written policies and procedures that are reasonably designed to ensure that such security or instrument is properly valued.

Cash balances, even if managed by a client's custodian or invested in third party investment funds, may be considered as investment portfolio assets for purposes of determining fees payable.

### *Registered Investment Companies*

Penn Mutual Asset Management may provide investment supervisory services to registered investment companies. We manage these investment portfolios in accordance with the investment objectives and policies as set forth in their respective registration statements filed with the SEC, and in accordance with the terms and conditions of the investment advisory agreement.

Penn Mutual Asset Management, subject to the supervision and approval of the client, may hire and terminate independent sub-advisers to make the investment decisions without shareholder approval. Fees are payable by each investment portfolios at the end of each calendar month for services rendered during the month. Fees are calculated on the average daily net assets of each Fund. Penn Mutual Asset Management pays the sub-advisory fee out of the investment advisory fee it receives.

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### *Insurance Companies*

Penn Mutual Asset Management provides investment management services to insurance company clients, specifically, the investment management of general account assets. Fees are payable by each insurance company at the end of the month for services rendered during the previous month. Fees are calculated on all assets held in an investment portfolio equal to a determined basis point multiplied by the net asset value of such investment portfolios as of each calendar month-end, adjusted *pro rata* for periods of less than a complete month. Penn Mutual Asset Management shall provide an invoice on a monthly basis for investment management services to insurance company clients.

### *Private Funds or Segregated Portfolios*

Penn Mutual Asset Management provides investment advisory services to unregistered private funds or private segregated portfolios. Fees are payable by each investment portfolio at the end of each calendar quarter in arrears for the services rendered during the month which are accrued monthly. The fees include performance-based fees, therefore, please see Item 6 for an additional discussion regarding the performance-based fees.

Pensions

### *Other Fees and Expenses*

In addition to the fees for advisory services described above, clients may incur additional fees in connection with the advisory services provided. Clients will be responsible for the fees and expenses charged by the custodian of client assets, as well as brokerage commissions and other transaction costs associated with transactions made on behalf of a client account, which are expensed monthly.


### **Item 6: Performance-Based Fees and Side-by-Side Management**

Penn Mutual Asset Management may charge performance-based (“Incentive Allocation”) fees for managing certain investment portfolios such as private funds in addition to the fees mentioned in Item 5 above. Please note such fees are subject to negotiation by client. Incentive Allocation fees are payable, at the end of each calendar year, which are accrued monthly.

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### *Side-by-Side Management and Conflicts*

Side-by-side management of investment portfolios with different fee arrangements could incentivize Penn Mutual Asset Management to favor accounts that pay performance-based fees, or to choose investments that are riskier or more speculative than might otherwise have been chosen for those portfolios. Similarly, Penn Mutual Asset Management may also have an incentive to favor portfolios in which it and/or its employees may own a substantial interest. To mitigate these conflicts, the firm's policies and procedures seek to ensure that investment personnel make decisions based on the best interests of clients, without consideration of the firm's economic or pecuniary interests.

Please see Item 12, Brokerage Practices, for additional information about the trade allocation procedures and for dealing with potential conflicts. Please also see Item 11, Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.

### **Item 7: Types of Clients**

Penn Mutual Asset Management offers investment advisory services to: affiliated insurance company general and separate accounts and other affiliated corporate entities; third-party U.S. institutional clients; registered investment companies; private funds; and other pooled investment vehicles.

Penn Mutual Asset Management may advise clients that are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). Penn Mutual Asset Management qualifies as a "Qualified Professional Asset Manager" ("QPAM") as defined by ERISA. Accordingly, certain transactions directed by Penn Mutual Asset Management may be exempt from certain ERISA prohibited transaction rules.

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


#### *Methods of Analysis*

Penn Mutual Asset Management may receive a wide range of research services from broker/dealers, including information on securities markets, the economy, individual companies, statistical information, accounting and tax law interpretations, technical market action, pricing and appraisal services, and credit analyses.

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Research services are received primarily in the form of written reports, telephone contacts, personal meetings with security analysts, corporate and industry spokespersons, economists, academicians, and government representatives, and access to various computer-generated data.

