



## Form ADV, Part 2A Firm Brochure

### [Item 1 – Cover Page](#)

#### Virtus Fund Advisers, LLC

One Financial Plaza  
Hartford, CT 06103  
800-248-7971

[www.virtus.com](http://www.virtus.com)

#### **Institutional Accounts, Registered Investment Companies, Private Funds, and Collective Funds Brochure**

March 27, 2024

This Form ADV, Part 2A Brochure (the “Brochure”) provides information about the qualifications and business practices of Virtus Fund Advisers, LLC (“VFA”, “we”, “us” or “our”), related to the products stated above. We also offer advisory services to other types of clients which are covered in a separate Form ADV, Part 2A brochure entitled: “Managed Account/Wrap-Fee Programs, Investment Model Delivery and Manager Recommendations to Unaffiliated Third Parties Brochure.” If you have any questions about the contents of this brochure, please contact us at 800-248-7971 and/or [InvestmentAdviser@virtus.com](mailto:InvestmentAdviser@virtus.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Additional information about VFA is also available on the SEC’s web site:  
[www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

We are a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. The oral and written communications of an adviser provide you with information you may use in your decision to hire or retain an adviser.

***This Brochure is limited to disclosures related to a subset of VFA’s clients including institutional accounts, registered investment companies, private funds and collective funds. In addition, VFA has other client types that include managed account/wrap fee programs, Investment Model Delivery, a 529 Plan, and the CDP Program. VFA manages accounts for certain of these various client types such as mutual funds, institutional clients, and wrap-fee program clients within the same strategy which may be offered at different fee schedules. Please refer to the separate VFA Form ADV, Part 2A Firm brochure entitled: “Managed Account/Wrap-Fee Programs, Investment Model Delivery and Manager Recommendations to Unaffiliated Third Parties Brochure” for descriptions***



***of our services provided to such client types.***

This Brochure is not: an offer or agreement to provide advisory services to any person; an offer to sell interests (or a solicitation of an offer to purchase interests) in any investment company that we advise; or a complete discussion of the features, risks, or conflicts associated with any advisory service or investment company. Persons who receive this publicly available Brochure should be aware that it is designed solely to provide information responsive to certain disclosure obligations under the Investment Advisers Act of 1940, as amended ("Advisers Act"). More complete information about the Virtus family of funds and VFA's advisory services is included in the relevant account or investment company documents. To the extent that there is any conflict between discussions herein and similar or related discussions in such documents, the relevant account or investment company documents shall govern and control. You should read this Brochure and those other documents carefully and consult with tax, legal, and financial advisors before making any investment decision.

## Item 2 – Material Changes

Pursuant to SEC Rules, you will receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year, which is December 31<sup>st</sup>. We may further disclose information about material changes as necessary and we will provide you with a new Brochure as necessary, based on changes or new information, at any time, without charge.

Our Brochure is available free of charge upon request. You can request our Brochure by calling our Compliance Department at 800-248-7971, and/or emailing us at: [InvestmentAdviser@virtus.com](mailto:InvestmentAdviser@virtus.com).

Additional information about VFA is also available from the SEC's web site at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The SEC's web site also provides information about any persons affiliated with VFA who are registered, or are required to be registered, as investment adviser representatives of VFA. You can search the SEC's website by referencing a firm's unique identifying number known as a CRD number. Our CRD number is 107346.

This Brochure contains the following material changes from our last annual update on March 31, 2023:

- Item 4. We updated the description of our indirect parent company to indicate that its common stock (ticker "VRTS") now trades on the New York Stock Exchange ("NYSE"). We updated the amount and types of our assets under management. We updated the listings of Mutual Funds, Collective Funds to which VFA provides advisory services.
- Item 5. We updated with the standard fee schedules for the strategies VFA provides investment advisory services without utilizing a subadviser.
- Item 8. We updated the descriptions of the investment strategies and methods of analysis related to the Virtus Multi-Asset and Virtus Systematic strategies which VFA directly manages (does not utilize sub-advisers). We updated our description of Investment Oversight and Governance in connection with our oversight of our subadvisers. We updated certain risk descriptions.



- Item 10. We made changes to our listing of affiliated registered investment advisers as well as changes regarding our global affiliates to indicate that our indirect parent, Virtus Investment Partners, Inc. (ticker: VRTS) is now traded on the NYSE. We updated our list of affiliates to include AlphaSimplex Group, LLC and to reflect reorganizations and/or name changes of our global affiliates.
- Item 11. We updated the description of our policy limitations on gifts whether given or received to indicate that generally, our employees are prohibited from accepting or providing gifts or other gratuities from clients or individuals seeking to conduct business with us in excess of \$250 per year unless the gift involves a VPD registered representative or VPD line of business in which case the gift limit is \$100.
- Appendix A – Privacy Policy. We modified our Privacy Policy to remove reference to Social Security numbers.



