

# **BALLYROCK INVESTMENT ADVISORS LLC**

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**March 28, 2017**

This brochure provides information about the qualifications and business practices of Ballyrock Investment Advisors LLC ("Ballyrock"). Throughout this brochure and related materials, Ballyrock may refer to itself as a "registered investment adviser" or "being registered." These statements do not in any way imply a certain level of skill or training. If you have any questions about the contents of this brochure, please contact us at (617) 563-7000.

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

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

## Summary of Material Changes

What follows is a discussion only of the material changes made since the annual update of this brochure was filed on March 28, 2016.

- Updates have been made to the “Brokerage Practices” section to reflect changes to the fixed income trade allocation policy.
- In the “Methods of Analysis, Investment Strategies and Risk of Loss” section, additional disclosure has been included concerning regulatory and other investment limits and the impacts thereof.
- In the “Code of Ethics, Participation or Interest in Client Transactions and Personal Trading” section, Ballyrock has enhanced the disclosure concerning conflicts of interest relating to securities in which Ballyrock, its affiliates or certain other persons have an interest.
- Additional disclosure has been added to the “Brokerage Practices - Other Considerations and Brokerage Arrangements - Transactions Among Clients” section, including a description of the conditions under which Ballyrock or its affiliates will engage in certain advisory cross transactions.
- The “Voting Client Securities” section has been updated to describe Ballyrock’s approach to voting proxies for shareholder proposals concerning environmental and social issues.

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## **ADVISORY BUSINESS**

Ballyrock Investment Advisors LLC (“Ballyrock”) is wholly-owned by FMR LLC and has been in business since 2001. It provides investment advisory services to various types of structured credit vehicles, including collateralized loan obligation and collateralized debt obligation vehicles (collectively, “CLOs”), which have focused on investments in various types of debt securities, including bank loans, bonds and asset-backed securities.

In particular, Ballyrock acts as the collateral manager for various CLOs or other structured credit vehicles that have issued multiple tranches of debt and equity securities collateralized by a portfolio of securities, typically debt obligations such as bank loans and other debt securities. As collateral manager of a CLO or other structured credit vehicle (an “issuer” or “client”), Ballyrock will typically be authorized to (i) select the debt obligations and/or other eligible investments to be acquired by the issuer, (ii) invest and reinvest the assets of the issuer, and (iii) instruct the trustee of the issuer with respect to any acquisition, disposition or tender of any investments held by the issuer. Ballyrock is typically also authorized to negotiate on behalf of an issuer with respect to any hedge agreements (such as interest rate swaps) or securities lending arrangements to be entered into by the issuer, if any. Ballyrock has also engaged in structuring CLO transactions that it manages.

Ballyrock’s affiliate, Fidelity Management & Research Company (“FMR”), serves as sub-adviser to each CLO that Ballyrock manages pursuant to sub-advisory agreements. FMR is also a registered investment adviser wholly-owned by FMR LLC. Under sub-advisory agreements, services may also be provided to Ballyrock by affiliates of FMR. All references herein to advisory services provided by Ballyrock shall include the sub-advisory services provided by FMR and its affiliates to the CLOs managed by Ballyrock.

Ballyrock may offer advice to the CLOs it manages on investing in bank loans, debt, bonds, synthetic securities, asset backed securities, hedge agreements (such as interest rate swaps) and securities lending arrangements. The type of investments in CLOs and other structured credit vehicles that Ballyrock may advise in the future may vary.

From time to time an officer of Ballyrock or a manager, analyst or other employee of its affiliate may express views regarding a particular company, security, industry, or market sector. The views expressed by any such person are the views only of that individual as of the time expressed and do not necessarily represent the views of Ballyrock, or its affiliates or any other person in the Fidelity organization. Any such views are subject to change at any time based upon market or other conditions, and Ballyrock disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for an account managed by Ballyrock or its affiliates are based on numerous factors, may not be relied on as an indication of trading intent on behalf of any such account.

At the outset of any new CLO or structured credit transaction, Ballyrock, along with other deal participants, including the underwriters, placement agents, rating agencies and investors, will determine the type of investments that the CLO or other structured credit vehicle will make and any limitations on such investments.

Ballyrock’s total assets under management on a discretionary basis as of December 31, 2016 were \$1,155,059,650.

## **FEES AND COMPENSATION**

With respect to the CLOs it manages, Ballyrock’s fee includes a “base fee” component and an “incentive fee” component. The base fee is generally based on a percentage of assets under management and is payable in arrears on each quarterly distribution date, subject to the priority of payments established by each such CLO’s trust indenture. These fees are paid quarterly out of the cash proceeds available for distribution to the CLO’s investors and at maturity or redemption of the CLO, in each case, to the extent

sufficient cash exists, in accordance with the priority of payments in the applicable CLO's indenture. The incentive fee component accrues over the life of the CLO, but will not be payable to Ballyrock until such time as a specified internal rate of return has been earned by the holders of the CLO's equity tranche. Fees earned by Ballyrock but not paid out to Ballyrock will accrue interest at a negotiated rate until such time as the fees can be paid to Ballyrock in accordance with the terms of the applicable CLO's trust indenture.

Ballyrock may also receive a structuring fee for advice it renders in structuring certain CLOs that it manages. The structuring fee has generally been based on a percentage of the aggregate size of the CLO's securities offering and may be paid to Ballyrock from the proceeds of such offering.

In general, Ballyrock will be responsible for all of its ordinary expenses incurred in the performance of its investment management duties in respect of any structured credit vehicle or other investment account, including the expenses and fees of any third party retained by Ballyrock to assist in the performance of such duties. However, (i) transactional expenses (such as brokerage commissions, transfer fees, registration costs, taxes and other similar transaction-related expenses), (ii) legal and accounting expenses in connection with the CLO or other investment vehicle, (iii) extraordinary expenses (such as those incurred in connection with the default or restructuring of a collateral debt obligation or the defense of liability claims), and (iv) in some cases, expenses of unaffiliated third party technology vendors which are necessary to be incurred by Ballyrock to manage the vehicle will typically be payable out of the assets of the CLO or other investment vehicle.