In making investment decisions, Penn Mutual Asset Management takes into account each particular client investment objective. In connection with making its investment decisions, Penn Mutual Asset Management utilizes research and financial services from major investment banking firms, including Bank of America, Citigroup, JP Morgan, Deutsche Bank, and others.

Penn Mutual Asset Management has access to information supplied by Moody's Investor Services, Credit Sights, Inc., TradeWeb, Standard and Poor's Corporation, Bloomberg Financial Markets and other similar services. In addition, designated investment personnel analyze a multitude of relevant topics which might influence or change Penn Mutual Asset Management's market outlook. Among those are Federal Reserve policy, the economy, interest rate behavior and forecasts, inflation, monetary growth and the overall supply of appropriate investments.

The result of this analysis is formulated into current investment strategies, which may then be further refined in accordance with the particular policies and needs of the individual portfolios.

### *Investment Strategies and Investment Philosophy*

Penn Mutual Asset Management offers various investment strategies to pursue the investment objective of each client. As such, Penn Mutual Asset Management will invest in diverse asset classes and instruments to execute on applicable investment strategies.

The investment philosophy that underpins its various investment strategies centers on the belief that valuation is the source of superior returns, and related decision-making may be optimized when executed through the lens of rigorous risk management. This philosophy combines a top-down macroeconomic view with bottom-up credit view, and considers the technical factors in the marketplace that influence pricing and performance.

The three (3) broad components, Macro, Credit, and Technical provide the analytical framework to execute strategic and tactical asset allocation, security selection, and position-sizing. Each component is continuously



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defined and measured by its contribution to expected return and risk within the Investment Portfolio, specifically:

(1) Top-down macroeconomic view drives decisions relating to risk weighting, positioning from a duration and curve perspective, and desired strategic asset allocation. This view centers on economic conditions such as growth, inflation, fiscal and federal monetary policy, major secular themes and considers rate/real rate/ inflation, yield curve, risk premium, volatility/skew/correlation;

(2) Bottom-up credit analysis generates ideas surrounding sector allocation and security selection. This analysis centers on debt coverage ratios, leverage industry concentration, competitive position, capital usage, balance sheet strength, margin, growth potential and barriers to entry and considers credit spread/spread curve, spread volatility, relative value to historical, relative value to peers; and,

(3) Technical factors generate ideas related to the best instruments to execute strategies, and entry/exit opportunities. This focus centers on relative and absolute levels of valuation in the cash bond and derivative markets and considers drivers of pricing among fixed income assets caused by supply/demand imbalances, market sentiment and market positioning.

The specific material risks associated with the investment strategies employed by Penn Mutual Asset Management are discussed with each client and are disclosed as appropriate. Regardless of the investment strategy or investment strategies implemented, investments in securities and other financial instruments involve risk of loss that each investor must be prepared to bear. The investment strategies and material risks described below are not comprehensive as an investment strategy may involve additional investment criteria and, as a result, be subject to risks not described in this document.


### *Investment Strategy - Insurance Company Portfolios*

The principal investment strategy for the management of insurance company general account assets may be described as liability-driven investing. Liability-driven investing supports the asset purchases and the construction of a general account investment portfolio that will generate investment earnings to support cash flow needs relating to operational commitments. Specific guidelines and restrictions, for each insurance

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company investment portfolio, are described in the client investment plan(s) delivered to Penn Mutual Asset Management at onset of the relationship.

### *Investment Strategy - Investment Management Companies*

The principal investment strategies and associated risks of registered investment companies are described in fund documents such as the prospectus and Statement of Additional Information. Specific guidelines and restrictions, for each registered investment company portfolio, are described in the fund documents delivered to Penn Mutual Asset Management at onset of the relationship.

### *Investment Strategy- Private Funds*

The principal investment strategies and associated risks of private funds are described in offering documents delivered to Penn Mutual Asset Management at onset of the relationship.

### *Investment Strategy -Segregated Portfolios or Separately Managed Accounts*

The principal investment strategies and associated risks of other accounts such as separately managed portfolios are described in Investment Guidelines delivered to Penn Mutual Asset Management at onset of the relationship.