### Item 3 – Table of Contents

|   |    |
|---|----|
| Item 1 – Cover Page .....   | 1  |
| Item 2 – Material Changes .....   | 2  |
| Item 3 – Table of Contents .....  | 4  |
| Item 4 – Advisory Business .....  | 5  |
| Item 5 – Fees and Compensation .....  | 9  |
| Item 6 – Performance-Based Fees and Side-By-Side Management .....                                     | 14 |
| Item 7 – Types of Clients .....   | 14 |
| Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss .....                            | 15 |
| Item 9 – Disciplinary Information .....   | 61 |
| Item 10 – Other Financial Industry Activities and Affiliations .....                                  | 61 |
| Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading ..... | 64 |
| Item 12 – Brokerage Practices .....   | 68 |
| Item 13 – Review of Accounts .....  | 73 |
| Item 14 – Client Referrals and Other Compensation .....   | 75 |
| Item 15 – Custody .....   | 76 |
| Item 16 – Investment Discretion .....   | 76 |
| Item 17 – Voting Client Securities .....  | 77 |
| Item 18 – Financial Information .....   | 79 |
| Appendix A - Privacy Policy .....   | 80 |



## Item 4 – Advisory Business

VFA is a wholly owned subsidiary of Virtus Partners, Inc., which is a wholly owned subsidiary of Virtus Investment Partners, Inc. ("Virtus"), a publicly traded multi-manager asset management business, as of December 31, 2008 (NYSE: VRTS). VFA has been registered with the SEC since 1985.

VFA provides discretionary and non-discretionary investment advisory services to investment accounts for pension and profit-sharing plans, endowments and foundations, governmental entities, other corporate entities, wrap-fee programs, investment companies registered under the Investment Company Act ("Registered Investment Companies"), Undertakings for Collective Investment in Transferable Securities ("UCITS") authorized under the European Directive, collective investment trusts ("CITs"), and registered investment advisers. In addition, VFA provides advisory services to Private Funds that are exempt from registration under the Securities Act of 1933, as amended (the "Securities Act") and the Investment Company Act as well as non-discretionary investment services to the sponsor of a Qualified Tuition Program under Section 529 of the Internal Revenue Code of 1986, as amended (the "529 Plan"). VFA is also named as the Lead Style Manager for the Virtus Multi-Firm Consults Diversified Portfolios ("CDP Program"), a program of Managed Account Advisors LLC ("MAA"), an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch").

VFA's services are tailored to the needs and investment mandates of each client, and clients can generally impose restrictions on investing in certain securities or types of securities in their accounts managed by VFA when negotiating their investment advisory agreement. VFA provides investment advisory services for accounts that are (i) established directly with the client; (ii) introduced through wrap-fee programs of other financial services firms, such as broker-dealers, registered investment advisers, and other intermediaries; or (iii) mutual funds and other accounts sub-advised by affiliated and unaffiliated investment advisers.

*This Brochure describes VFA's services provided to the following types of clients: institutional accounts, registered investment companies, private funds, and collective funds. VFA's separate Form ADV, Part 2A brochure entitled: "Managed Account/Wrap-Fee Programs, Investment Model Delivery and Manager Recommendations to Unaffiliated Third Parties Brochure" provides descriptions of our services provided to such client types.*

### **Assets Under Management as of December 31, 2023**

As of December 31, 2023, VFA had regulatory assets under management of \$7,966,189,069. Discretionary assets under management totaled \$7,423,840,906. Non-discretionary assets under management related to the Virtus Collective Investment Trust II, the Virtus Multi-Series Collective Investment Trust, and the Stone Harbor Collective Investment Trust totaled \$542,348,163. VFA has \$154,354,542 of model/emulation assets under contract. Model/emulation assets refer to assets that VFA is under contract to deliver a model portfolio for and are not considered regulatory assets under management. VFA also provides services to \$2,547,594,047 of other fee-earning assets, which are not included in assets under management. Products covered by this Brochure comprise \$7,874,758,820 of the VFA's total regulatory assets under management.



## **Sub-advisory Relationships**

The vast majority of our assets under management are delegated to affiliated and unaffiliated investment advisers pursuant to delegation or sub-advisory agreements (“subadvisers”). Under these circumstances, VFA is considered a “manager of managers.” In addition, VFA delegates certain responsibilities such as trading and operations to affiliated and unaffiliated service providers. As a result, with the exception of those clients listed below under the heading “Relationships Not Subadvised”, throughout this Brochure, references to services provided by VFA should be read to include services provided by a subadviser or service provider to which VFA has delegated authority in connection with its advisory services.