Pursuant to each CLO's indenture, each CLO is also responsible for the trustee fees, administration fees, legal expenses and other administration expenses that it incurs.

## **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

With respect to the CLOs it manages, Ballyrock's fee will typically include a "base fee" component and an "incentive fee" component. For further discussion, please refer to the Fees and Compensation section above. For all CLOs from which Ballyrock is currently eligible to receive an incentive fee, the fee is based on a percentage of assets under management and is only paid to Ballyrock at such time as a specified internal rate of return has been earned by the holders of the CLO's equity tranche. FMR has adopted policies and procedures and maintains a compliance program designed to help manage such potential conflicts, which include trade allocation policies approved by the Fidelity Funds' Boards of Trustees. There can be no assurance, however, that all conflicts have been addressed in all situations. For more information regarding conflicts of interests relating to the management of multiple funds and accounts, see "Code of Ethics, Participation or Interest in Client Transactions and Personal Trading" on page 9.

## **TYPES OF CLIENTS**

Ballyrock provides investment advice to CLOs. The CLOs that Ballyrock advises are securitized asset vehicles exempt from registering as investment companies under the Investment Company Act of 1940. The size of each client that Ballyrock advises is determined at the outset of a transaction between Ballyrock and other parties involved in the transaction, including underwriters, placement agents and investors.

## **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

Ballyrock's security analysis may include interest rate trend analysis. Another main source of information Ballyrock may use is extensive corporate visits and interviews. In selecting investments for a structured credit vehicle, Ballyrock will, subject to the terms of the applicable trust indenture, generally seek securities with stable or growing cash flows, compelling industry or market dynamics, attractive security

features, strong collateral protection and/or compelling valuation. In determining whether to sell a security, Ballyrock will, subject to the terms of the applicable trust indenture, consider among other factors the extent to which current income and capital appreciation expectations have been met, the availability of more attractive investments and the extent to which the fundamentals or collateral values of the security have deteriorated.

Due to regulatory and issuer-specific limits that apply to the ownership of securities of certain issuers, Ballyrock and its affiliates may limit investments in the securities of such issuers. Similar limitations may apply to futures and other derivatives, such as options. In addition, Ballyrock and/or its affiliates may from time-to-time determine that, because of regulatory requirements that may apply to Ballyrock and/or its affiliates in relation to investments in a particular country or in an issuer operating in a particular regulated industry, investments in the securities of issuers domiciled or listed on trading markets in that country or operating in that regulated industry above certain thresholds may be impractical or undesirable. The foregoing limits and thresholds may apply at the account level or in the aggregate across all accounts (or certain subsets of accounts) managed, sponsored, or owned by, or otherwise attributable to, Ballyrock and its affiliates. For investment risk management and other purposes, Ballyrock and its affiliates also generally apply internal aggregate limits on the amount of a particular issuer's securities that may be owned by all such accounts. In connection with the foregoing limits and thresholds, Ballyrock may limit or exclude clients' investment in a particular issuer, future, derivative and/or other instrument (or limit the exercise of voting or other rights) and investment flexibility may be restricted. In addition, to the extent that client accounts already own securities that directly or indirectly contribute to such an ownership threshold being exceeded, Ballyrock may sell securities held in such accounts in order to bring account-level and/or aggregate ownership below the relevant threshold. In the event that any such sales result in realized losses for client accounts, those client accounts may bear such losses depending on the particular circumstances.

With the increased use of technologies to conduct business, Ballyrock and its affiliates are susceptible to operational, information security and related risks. In general, cyber incidents can result from deliberate attacks or unintentional events and may arise from external or internal sources. Cyber attacks include, but are not limited to, gaining unauthorized access to digital systems (e.g., through "hacking" or malicious software coding) for purposes of misappropriating assets or sensitive information; corrupting data, equipment or systems; or causing operational disruption. Cyber attacks may also be carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service attacks on websites (i.e., efforts to make network services unavailable to intended users). Cyber incidents affecting Ballyrock, its affiliates, or any other service providers (including, but not limited to, accountants, custodians, transfer agents and financial intermediaries used by a fund or account) have the ability to cause disruptions and impact business operations, potentially resulting in financial losses, interference with the ability to calculate NAV, impediments to trading, the inability to transact business, destruction to equipment and systems, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs. Similar adverse consequences could result from cyber incidents affecting issuers of securities in which a fund or account invests, counterparties with which a fund or account engages in transactions, governmental and other regulatory authorities, exchange and other financial market operators, banks, brokers, dealers, insurance companies and other financial institutions (including financial intermediaries and service providers) and other parties.

An investment in the CLOs managed by Ballyrock involves certain risks including:

Investing in securities issued by CLOs involves risk of loss that investors should be prepared to bear.

### ***Limited Liquidity***

Investments in a CLO's securities should be viewed as a long-term investment, not as a trading vehicle. There can be no assurance that a market for any of a CLO's securities will develop or exist at any time. The value of an investment in a CLO's securities may vary and such securities, if sold, may be worth more or less than their original cost.

***Optional Redemption***

An optional redemption could require Ballyrock to liquidate positions more rapidly than would otherwise be desirable, which could adversely affect the returns on an investment in the applicable CLO.