### *General Investment Strategies*


Regarding fixed income strategies, Penn Mutual Asset Management will invest primarily in investment grade, fixed income securities. Penn Mutual Asset Management seeks to find securities that are under-valued in the marketplace based on both a relative value analysis of individual securities combined with an analysis of macro-economic factors. With this approach, Penn Mutual Asset Management attempts to identify securities that are under-valued based on their quality, maturity, and sector in the marketplace.

Penn Mutual Asset Management will purchase an individual security when doing so is also consistent with its macro-economic outlook, including its forecast of interest rates and its analysis of the yield curve (a measure of interest rates of securities with the same quality, but different maturities). Penn Mutual Asset Management will seek to opportunistically purchase securities to take advantage of inefficiencies of prices in the securities

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markets. Penn Mutual Asset Management will sell a security when it believes that the security has been fully priced. Penn Mutual Asset Management seeks to reduce credit risk by diversifying among many issuers and different types of securities.

Regarding a money market fund strategy, Penn Mutual Asset Management will invest in a diversified portfolio of high-quality money market instruments, which are rated within the two highest credit categories assigned by recognized rating organizations or, if not rated, are of comparable investment quality as determined by Penn Mutual Asset Management.

Regarding “fund-of-funds” strategies, Penn Mutual Asset Management will invest in a combination of other funds (each, an “underlying fund” and, collectively, the “underlying funds”) in accordance with its target asset allocations. These underlying funds invest their assets directly in equity, fixed income, money market and other securities in accordance with their own investment objectives and policies. The underlying funds are managed using both indexed and active management strategies. The “fund-of-funds”, however, has its own distinct target portfolio allocation and is designed to accommodate specific investment goals and risk tolerances. Through its investments in the underlying funds, the “fund-of-funds” target allocation is intended to allocate assets among various asset classes, such as equity securities, fixed income securities and money market securities. In determining the appropriate asset allocation, Penn Mutual Asset Management will rely on both experience and evaluation of the overall financial markets, including, but not limited to, information about the economy, interest rates, and the long-term absolute and relative returns of various asset classes. Consideration will also be given to the investment styles of the managers of the underlying funds and their historic patterns of performance relative to their asset class and to other underlying funds objective.


### *Material Risks*

Specific material risks associated with investment strategies employed by Penn Mutual Asset Management are discussed with each client and are disclosed as appropriate. The material risks to client portfolios may include: Market Risk: The value of securities owned by a portfolio may go up or down, sometimes rapidly or unpredictably, due to factors affecting securities markets generally or particular industries.

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**Equity Risk:** The prices of equity securities rise and fall daily. These price movements may result from factors affecting individual companies, industries or the securities market as a whole. In addition, equity markets tend to move in cycles which may cause stock prices to fall over short or extended periods of time.

**Corporate Debt Securities Risk:** Corporate debt securities are subject to the risk of the issuer's inability to meet principal and interest payments on the obligation and may also be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity.

**Interest Rate Risk:** The prices of the fixed income investments in a portfolio may fall when interest rates rise. Interest rate changes have a greater effect on the price of fixed income securities with longer maturities.

**Credit Risk:** The portfolio could lose money if the issuer or guarantor of a fixed income security, or the counterparty to a derivative contract, it holds defaults or is otherwise unable or unwilling to meet its financial obligations.

**High Yield Bond Risk:** Investing in fixed income securities rated below investment grade (high yield or junk bonds) involves additional risks, including greater sensitivity to liquidity risk and credit risk. High yield bonds are considered speculative with respect to their issuers' ability to make timely payments or otherwise honor their obligations.

**U.S. Government Securities Risk:** Certain of the U.S. government securities in which the portfolio may invest are not backed by the full faith and credit of the United States government, which means they are neither issued nor guaranteed by the U.S. Treasury. Also, any government guarantees on securities the Fund owns do not extend to shares of the Fund.

**Prepayment and Extension Risk:** Fixed income securities in which the portfolio may invest may be paid off earlier or later than expected. Either situation could cause the portfolio to hold securities paying lower-than-market rates of interest, which could adversely affect the yield or price.