The “manager of managers” structure involves the use of one or more subadvisers to manage some or all of a client portfolio (Accounts”). Under this structure, VFA is responsible (as articulated in the management agreement) for the oversight of the particular Account’s investment programs and certain day-to-day operations and for evaluating and selecting subadvisers on an ongoing basis; making recommendations to the client regarding hiring, retaining or replacing subadvisers; negotiating and renegotiating the terms of the sub-advisory agreements; monitoring the subadvisers’ compliance with the respective portfolio’s investment objectives, policies and restrictions; setting overall investment strategies of each portfolio; and providing certain other oversight activities.

VFA’s subadvisers will change from time to time but as of the date of this Brochure, subadvisers in connection with institutional accounts, Registered Investment Companies, Private Funds, and CITs are as follows:

### Affiliated Subadvisers:

- Ceredex Value Advisors LLC
- NFJ Investment Group, LLC
- Silvant Capital Management LLC
- Sustainable Growth Advisers, LP
- Virtus Fixed Income Advisers, LLC (“VFIA”)<sup>1</sup>

### Unaffiliated Subadvisers:

- Pacific Investment Management Company LLC (“PIMCO”)
- Zevenbergen Capital Investments LLC<sup>2</sup>

## **Relationships Not Subadvised**

VFA provides direct investment management (does not utilize subadvisers) for a limited number of client accounts. Investment services are provided by two teams: the Virtus Multi-Asset team (“Virtus Multi-Asset”); and the Virtus Systematic team (“Virtus Systematic”). These client accounts are as follows:

### Virtus Multi-Asset:

- A Qualified Tuition Program under Section 529 of the Internal Revenue Code of 1986, as amended.

---

<sup>1</sup> Three separate divisions operate under a single legal entity named Virtus Fixed Income Advisers, LLC (“VFIA”). The three divisions of VFIA maintain their distinct investment process and philosophy, portfolio management teams, investment culture and brand. The divisions operate under the names of Newfleet Asset Management, Seix Investment Advisors and Stone Harbor Investment Partners.

<sup>2</sup> Virtus indirectly holds a minority ownership interest in Zevenbergen Capital Investments LLC.



Virtus Systematic:

- Virtus Emerging Markets Consumer CIT
- Virtus Emerging Markets Consumer LLC
- Virtus International Small-Cap Opportunities LLC
- Other separately managed account(s)

As further described in Item 10. Other Financial Industry Activities and Affiliations, Virtus Multi-Asset and Virtus Systematic Portfolio Managers and Analysts also serve as “dual-hatted” employees of VFA’s affiliate, Virtus Investment Advisers, Inc. and in doing so provide advisory services to certain open-end Registered Investment Companies. In addition, traders serve the above and other affiliates as further described in Item 10.

In addition to the above, VFA provides investment services (not utilizing subadvisers or Virtus Multi-Asset or Virtus Systematic) for the Virtus Multi-Firm Consults Diversified Portfolios (the “CDP Program”). VFA recommends affiliated and unaffiliated model providers to provide non-discretionary investment advisory services in the CDP Program, a program of Managed Account Advisors LLC, an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated.

*The description of services provided to the 529 Plan and the CDP Program are provided in the separate VFA Form ADV, Part 2A Firm brochure entitled: “Managed Account/Wrap-Fee Programs, Investment Model Delivery and Manager Recommendations to Unaffiliated Third Parties Brochure.”*

Investment management services are provided in accordance with any written investment advisory contracts based on specific investment guidelines delivered by the client. VFA may agree to reasonable restrictions placed on VFA’s investment discretion by clients. Guidelines provided by clients may include but are not limited to the following: risk tolerance; investment objective(s); investment time horizon; cash/liquidity requirements; income requirements; and restrictions on investing in certain securities or types of securities. Client guidelines may also include social restrictions or those that prohibit us from buying specific companies. Investment guidelines and restrictions must be provided to VFA in writing and may impact performance.

**Advisory Services – Institutional**

VFA provides investment services to accounts established for institutional clients including pension and profit-sharing plans, endowments and foundations, governmental entities, other corporate entities. VFA manages these accounts subject to each client’s investment guidelines.