***Risks related to non-investment grade debt***

The non-investment grade rating of high yield bonds and leveraged loans reflects a greater possibility that adverse changes in the financial condition of the obligor or in general economic conditions may adversely affect the obligor's ability to pay principal and interest on its debt. High yield debt securities are generally unsecured and subordinated, and generally have greater credit, insolvency, and liquidity risk than investment grade debt securities. Any potential changes in the rating agencies' rating methodology for determining expected credit loss may adversely affect spreads on a CLO's collateral portfolio and, consequently, reduce interest proceeds available to the CLO to make payments on the securities it has issued. Decline in credit quality of a CLO's collateral portfolio or defaults could result in losses which would adversely affect an investment in the CLO. In the event of impairment of credit quality and/or defaults on the collateral, Ballyrock may sell the affected collateral. There can be no assurance as to the rates of recovery on such collateral both as a result of the credit quality of such collateral and the possible limited liquidity.

***Concentration***

There may be certain industry or obligor concentrations in a CLO's collateral portfolio, which could have a material adverse impact on an investment in the CLO in the event of economic downturns or other events affecting that industry or obligor.

***Changes in Tax Laws***

Collateral is not permitted to be subject to withholding tax, unless the issuer thereof is required to make "gross-up" payments. There can be no assurance that, as a result of any change in any applicable law, treaty, rule or regulation or interpretation thereof, the payments on the collateral might not in the future become subject to withholding tax which could adversely affect the amounts that would be available to make payments on a CLO's securities.

***Dependence on Key Personnel***

A CLO managed by Ballyrock is highly dependent on the financial and managerial experience of certain individuals associated with Ballyrock and employees of FMR as such individuals analyze, select and manage the CLO's collateral portfolio. There can be no assurance that such investment professionals will continue to serve in their current positions or continue to be authorized persons of Ballyrock or FMR and its affiliates. The loss of one or more of such key management and personnel may have a material adverse effect on the performance of the CLOs.

***Relation to Prior Investment Results***

The prior investment results of CLOs managed by Ballyrock or persons associated with Ballyrock are not indicative of future investment results. There can be no assurance that the investments will perform as well as the past investments of any such persons or entities.

***Risks specifically related to an investment in the equity securities of a CLO managed by Ballyrock***

The CLOs' equity securities are in a first loss position with respect to defaults on the CLO's underlying collateral portfolio. The highly leveraged nature of these equity securities magnifies the adverse impact of any defaults in the collateral portfolio. A CLO's equity securities represent a highly leveraged investment in the collateral. Therefore, changes in the market value of the equity securities can be expected to be greater than changes in the market value of the underlying assets included in the collateral, which themselves are subject to credit, liquidity and interest rate risk. Ballyrock and/or its affiliates may purchase the subordinated securities at a price different than those offered to other subordinated noteholders.

**Operational Risk**

Additionally, funds and accounts may be subject to operational risks, which can include risks of loss arising from failures in internal processes, people or systems, such as routine processing errors or major systems failures, or from external events, such as exchange outages.

**DISCIPLINARY INFORMATION**

There are no legal or disciplinary events that are material to the evaluation of Ballyrock's business or the integrity of its management.

**OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS****Broker Dealers**

Fidelity Global Brokerage Group, Inc., a wholly-owned subsidiary of FMR LLC, wholly-owns two broker-dealers: Fidelity Brokerage Services LLC and National Financial Services LLC, and also has an equity interest in eBX LLC ("eBX"), a holding company and a registered broker-dealer under the Securities Exchange Act of 1934, which was formed for the purpose of developing, owning and operating an alternative trading system, the "Level ATS." Transactions for clients of Ballyrock or its affiliates, or for other entities for which Ballyrock's affiliates serve as adviser or sub-adviser or provide discretionary trading services, may be executed through the Level ATS. Ballyrock disclaims that it is a related person of eBX.

National Financial Services LLC ("NFS") is engaged in the institutional brokerage business and provides clearing and execution services for other brokers. NFS is a wholly-owned subsidiary of Fidelity Global Brokerage Group, Inc., a holding company that provides administrative services to NFS. Fidelity Capital Markets ("FCM"), a division of NFS, may execute transactions for Ballyrock's clients. Additionally, NFS operates CrossStream, an alternative trading system that allows orders submitted by its subscribers to be crossed against orders submitted by other subscribers. NFS charges a commission to both sides of each trade executed in CrossStream. CrossStream may be used to execute transactions for Ballyrock's or Ballyrock's affiliates' investment company and other advisory clients. NFS is a registered broker-dealer under the Exchange Act, and NFS is also registered as an investment adviser under the Investment Advisers Act of 1940 ("Advisers Act"). NFS may serve as a clearing agent for client transactions that Ballyrock places with certain broker-dealers. NFS may provide transfer agent services or sub-transfer agent services and custodial services to certain of Ballyrock's or Ballyrock's affiliates' clients.

Luminex Trading & Analytics LLC ("LTA"), a registered broker-dealer and alternative trading system, was formed for the purpose of establishing and operating an electronic execution utility (the "LTA ATS") that allows orders submitted by its subscribers to be crossed against orders submitted by other subscribers. FMR LLC is the majority owner of LTA. LTA charges a commission to both sides of each trade executed in the LTA ATS. The LTA ATS may be used to execute transactions for FMRC's or FMRC's affiliates' investment company and other advisory clients. NFS serves as a clearing agent for transactions executed in the LTA ATS.

**Other Investment Advisers**

Fidelity Management & Research Company ("FMR"), a wholly-owned subsidiary of FMR LLC, in association with its various affiliates, serves as investment adviser to a number of investment companies, and is registered as an investment adviser under the Advisers Act. For each CLO for which Ballyrock acts as collateral manager, Ballyrock will enter into a sub-advisory agreement with FMR, pursuant to which FMR and its affiliates will provide certain investment advice, structuring advice and support, research and trade execution services to Ballyrock.



FMR Co., Inc. ("FMRC") is a wholly-owned subsidiary of FMR and is a registered investment adviser under the Advisers Act. FMRC provides portfolio management services as an adviser or sub-adviser to certain of FMR's clients and Fidelity Funds. FMRC may also provide portfolio management services as an adviser or a sub-adviser to clients of other affiliated and unaffiliated advisers.