**Mortgage-Backed Securities Risk:** Mortgage-backed securities are affected by, among other things, interest rate changes and the possibility of prepayment of the underlying mortgage loans. Mortgage-backed securities

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are also subject to the risk that underlying borrowers will be unable to meet their obligations.

**Asset-Backed Securities Risk:** Payment of principal and interest on asset-backed securities is dependent largely on the cash flows generated by the assets backing the securities and asset-backed securities may not have the benefit of any security interest in the related assets.

**Derivatives Risk:** The use of derivative instruments such as futures, forwards, options and swaps is subject to market risk, leverage risk, correlation risk, and valuation risk as described as follows:

- Market risk is the risk that the market value of an investment may move up and down, sometimes rapidly and unpredictably.
- Leverage risk is the risk that the use of leverage can amplify the effects of market volatility on the underlying fund's share price and may also cause the underlying fund to liquidate portfolio positions when it would not be advantageous to do so in order to satisfy its obligations. The use of forwards and swap agreements is also subject to credit risk and valuation risk.
- Correlation risk is the risk that changes in the value of the derivative may not correlate perfectly with the underlying asset, rate or index.
- Valuation risk is the risk that the derivative may be difficult to value and/or valued incorrectly. The use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments and could cause the underlying fund to lose more than the principal amount invested.

**Portfolio Turnover Risk:** The portfolio may buy and sell portfolio securities actively, which may result in increased transaction costs and lower portfolio performance.

**Liquidity Risk:** Under certain circumstances, such as the disruption of orderly markets, the Penn Mutual Asset Management may not be able to purchase or sell certain of its investments quickly or at prices that represent true market value in the judgment of the Penn Mutual Asset Management.

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### **Item 9: Disciplinary Information**

Penn Mutual Asset Management and its management are required to disclose all material facts regarding any legal or disciplinary events that would be material to the evaluation of advisory services or the integrity of management by a client or a prospective client. Penn Mutual Asset Management does not have any legal or disciplinary events to report.

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


#### *Affiliated Insurance Companies*

- Penn Mutual, the parent company of Penn Mutual Asset Management, has an affiliate services agreement with Penn Mutual Asset Management whereby Penn Mutual may provide Penn Mutual Asset Management with resources and facilities as Penn Mutual Asset Management determines to be reasonably necessary in the conduct of its business. Penn Mutual has established an investment management agreement with Penn Mutual Asset Management.
- Penn Insurance and Annuity Company (PIA) is a direct subsidiary of Penn Mutual and an affiliated entity of Penn Mutual Asset Management. PIA has established an investment management agreement and an affiliated services agreement with Penn Mutual Asset Management.
- PIA Reinsurance Company of Delaware I (PIA Re1) is an indirect subsidiary of Penn Mutual and an affiliated entity of Penn Mutual Asset Management. PIA Re1 has established an investment management agreement and an affiliated services agreement with Penn Mutual Asset Management.
- Longevity Insurance Company (Longevity) is an indirect subsidiary of Penn Mutual and an affiliated entity of Penn Mutual Asset Management. Longevity has established an investment management agreement with Penn Mutual Asset Management.
- Vantis Life Insurance Company, a company domiciled in the state of Connecticut, is a direct subsidiary of Penn Mutual and an affiliated entity of Penn Mutual Asset Management. Vantis Life Insurance

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Company has established an investment management agreement with Penn Mutual Asset Management.