Fidelity Investments Money Management, Inc. ("FIMM") is a wholly-owned subsidiary of FMR LLC and a registered investment adviser under the Advisers Act. FIMM provides portfolio management services as an adviser or sub-adviser to certain of FMR's clients and Fidelity Funds. FIMM may also provide portfolio management services as an adviser or a sub-adviser to clients of other affiliated and unaffiliated advisers.

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

Ballyrock may purchase or sell securities for the accounts of clients in which Ballyrock's or its affiliates' in-house accounts (including institutional accounts), affiliates, directors, officers or employees have a position. This situation results, in part, from the breadth of securities purchased by Ballyrock's or its affiliates' varied clients and from Ballyrock's or its affiliates' personnel being permitted to invest in securities for their personal accounts. The potential conflicts of interest involved in employee transactions are generally governed by FMR's Code of Ethics for Personal Investing ("Code"), which has been adopted and approved by the Board of Trustees of FMR's or its affiliates' mutual fund clients in the Fidelity group of funds in accordance with Rule 17j-1 under the 1940 Act, and which incorporates the Adviser's Code of Ethics ("Adviser's Code") adopted in accordance with Rule 204A-1 under the Advisers Act.

The Adviser's Code applies to all officers, directors, and employees Ballyrock ("Advisory Personnel"), and requires that they place the interests of Ballyrock's clients above their own. The Adviser's Code establishes securities transactions requirements for all covered employees and their covered persons, including their spouses. More specifically, the Adviser's Code: (i) requires employees and their covered persons to move their covered accounts to Fidelity Brokerage Services LLC unless an exception has been granted; (ii) requires reporting of transactions in covered securities on a quarterly basis; (iii) requires reporting of accounts and holdings of covered securities on an annual basis; (iv) prohibits purchases of securities in initial public offerings unless an exception has been approved; and (v) prohibits investments in limited offerings without prior approval. Violation of the Code's requirements may also result in the imposition of remedial action.

In addition, the Adviser's Code (1) describes the fiduciary duty all Advisory Personnel have to Ballyrock's clients; (2) requires Advisory Personnel comply with federal securities laws; (3) requires Advisory Personnel to report, and for FMR to review, such Advisory Personnel's and their covered persons' mutual fund share transactions and holdings periodically (money market funds excepted) for funds advised by FMR or an affiliate and certain other funds specified in the Adviser's Code; (4) requires Advisory Personnel to report any violations of the Adviser's Code to FMR's Ethics Office; and (5) requires FMR to provide each Advisory Personnel with a copy of the Adviser's Code and any amendments, and requires Advisory Personnel to acknowledge their receipt and understanding of the Adviser's Code.

Ballyrock will provide a copy of its Adviser's Code, as integrated into the Code, to any client or prospective client upon request.

The purchase or sale of securities for the accounts of clients may be restricted in connection with distributions of securities where Ballyrock, its affiliates or their clients are proposing to act as selling shareholders in the distribution. Any such activity is evaluated in accordance with Regulation M under the Exchange Act, the 1940 Act and other applicable rules and regulations and may result in restrictions on the ability of client accounts to purchase or sell in the distribution and/or in the secondary market. FCM, a division of NFS, an affiliated broker-dealer of FMR, may be a selling agent or principal underwriter in underwritings of municipal, equity or other securities which FMR recommends to clients. The Trustees of

FMR's or its affiliates' mutual fund clients in the Fidelity group of funds evaluate any such activity by FMR in accordance with Rule 10f-3 under the 1940 Act and procedures adopted pursuant to Rule 10f-3.

Conflicts of interest may arise where a portfolio manager considers investing a client account in securities of an issuer in which Ballyrock, its affiliates or their (or their fund clients') respective directors, officers or employees already hold a significant position for their own account, including positions held indirectly through certain funds or accounts managed by Ballyrock or one of its affiliated advisers. Such investments are evaluated in accordance with the 1940 Act, as well as other applicable laws and regulations, and there may be instances where Ballyrock or its affiliates' client accounts, including accounts sub-advised by third parties, are prohibited from participating in offerings of such securities (including initial public offerings and other offerings occurring before or after an issuer's initial public offering) or acquiring such securities in the secondary market. Ballyrock has adopted policies and procedures and maintains a compliance program designed to help manage such actual and potential conflicts of interest.

Conflicts of interest may arise if the funds' orders do not get fully executed due to being aggregated with those of other accounts managed by FMR or an affiliate, including FMR's or its affiliates' in-house accounts. FMR has adopted policies and procedures (for example, trade allocation procedures) and maintains a compliance program designed to help manage these actual and potential conflicts. There can be no assurance, however, that all conflicts have been addressed in all situations. Trading in personal accounts, which may give rise to potential conflicts of interest, is restricted by the Code.

From time to time, in connection with its business, FMR may obtain material non-public information that is usually not available to other investors or the general public. In compliance with applicable laws, FMR has adopted a comprehensive set of policies and procedures that prohibit the use of material non-public information by investment professionals or any other employees. These policies and procedures also address the use of third party paid research consultants.

In addition, FMR has implemented a policy on Business Entertainment and Workplace Gifts intended to set standards for business entertainment and gifts and help employees make sound decisions with respect to these activities and ensure that the interests of FMR's clients come first. Similarly, to ensure compliance with applicable "pay to play" laws, FMR has implemented a Political Contributions and Activity policy which requires all employees to pre-clear any political contributions and activity. FMR also has a policy regarding commercial bribery and bribery of government officials that prohibits directly or indirectly giving, offering, authorizing, promising, accepting, or receiving any bribe, facilitation payment, kickback, or payoff (whether in cash or any other form) with the intent to improperly obtain or retain business or any improper advantage.

Under the collateral management agreements between Ballyrock and its clients, principal and agency cross transactions are permissible. The parties to each collateral management agreement have consented to such transactions under the agreement and the possibility of these transactions is disclosed in Ballyrock's clients' offering materials.

## **BROKERAGE PRACTICES**

### **Selection of Brokers and Dealers to Effect Client Transactions**

Ballyrock or its affiliates generally have authority to select broker-dealers (whether acting as a broker or dealer) to place or execute clients' portfolio transactions. Ballyrock or its affiliates may be responsible for the placement of portfolio transactions for certain client accounts for which an affiliate or related person has investment discretion. In selecting a broker or dealer for a specific transaction, Ballyrock or its affiliates evaluate a variety of criteria and use good faith judgment in seeking to obtain execution of portfolio transactions at commissions or costs that are reasonable in relation to the brokerage and research services provided.

In selecting brokers, including affiliates of Ballyrock, to execute client portfolio transactions, Ballyrock or its affiliates consider the factors they deem relevant in the context of a particular trade and in regard to Ballyrock's or its affiliates' overall responsibilities with respect to the client and other investment accounts including any instructions from the client's portfolio manager, which may emphasize, for example, speed of execution over other factors. Based on the factors considered, Ballyrock or its affiliates may choose to execute an order using electronic channels, including broker-sponsored algorithms, internal crossing, or by actively working an order. Other possibly relevant factors may include, but are not limited to, the following: price; the size and type of the transaction; the reasonableness of compensation to be paid, including spreads and commission rates; the speed and certainty of trade executions, including broker willingness to commit capital; the nature and characteristics of the markets for the investment to be purchased or sold, including the degree of specialization of the broker in such markets or investments; the availability of liquidity in the investment, including the liquidity and depth afforded by a market center or market-maker; the reliability of a market center or broker; the broker's overall trading relationship with Ballyrock or its affiliates; the trader's assessment of whether and how closely the broker likely will follow the trader's instructions to the broker; the degree of anonymity that a particular market or broker can provide; the potential for avoiding or lessening market impact; the execution services rendered on a continuing basis; the execution efficiency, settlement capability, and financial condition of the broker or dealer; arrangements for payment of fund expenses, if applicable; and the provision of additional brokerage and research products and services, if applicable.

The trading desks through which Ballyrock and its affiliates may execute trades are instructed to execute portfolio transactions on behalf of their clients based on the quality of execution without any consideration of Research and Brokerage Services (as defined below) the broker or dealer may provide. The administration of Research and Brokerage Services is managed separately from the trading desks, which means that traders have no responsibility for administering soft dollar activities.

In seeking best qualitative execution, Ballyrock or its affiliates may select a broker that uses a trading method, including algorithmic trading, for which the broker may charge a higher commission than its lowest available commission rate. Ballyrock or its affiliates also may select a broker that charges more than the lowest commission rate available from another broker. Ballyrock or its affiliates may execute an entire transaction with a broker and allocate all or a portion of the transaction and/or related commissions to a second broker where a client does not permit trading with an affiliate of Ballyrock or in other limited situations. In those situations, the commission rate paid to the second broker may be higher than the commission rate paid to the executing broker.

If Ballyrock grants investment management authority to a sub-adviser, that sub-adviser, including FMR, will be authorized to provide the trade execution services described in the sub-advisory agreement.

## **Identification and Resolution of Errors**

As an investment adviser, Ballyrock maintains policies and procedures that address the identification and correction of errors consistent with applicable standards of care and clients' investment management agreements. To the extent that an error occurs, Ballyrock's policy is to identify and resolve the error as promptly as possible. Ballyrock will address and resolve errors on a case by case basis, in its discretion, based on each error's facts and circumstances. Ballyrock is not obligated to follow any single method of resolving errors.

An incident is any occurrence or event that interrupts normal investment-related activities or that may deviate from applicable law, the terms of an investment management agreement, or applicable internal or external policies or procedures. Incidents can occur at Ballyrock or at one of Ballyrock's service providers, and can be identified by any of the same.

The determination of whether an incident constitutes an error is made by Ballyrock in its sole discretion based on the relevant facts and circumstances of each incident considered in light of the applicable standard of care. Errors may include, without limitation: (i) purchases or sales that exceed the amount of securities intended to trade for a fund or account; (ii) the purchase (or sale) of a security when it should

have been sold (or purchased); (iii) the purchase or sale of a security not intended for the fund or account, and/or contrary to investment guidelines or restrictions; and (iv) incorrect allocations of trades.

Situations that generally would be considered by Ballyrock to be incidents but not errors include, without limitation, (i) failure by a portfolio manager to provide timely notification of an incorrect purchase of a security although the security purchased was appropriate for the fund or account; (ii) passive or active breach of an internal or account-level limit; and (iii) failure to update a portfolio manager in a timely manner regarding an increase in shares outstanding or additional room to buy for a security that had been at an aggregate limit.

Additionally, incidents involving fund monitoring or aggregate monitoring compliance violations may or may not be deemed by Ballyrock to be errors depending on the facts and circumstances. For example, an active breach of a client mandate or regulatory limit (e.g., due to an acquisition of additional securities for an account) may be deemed to be an error and may be compensable depending on the particular circumstances, but a passive breach of such a limit (e.g., due to a reduction in the issuer's outstanding securities) would not be considered an error and would not be compensable. Active breaches of issuer or regulatory limits, including poison pill limits, may be deemed to be errors and may be compensable depending on the circumstances, but passive breaches generally will not. Further, a passive breach of an aggregate limit on holdings of a security established internally by Ballyrock and its affiliates, and instances where all available aggregate capacity on a security is not fully utilized, generally is not considered an error and is not compensable, but an active breach of an internal aggregate limit may be deemed to be an error and compensable depending on the particular circumstances. To the extent that client accounts already own securities that directly or indirectly contribute to certain ownership thresholds being exceeded, Ballyrock may sell securities held in such accounts in order to bring account-level and/or aggregate ownership below the relevant threshold. If any such sales result in losses for client accounts, those client accounts may bear such losses depending on the particular circumstances.