### *Affiliated Funds*

- Penn Mutual Asset Management serves as investment adviser to each of the Funds of Penn Series Funds, Inc., a registered investment company. Penn Series Funds, Inc. is comprised of assets of variable annuity contracts and variable life insurance policies issued by Penn Mutual. As investment adviser to Penn Series, Penn Mutual Asset Management has retained independent sub-advisers (the “Sub-Advisers”) to make the investment decisions for these Funds. Penn Mutual Asset Management has also delegated brokerage discretion for these Funds to the Sub-Advisers, and, therefore, the Sub-Advisers have the discretionary authority to determine which broker/dealers will be used when purchasing and selling securities on behalf of these Funds.
- Penn Mutual Asset Management serves as Managing Member and Investment Adviser to Penn Mutual Asset Management Global Unconstrained Bond Series consisting of the Penn Mutual Asset Management Multi-Series Fund (Master), LLC - Series A (“Master Fund”); Penn Mutual Asset Management Multi-Series Fund, LLC - Series A (“US Feeder”); and Penn Mutual Asset Management Multi-Series Fund (Cayman), SPC- SP-A, a private series consisting of an onshore feeder fund and an offshore segregated portfolio (“Cayman Feeder”). Penn Mutual Asset Management is the Managing Member and Investment Adviser and will be seeding the U.S. Feeder and thus have an indirect interest in the Master Fund.

### *Affiliated Broker Dealers*

- Janney Montgomery Scott, LLC is an indirect subsidiary of Penn Mutual and an affiliated entity of Penn Mutual Asset Management.
- Hornor, Townsend & Kent, Inc. is a direct subsidiary of Penn Mutual and an affiliated entity of Penn Mutual Asset Management. Certain employees of Penn Mutual Asset Management are registered persons of Hornor, Townsend & Kent, Inc. including: Keith Huckerby, President & Chief Marketing Officer; Trevor Williams, Managing Director and Portfolio Manager; Sean McTernan, Director

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of Business Development; and, Victoria Robinson, Chief Compliance & Risk Officer.

### *Selection of Other Investment Penn Mutual Asset Managements*

Penn Mutual Asset Management may recommend sub-advisers to clients to manage client assets. Conflicts associated with such recommendations are mitigated by written agreements that are reviewed and approved by all clients.

Penn Mutual Asset Management performs due diligence on third party sub-adviser candidates before recommending them, including but not limited to, analysis of each sub-adviser's investment process and results, including the length of its track record, consideration of the assets under management, and interviews with members of the sub-adviser's senior management and investment teams and their Legal, Compliance, Risk and Operations personnel. The decision to continue to use a sub-adviser depends upon various factors which may include but not be limited to, performance record, management style, number and continuity of investment professionals, operational controls and processes and client servicing capabilities. Penn Mutual Asset Management's due diligence efforts surrounding sub-advisers are formalized in written procedures.

### *Commodity Trading Advisor ("CTA") and Commodity Pool Operator ("CPO")*

Penn Mutual Asset Management is registered as a CTA and CPO with the U.S. Commodity Futures Trading Commission ("CFTC") and is a member of the National Futures Association. However, PMAM currently claims an exclusion from the definition of CPO pursuant to CFTC Regulation 4.5 with respect to each series of Penn Series Funds, Inc., a registered investment company.


PMAM also operates the Penn Mutual Asset Management Multi-Series Fund (Master), LLC - Series A ("Master Fund"), Penn Mutual Asset Management Multi-Series Fund, LLC - Series A ("US Feeder"), and Penn Mutual Asset Management Multi-Series Fund (Cayman), SPC- SP-A ("Cayman Feeder") pursuant and exemption from CPO registration under CFTC Regulation 4.13(a)(3). In addition, Penn Mutual Asset Management currently does not manage any accounts for which it acts as a registered CTA.



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

Penn Mutual Asset Management has established a Code of Ethics (the “Code”) to set forth rules of conduct for associates of Penn Mutual Asset Management and to assist such associates to make decisions in the best interests of our clients and in compliance with the requirements of Rule 204A-1 under the Investment Advisers Act of 1940 (the “Advisers Act”).

The Code reflects the fiduciary obligation of Penn Mutual Asset Management and its associates to conduct their business and personal affairs in a manner that serves the interests of clients ahead of their own interests, avoids taking advantage of their fiduciary position for personal gain, and addresses actual or potential conflicts of interests. Accordingly, pursuant to Rule 204a-1 under the Advisers Act, the Code: (i) sets out standards of conduct expected of our associates; (ii) requires the reporting of personal securities transactions, including transactions in any fund managed by Penn Mutual Asset Management; and (iii) safeguards material nonpublic information about client transactions.