Ballyrock is responsible for notifying, when appropriate, the affected client of an error. Ballyrock generally will not notify clients about incidents deemed not to be errors and non-compensable errors, unless otherwise agreed with particular clients. All errors requiring reimbursement to a Fidelity affiliated mutual fund of \$100,000 or more must be reported to the Compliance Committee (or other applicable Committee) of the fund's Board of Trustees at its next scheduled meeting.

When Ballyrock determines that reimbursement is appropriate, the account will be compensated as determined in good faith by Ballyrock. Resolution of errors may include, but is not limited to, permitting client accounts to retain gains or reimbursing client accounts for losses resulting from the error. The calculation of the amount of any loss will depend on the facts and circumstances of the error, and the methodology used by Ballyrock may vary. Unless prohibited by applicable regulation or a specific agreement with the client, Ballyrock will net a client's gains and losses from the error or a series of related errors with the same root cause and compensate the client for the net loss. In general, compensation is expected to be limited to direct monetary losses and will not include any amounts that Ballyrock deems to be speculative or uncertain, nor will it cover investment losses not caused by the error. Ballyrock may elect to establish an error account for the resolution of errors which could be used depending on the facts and circumstances.

## **Investment Research Products and Brokerage Services Furnished by Research Providers and Brokers**

Ballyrock or its affiliates may execute portfolio transactions with brokers that provide products and services that assist them in fulfilling their investment management responsibilities ("Research and Brokerage Services") in accordance with applicable law. Research and Brokerage Services that Ballyrock or its affiliates may have received during the last fiscal year include, when permissible under applicable law: economic, industry, company, municipal, sovereign (U.S. and non-U.S.), legal, or political research reports; market color; company meeting facilitation; compilation of securities prices, earnings,

dividends and similar data; quotation services, data, information and other services; analytical computer software and services; and investment recommendations. In addition to receiving these Research and Brokerage Services via written reports and computer-delivered services, such reports may also be provided by telephone and in-person meetings with securities analysts, corporate and industry spokespersons, economists, academicians and government representatives and others with relevant professional expertise. Ballyrock or its affiliates may request that a broker provide a specific proprietary or third-party product or service. Some of these Research and Brokerage Services supplement Ballyrock's or its affiliates' own research activities in providing investment advice to their clients.

In addition, Research and Brokerage Services may include, when permissible under applicable law: those that assist in the execution, clearing and settlement of securities transactions as well as other incidental functions (including, but not limited to, communication services related to trade execution, order routing and algorithmic trading, post-trade matching, exchange of messages among brokers or dealers, custodians and institutions, and the use of electronic confirmation and affirmation of institutional trades).

Although Ballyrock or its affiliates do not use client commissions to pay for products or services that do not qualify as Research and Brokerage Services, they may use commission dollars to obtain certain products or services that are not used exclusively in Ballyrock's or its affiliates' investment decision-making process ("mixed-use products or services"). In those circumstances, Ballyrock or its affiliates will make a good faith judgment to evaluate the various benefits and uses to which they intend to put the mixed-use product or service, and will pay for that portion of the mixed-use product or service that does not qualify as Research and Brokerage Services with their own resources (referred to as "hard dollars").

To the extent permitted by applicable law, brokers who execute client transactions may receive compensation in recognition of their Research and Brokerage Services that is in excess of the amount of compensation that other brokers might have charged. In connection with the allocation of client brokerage, Ballyrock or its affiliates make a good faith determination that the compensation paid to brokers and dealers is reasonable in relation to the value of the Research and Brokerage Services provided to Ballyrock or its affiliates, viewed in terms of the particular transaction for the client or Ballyrock's or its affiliates' overall responsibilities to that client or other clients for which Ballyrock or its affiliates have investment discretion; however, each Research and Brokerage Service received in connection with a client's brokerage may not benefit all clients. While Ballyrock or its affiliates may take into account the Research and Brokerage Services provided by a broker or dealer in determining whether compensation paid is reasonable, neither Ballyrock, its affiliates, nor their respective clients incur an obligation to any broker, dealer, or third-party to pay any Research and Brokerage Services (or portion thereof) by generating a specific amount of compensation or otherwise. Typically, these Research and Brokerage Services assist Ballyrock or its affiliates in terms of their overall investment responsibilities to a client or any other client accounts for which Ballyrock or its affiliates have investment discretion. Certain client accounts may use brokerage commissions to acquire Research and Brokerage Services that may also benefit other client accounts managed by Ballyrock or its affiliates.

Ballyrock's or its affiliates' expenses likely would be increased if they attempted to generate these additional Research and Brokerage Services through their own efforts or if they paid for these Research and Brokerage Services with their own resources. To minimize the potential for conflicts of interest, the trading desks through which Ballyrock or its affiliates may execute trades are instructed to execute portfolio transactions on behalf of clients based on the quality of execution without any consideration of Research and Brokerage Services the broker or dealer may provide. The administration of Research and Brokerage Services is managed separately from the trading desks, which means that traders have no responsibility for administering soft dollar activities. Furthermore, certain of the Research and Brokerage Services that Ballyrock or its affiliates receive are furnished by brokers on their own initiative, either in connection with a particular transaction or as part of their overall services. Some of these Research and Brokerage Services may be provided at no additional cost to Ballyrock or its affiliates or have no explicit cost associated with them. In addition, Ballyrock or its affiliates may request that a broker provide a specific proprietary or third-party product or service, certain of which third-party products or services may be provided by a broker that is not a party to a particular transaction and is not connected with the transacting broker's overall services.

Ballyrock or its affiliates have arrangements with certain third-party research providers and brokers through whom Ballyrock or its affiliate's effect client trades, whereby Ballyrock or its affiliates may pay with fund commissions or hard dollars for all or a portion of the cost of research products and services purchased from such research providers or brokers. If hard dollar payments are used, Ballyrock or its affiliates may still cause the client to pay more for execution than the lowest commission rate available from the broker providing research products and services to Ballyrock or its affiliates, or that may be available from another broker. Ballyrock or its affiliates view hard dollar payments for research products and services as likely to reduce the client's total commission costs even though it is expected that in such hard dollar arrangements the commissions available for recapture and used to pay client expenses, as described below, will decrease. Ballyrock's or its affiliates' potential determination to pay for research products and services separately, rather than bundled with client account commissions, is wholly voluntary on Ballyrock's or its affiliates' part and may be extended to additional brokers or discontinued with any broker participating in this arrangement.

## **Other Considerations and Brokerage Arrangements**

### ***Commission Recapture***

Ballyrock or its affiliates may allocate brokerage transactions to brokers (who are not affiliates of Ballyrock) who have entered into arrangements with Ballyrock or its affiliates under which the broker may rebate a portion of the compensation paid by a client account ("commission recapture"). Not all brokers with whom the client account trades have been asked to participate in brokerage commission recapture.

Ballyrock or its affiliates recommend that clients do not request them to direct client portfolio transactions to specific brokers. Clients may nonetheless make such requests, subject to Ballyrock's or its affiliates' attempts to seek quality execution and provided that the broker is an approved counterparty of Ballyrock or its affiliates. Clients should be aware that if they require Ballyrock or its affiliates to direct portfolio transactions to specific brokers, (a) Ballyrock or its affiliates may be unable to achieve most favorable execution of such directed transactions; (b) the client may pay higher brokerage commissions on such directed transactions because Ballyrock or its affiliates may be unable to aggregate such directed transactions with other orders; (c) the client may receive less favorable prices on such directed transactions; and (d) if eligible, a client may not simultaneously participate in commission recapture as well as a directed brokerage program established or subscribed to by the client.

### ***Transactions with Certain Brokers***

Ballyrock or its affiliates may place trades with certain brokers, including NFS and LTA, with whom they are under common control or otherwise affiliated, provided Ballyrock or its affiliates determine that these affiliates' trade execution abilities and costs are comparable to those of non-affiliated, qualified brokerage firms, and that such transactions be executed in accordance with applicable rules under the 1940 Act and procedures adopted by the Board of Trustees or Directors (as applicable) of Ballyrock's clients in the Fidelity group of funds and subject to other applicable law.

In addition, Ballyrock or its affiliates may place client trades with brokers that use NFS as a clearing agent.

### ***Transactions Among Clients***

Ballyrock or its affiliates may execute transactions between the clients they manage, as well as with certain other clients managed by their affiliates. Ballyrock or its affiliates may also execute transactions between non-mutual fund clients, and such transactions will be executed in accordance with applicable rules under the Advisers Act and procedures adopted thereunder. When Ballyrock or its affiliates engage in adviser cross transactions, where Ballyrock or its affiliates directly affect an agency transaction between advisory clients without involving a broker, FMR or its affiliates will receive no compensation (other than its advisory fee), directly or indirectly, for the agency transaction.

## Trade Allocation Policies

### ***Bunched Trades***

It is generally Ballyrock's or its affiliates' practice, when appropriate, to combine or "bunch" orders of various accounts, including those of its clients, its affiliates' clients, and in certain instances, proprietary accounts, for order entry and execution. Bunched orders may be executed through one or more brokers. The allotment of trades among brokers is based on a variety of factors, which may include price, order size, the time of order, the security and market activity. A bunched trade executed with a particular broker is generally allocated pro-rata among the accounts that are participating in the bunched trade until any account has been filled. After any account has been filled, the trade is allocated pro-rata among any remaining accounts. Each broker's execution of a bunched order may be at a price different than another broker's bunched order execution price for the same security.

### ***Allocation of Trades***

Ballyrock and its affiliates have established allocation policies for their various accounts (including proprietary accounts) and securities types (e.g., equity, fixed income and high income) to ensure allocations are appropriate given clients' differing investment objectives and other considerations. These policies also apply to initial and secondary offerings. When, in Ballyrock's or its affiliates' opinion, the supply/demand is insufficient under the circumstances to satisfy all outstanding orders, across all securities types the amount executed generally is distributed among participating accounts based on account net asset size (for purchases) and security position size (for sales), or otherwise according to the allocation policies. With limited exceptions, the trading systems contain rules that allocate trades on an automated basis in accordance with these policies. Generally, any exceptions to Ballyrock's and its affiliates' policies (i.e., special allocations) must be approved by senior trading and compliance personnel and documented.

Ballyrock's and its affiliates' trade allocation policies identify circumstances under which it is appropriate to modify or deviate from the general allocation criteria and describe the alternate procedures. For allocations based on net assets, the trade allocation policies for each of equity, fixed income, and high income define the method of calculating net assets to be used depending on particular circumstances or needs. The high income and fixed income allocation policies define net assets generally by reference to each account's assets managed by the high income or fixed income divisions, respectively, and by reference to certain security and account types, such as high income or investment grade securities and accounts. For example, both the high income and fixed income trade allocation policies provide that 100% of a high income account's net assets may be taken into account when allocating high income securities, but only 1% of an investment grade bond account's or equity account's net assets may be taken into account when allocating high income securities to those accounts along with the high income accounts. The high income trade allocation policy also defines net assets similarly for bank loan and real estate accounts when acquiring bank loan and real estate securities, respectively. Additionally, under the fixed income allocation policy, when defining what constitutes net assets for separately managed account (SMA) clients when trading alongside other client accounts, SMAs that follow similar investment strategies may have their assets grouped into an omnibus trading account, where that omnibus trading account is treated as a single portfolio for allocation purposes. The equity trade allocation policy defines net assets generally by reference to each account's overall net assets. The equity trade allocation policy allows for certain specialized accounts, such as international, real estate investment, convertible securities, or other accounts to receive an increased allocation by increasing the weighting of an account's net assets by a factor of two or four where the securities correlate closely to the investment objective or focus of the account. Where an account has a defined sub-account, the amount earmarked for equity investment may be taken into account as net assets for allocations. Short sale and "buy to cover" transactions generally are subject to the same general allocation criteria as non-short sale transactions, and thus could experience significant delays in execution, which could materially impact the performance of accounts whose strategies rely on short sales.