The Code requires Investment Persons and Access Persons to submit personal reports on a quarterly and annual basis. Investment Persons and Access Persons are also subject to pre-clearance requirements for private placement investments and investments listed on the restricted list. Investment Persons and Access Persons are prohibited from acquiring any securities as part of an initial public offering and Investment Persons may not profit from “short-term” trading and market timing.

Penn Mutual Asset Management does not buy securities for itself from advisory clients or sell securities it owns to any clients, nor does it affect securities transactions for compensation for any client. Penn Mutual Asset Management does not recommend to clients to buy or sell securities or investment products in which Penn Mutual Asset Management has a direct financial interest. Penn Mutual Asset Management does not buy or sell for itself securities or investment products that it also recommends to clients.

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### **Item 12: Brokerage Practices**

#### *Brokers and Execution Quality*

Penn Mutual Asset Management views best execution as referring to the best net results from a trade, taking into account all circumstances relevant at the time the trade is placed. With respect to determining the broker or dealer to be used and the commission rates to be paid in connection with purchasing and selling securities for clients, Penn Mutual Asset Management seeks to obtain the best price and the most favorable execution of its orders, taking into consideration the experience and skill of the broker/dealer and the broker/dealer financial responsibility and administrative efficiency.


In addition, Penn Mutual Asset Management consider such factors as the price of the security, the rate of the commission, the size and difficulty of the order, the reliability, integrity, financial condition, general execution and operational capabilities of the broker/dealer and competing broker-dealers and the brokerage and research services they provide. Penn Mutual Asset Management utilizes different methods to gain competitive bond quotes depending on the liquidity and price transparency of the security. For highly liquid securities, an electronic trading platform may be used, where several market bids are sought and market levels are readily available, or a competitive bid /offer process whereby multiple dealers are able to participate. For less liquid securities, a negotiated process may be used due to the nature of the transaction. The negotiated bid process may depend on factors such as size and distribution of the issue, credit history and outlook of the security and the ability to provide anonymity.

Penn Mutual Asset Management conducts oversight of brokerage activity for best execution. On a continual basis, Penn Mutual Asset Management evaluates each trade for best execution. On a periodic basis, no less than monthly, Penn Mutual Asset Management reviews and discusses various reports detailing portfolio transactions, broker commission expenditures, service levels, and portfolio performance for each mutual fund. The Investment Committee is responsible for the approval of brokers and counterparties for whom we trade. When there is interest in trading with a new broker or firm, a member of the Investment Committee will recommend the approval of a broker, based on review of various available data including, but not limited to, annual reports, CDS spreads, market intelligence,

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expertise, stock price movements, experience, credit worthiness and arbitration awards, disciplinary, financial, and/or regulatory events.

### *Soft dollars*

Subject to client approval, Penn Mutual Asset Management may use soft dollar research and services and allocate brokerage to obtain such brokerage and research services, so long as it does so in accordance with the safe harbor established by Section 28(e) of the Securities Exchange Act of 1934, as amended, and related SEC guidance. Penn Mutual Asset Management's determination to pay commissions may be made in terms of either the particular transaction involved or its overall responsibilities with respect to all accounts over which it exercises investment discretion. In some cases, research services are generated by third parties, but are provided to Penn Mutual Asset Management by or through brokers and dealers. Penn Mutual Asset Management believes that the receipt of independent research is beneficial to its investment-decision process, and, therefore, to its clients.


Penn Mutual Asset Management may receive research service in connection with selling concessions and designations in fixed price offerings in which the client portfolios participate. Such research services received from broker-dealers have included, for example, the following: information on securities markets, the economy, individual companies, statistical information, accounting and tax law interpretations, technical market action, pricing and appraisal services, and credit analyses. Research services are received primarily in the form of written reports, telephone contacts, conferences, personal meetings with security analysts, corporate and industry spokespersons, economists, academicians, and government representatives, and access to various computer-generated data. Research services received from broker or dealers are supplemental to Penn Mutual Asset Management's own research efforts and, when utilized, are subject to internal analysis before being incorporated into the investment process. Such research services provide Penn Mutual Asset Management, at no additional cost, independent perspectives and viewpoints against which Penn Mutual Asset Management can weigh its own research efforts.

Generally, research and other services provided by brokers or dealers are used to service all of Penn Mutual Asset Management's clients accordingly, not all services may be used in connection with the account that paid commissions to the broker providing such services. In addition, Penn Mutual Asset Management may select a broker-dealer in order to continue receiving

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such research services and may have an incentive to execute trades through certain broker-dealers with which it has negotiated favorable soft dollar arrangements. The selection of and the execution of trades through such broker-dealers may give rise to potential conflicts of interests. In order to mitigate such conflicts of interest, Penn Mutual Asset Management has adopted policies and procedures reasonably designed to ensure that (i) the value, type, and quality of any services it receives from broker-dealers are permissible under applicable law, and (ii) investment transactions are placed solely on best execution considerations.

### *Brokerage Arrangements*

Penn Mutual Asset Management does not generally engage in directed brokerage in purchasing and selling securities for client investment portfolios. At the request of the client, Penn Mutual Asset Management may place a portion of a client's portfolio transactions with a broker-dealer who has agreed to refund commissions credits directly back to the client portfolio or alternatively pay designated investment portfolio expenses.

Penn Mutual Asset Management, however, will not place portfolio transactions with a broker-dealer selected by the client unless Penn Mutual Asset Management determines that the transaction is consistent with its obligation to seek best execution and is based on its normal negotiated commission schedule.

### *Affiliate Brokerage Transactions*

Penn Mutual Asset Management may use an affiliated broker-dealer to execute transactions for client accounts provided that full disclosure is made to clients and best execution is obtained. If an affiliated broker-dealer is used to execute transactions for clients of Penn Mutual Asset Management, the affiliated broker may only be used if the transactions are carried out in compliance with Section 17(e) of the Company Act and Rule 17e-1.


### *Allocation and Aggregation of Securities*

It is the policy of Penn Mutual Asset Management to provide assurance that investment opportunities are allocated equitably among different clients. Penn Mutual Asset Management has discretionary authority to purchase and sell securities for each client portfolio in accordance with client investment objectives, policies and limitations. Penn Mutual Asset Management may

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manage portfolios for multiple client accounts with similar investment objectives. From time to time, purchases and sales may be made for a number of the portfolios simultaneously and, as such, Penn Mutual Asset Management will generally average the price of the transactions and allocate the average among its clients participating in the transaction. However, at times, investment opportunities may be allocated differently among accounts due to the particular characteristics of an account, such as size of the account, cash position, tax status, risk tolerance and investment restrictions or for other reasons. No one portfolio will be treated more or less advantageously than the other portfolios involved.

### **Item 13: Review of Accounts**

Accounts receiving investment supervisory services are under continuous review with regard to both investment policy and to the appropriateness of the securities held to meet policy objectives. Portfolio Managers review accounts, no less frequently than monthly, to evaluate whether portfolio performance, diversification, and risk levels are appropriate considering the transactions costs involved in any changes. Results of this evaluation process in any one account can prompt a review of all accounts, if there is a change in the performance of certain types of assets that the Penn Mutual Asset Management knows to be commonly held. Some accounts require specific activities in accordance with regulatory requirements, including money market funds.


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

Penn Mutual Asset Management may utilize the services of third-party solicitors, such as broker-dealers, other financial intermediaries, and other entities or individuals permitted by law (each, a “Third-Party Solicitor”), for client referrals pursuant to a written agreement with Penn Mutual Asset Management. Each such Third-Party Solicitor typically will be compensated based upon a percentage of the investment advisory fee actually received by Penn Mutual Asset Management from the referred advisory client and/or by a flat fee. Generally, the clients referred pay an advisory fee that is no higher as a result of the referral arrangement than Penn Mutual Asset Management’s regular advisory fee as set forth in Fees and Compensation above. Notwithstanding the foregoing, however, Penn Mutual Asset Management may at times enter into a referral agreement with a Third-Party Solicitor whereby the annual advisory fee paid by the client is higher than the customary advisory fee charged by Penn Mutual Asset Management by

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reason of the compensation paid to the Third-Party Solicitor. In such cases, Penn Mutual Asset Management will notify the referred client and obtain a written disclosure statement executed by the client which acknowledges the higher fee payment. All advisory clients referred by a Third-Party Solicitor will receive this Brochure and a separate written disclosure statement describing the Third-Party Solicitor's referral arrangement with Penn Mutual Asset Management, including the compensation paid and any additional amounts that may be charged to the client's advisory fee and the amount attributable to the referral arrangement.