Alternate allocation methods other than net asset size (for purchases) and security position size (for sales) may be employed under certain circumstances. The equity trade allocation policy provides for the execution of program trades and short sales notwithstanding the existence of active orders for individual

securities on the trading desk, provided that consideration is given to whether the program trade or short sale might have a material effect on these active orders. The policy also allows for accounts designed to have proportionately identical portfolios (e.g., one portfolio modeled on another portfolio) to receive proportional allocations when allocations on net assets or holdings size would yield a non-proportional result. The fixed income trade allocation policy allows for several alternate allocation methods, in some cases only where the portfolio managers of all accounts involved in the allocation agree to the use of the alternate method(s). These alternate methods include pro rata allocations based on the size of the accounts' orders; rotating investment opportunities among accounts that trade consistently on specific trading desks (e.g., taxable bond desks or money market desks); bunching securities or other investments that may be deemed to be fungible and then allocating the bunched orders on a series basis so as to keep like-securities or other investments grouped together; and/or providing a priority allocation for trades the execution of which are contingent on the execution of other trades. The fixed income trade allocation policy also provides for increased or priority allocations for accounts specializing in a particular type of security or other investment. These include priority allocations for certain accounts for repurchase agreements; increased allocations of municipal securities to single state municipal money market and municipal bond accounts for obligations that are tax-exempt within their state; and a priority allocation of U.S. Treasury money market securities to Treasury-only money market accounts.

All of the trade allocation policies generally provide for minimum allocations based on market-defined minimum denominations, or otherwise may allow increased or decreased allocations (i) to avoid a *de minimis* allocation, (ii) to round to a trading round lot, or (iii) in the case of the high income trade allocation policy, to complete a sale of all holdings in order to avoid residual holdings in an amount less than a basic unit of trading. Trade allocations may also be impacted by various regulatory requirements depending on where the trade is executed and what types of accounts are included in the trade. In such circumstances, some accounts may need to be prioritized over others when supply/demand is insufficient (e.g., client accounts receive priority of allocation over proprietary accounts). Accounts for which all the assets are those of Ballyrock or its affiliates and are not otherwise used to seed new investment products or to meet potential claims of insurance policyholders are generally considered to be proprietary accounts. Accounts owned or managed for the benefit of individual employees of Ballyrock or its affiliates or officers or trustees of various investment products are generally considered client accounts, subject to applicable law.

## REVIEW OF ACCOUNTS

Each portfolio manager is expected to review on a continuous basis the holdings in the funds or accounts for which he or she is responsible. In all cases, portfolio managers may draw on FMR's large research and trading staff for support pursuant to sub-advisory agreements.

Investors in the CLOs that Ballyrock advises generally have access to monthly and quarterly reports regarding their investments from the independent trustee and collateral administrator of each such CLO. Ballyrock reviews each of these reports and reconciles the information in the reports against its records before the reports are finalized and distributed to investors in the CLO. Among other things, the reports include the following information for a CLO: results of the CLO's coverage tests, collateral quality tests and portfolio concentration limits; summaries of investments in the CLO's portfolio and the CLO's cash positions; summaries of investments purchased and sold by the CLO; summaries of ratings changes on the CLO's underlying investments; and summaries of cash distributions made by the CLO.

In addition, the independent trustee and collateral administrator of each such CLO will have daily access to the books and records regarding the CLO's investment portfolio.



## **CLIENT REFERRALS AND OTHER COMPENSATION**

Ballyrock or a related person does not, either directly or indirectly, compensate any person for client referrals.

## **CUSTODY**

Ballyrock does not have custody of client assets.

## **INVESTMENT DISCRETION**

Ballyrock or its affiliates generally have authority to determine which securities and other investments to purchase or sell, the total amount of such purchases and sales, and the brokers or dealers through which transactions are effected. However, with respect to each discretionary account, Ballyrock's and its affiliates' authority is subject to certain limits, including the applicable investment objectives, policies and restrictions set forth in each client's indenture and certain tax-related investment guidelines. These limitations may be based on a variety of factors, such as regulatory constraints, as well as policies imposed by a client, its governing body or the applicable trust indenture or other governing document(s), and may cause differences in fees or other expenses.

## **VOTING CLIENT SECURITIES**

Ballyrock's advisory clients generally invest in dollar denominated loans, high yield debt securities, asset backed securities and/or synthetic securities. The Ballyrock CLOs generally do not purchase equity securities and, in many cases, are required to dispose of any equity securities it may acquire within a specific period of time.

In the event that Ballyrock does receive a proxy on equity securities that a client holds, Ballyrock's affiliate and sub-adviser to the CLOs it manages, FMR, will vote the proxy in accordance with its Proxy Voting Guidelines ("Guidelines"). The Guidelines are reasonably designed to ensure proxies are voted in the best interest of clients and to resolve potential conflicts of interest. Potential conflicts generally may arise in connection with affiliated business arrangements or other relationships. FMR generally casts votes on behalf of client accounts by proxy at shareholder meetings of issuers in which FMR invests client assets.

Clients generally do not direct votes by Ballyrock. Clients may obtain information about how proxies are voted and may obtain a copy of FMR's Guidelines upon request.

## **FINANCIAL INFORMATION**

Ballyrock does not solicit prepayment of client fees. Furthermore, there are no financial conditions that are reasonably likely to impair Ballyrock's ability to meet any of its contractual commitments to its clients.

## **REQUIREMENTS FOR STATE-REGISTERED ADVISERS**

Ballyrock is not registered with any state securities authority.