Penn Mutual Asset Management may also enter into written agreements with individuals whom are registered representatives of or associated with affiliates of Penn Mutual Asset Management.

### **Item 15: Custody**

Penn Mutual Asset Management generally does not take custody or possession of client assets. Penn Mutual Asset Management will work with client-directed custodians for securities and cash positions ("investment assets"). Clients will receive account statements from the bank or other qualified custodian that hold and maintain their investment assets.

Penn Mutual Asset Management urges clients to carefully review such statements and compare such custodial records to any transaction reporting provided by Penn Mutual Asset Management.

As Managing Member of certain private funds, Penn Mutual Asset Management will be deemed to have custody of such funds, and therefore, will comply with the requirements of Rule 206(4)-2 under the Advisers Act, the investment adviser custody rule.

### **Item 16: Investment Discretion**

At the outset of our relationship with every client, we enter into an investment management or advisory agreement that typically grants us discretionary investment authority to select the securities and amount of securities to be bought or sold for the client's investment portfolio. We exercise this discretionary investment authority in a manner consistent with the client's investment objectives, guidelines, limitations and restrictions.

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For our clients that are registered mutual funds, our authority to select and trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made. For our clients that are insurance companies, our authority to select and trade securities may also be limited certain state requirements or laws.

### **Item 17: Voting of Client Securities**

Penn Mutual Asset Management provides day-to-day investment management services to clients, which may include the voting of securities held in their accounts. Penn Mutual Asset Management has adopted related procedures to address proxy voting. The procedures are reasonably designed to provide assurance that Penn Mutual Asset Management votes securities held in those client accounts in the best interest of the client. On a periodic basis, the proxy procedures may be updated to reflect any changes by Penn Mutual Asset Management.

Penn Mutual Asset Management has also retained an independent firm (“Service Provider”) to assist in voting the securities for client accounts, as applicable. The Service Provider specializes in providing proxy advisory and voting services. These services include in-depth research, analysis, voting recommendations, as well as vote execution, reporting, auditing and consulting assistance for the handling of proxy voting responsibility and corporate governance. Securities generally will be voted in accordance with the guidelines set forth by the Service Provider, except as set forth below with respect to proxies of affiliated mutual funds, and as Penn Mutual Asset Management may otherwise determine in the exercise of its fiduciary duty to its clients.


In addition, Penn Mutual Asset Management monitors the voting of securities that may present a conflict between the interests of a client and the interest of Penn Mutual Asset Management and its affiliates. Penn Mutual Asset Management is sensitized to the fact that any business or other relationship between Penn Mutual Asset Management (or any of its affiliates) and a company whose securities are to be voted could improperly influence a manager’s determination to vote the securities differently than recommended by the Service Provider.

Except with respect to proxies of affiliated mutual funds, any potential conflict of interest identified by Penn Mutual Asset Management is

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immediately referred to the Chief Compliance & Risk Officer for immediate resolution. With respect to proxies of an affiliated fund, Penn Mutual Asset Management will vote such proxies in the same proportion as the vote of all other shareholders of the fund (i.e., “echo vote”), unless otherwise required by law.

Penn Mutual Asset Management, acting on its own behalf or acting through the Service Provider, will provide a copy of its proxy voting policies and procedures to its clients upon request. Clients may obtain may obtain information on how Penn Mutual Asset Management voted their securities by calling or e-mailing Penn Mutual Asset Management.

### **Item 18: Financial Information**

Penn Mutual Asset Management has no financial condition that would impair our ability to meet any contractual commitments to our clients.

### **Item 19: Requirements for State-Registered Advisers**

Not applicable.