**Advisory Services – Mutual Funds**

VFA provides investment advisory services to the following funds of the Virtus Asset Trust (“VAT”), an affiliated series trust registered under the Investment Company Act:





- Virtus Ceredex Large-Cap Value Equity Fund
- Virtus Ceredex Mid-Cap Value Equity Fund
- Virtus Ceredex Small-Cap Value Equity Fund
- Virtus SGA International Growth Fund
- Virtus Seix Core Bond Fund
- Virtus Seix Corporate Bond Fund
- Virtus Seix Floating Rate High Income Fund
- Virtus Seix High Grade Municipal Bond Fund
- Virtus Seix High Income Fund
- Virtus Seix High Yield Fund
- Virtus Seix Investment Grade Tax-Exempt Bond Fund
- Virtus Seix Total Return Bond Fund
- Virtus Seix U.S. Government Securities Ultra-Short Bond Fund
- Virtus Seix Ultra-Short Bond Fund
- Virtus Silvant Large-Cap Growth Stock Fund
- Virtus Zevenbergen Innovative Growth Stock Fund

### **Advisory Services – CITs**

VFA provides nondiscretionary advisory services to the following funds (“Collective Funds”) established under the CITs (from time to time, others may be added as negotiated with clients):

*SEI Trust Company (unaffiliated trustee):*

- Ceredex Large Cap Value Equity CIT
- Ceredex Mid Cap Value Equity CIT
- NFJ Dividend Value
- NFJ Small Cap Value
- Sustainable Growth Advisers International
- Sustainable Growth Advisers Global
- Virtus Emerging Markets Consumer CIT (Virtus Systematic)

*Global Trust Company (unaffiliated trustee):*

- Stone Harbor EM Local Currency CIT

As bank collective trusts, the CITs are exempt from registration with the Securities and Exchange Commission as investment companies and are not FDIC insured. Each trust referenced is a trust for the collective investment of assets or participating tax qualified pension and profit-sharing plans and related trusts and governmental plans, as more fully described in the respective declaration of trust. Interests in the trusts are offered by the respective trustee only to certain qualified employee benefit plans and governmental plans pursuant to a confidential offering memorandum. **For further information, qualified plan participants should consult their plan sponsors.**

### **Advisory Services - Private Funds**

VFA provides advisory services to Private Funds that are exempt from registration under the Securities Act and the Investment Company Act. A minimum investment size may be applicable for participation in a Private Fund. VFA is paid an advisory fee in accordance with the advisory agreement entered into with its parent company, Virtus Partners, Inc., the managing member. Additional information concerning these funds, including advisory fees, is included in the relevant funds’ offering documents.

### **Other Investment Services**

VFA provides investment management services as subadviser to the Barclays Global Access U.S. Value Fund, a UCITS fund distributed by an unaffiliated firm.





## **Reliance Upon Certain Exemptive Orders, Regulatory Provisions and Investment Management Agreements**

In managing the assets of our advisory clients who are Registered Investment Companies and UCITS, we rely on the following:

- Manager of managers exemptive orders granted by the SEC when employing subadvisers for our registered investment company clients ("Funds"); and/or
- Provisions from the Central Bank of Ireland when employing subadvisers for UCITS clients.

The manager of managers structure involves the use of one or more subadvisers to manage some or all of a Fund's portfolio. Under this structure, VFA is responsible for the oversight of the Funds' investment programs and certain day-to-day operations and for evaluating and selecting subadvisers on an ongoing basis; making recommendations to the Board of Trustees regarding hiring, retaining or replacing subadvisers; negotiating and renegotiating the terms of the sub-advisory agreements; monitoring the subadvisers' compliance with the Funds' respective investment objectives, policies and restrictions; setting overall investment strategies of each Fund; and providing certain other oversight activities.

## **Types of Investments**

VFA, subject to client-imposed restrictions and guidelines, offers investment advice on the following types of instruments: equity securities including common and preferred stocks and equivalents, exchange-listed securities, securities traded over-the-counter, foreign issues, American Depositary Receipts ("ADRs"), warrants, corporate debt securities, bank loans, certificates of deposit, municipal securities, investment company securities, including traditional mutual fund shares and exchange traded funds ("ETFs"), and United States government securities. We can where appropriate, utilize derivatives, options contracts on securities, futures contracts on intangibles, credit default swaps and participation notes. We can utilize where appropriate, foreign currencies to purchase foreign securities. We can also utilize (but are not obligated unless required by the respective product offering materials or governing documents) foreign currencies to hedge against the risk of a decline in the U.S. dollar or other currencies.

**VFA cannot guarantee or assure our clients that their investment objectives will be achieved. VFA does not guarantee the future performance of any client's account or any specific level of performance, the success of any investment decision or strategy, or the success of VFA's overall management of any account. VFA's investment recommendations are subject to various market, currency, economic, political and business risks, and the risk that investment decisions will not always be profitable. Risks are discussed in "Item 8. Methods of Analysis, Investment Strategies and Risk of Loss" below and in each subadviser's Form ADV, Item 8 which you should review carefully before deciding to engage VFA's services.**

## **Item 5 – Fees and Compensation**

This section describes our basic fee schedule. VFA reserves the right to negotiate all fees and annual minimums based on individual client considerations, including but not limited to, number and frequency of reports and client meetings, individual security investments versus common or collective funds or mutual funds, investment guidelines and restrictions, or account size. We believe



that our fees are competitive with those charged by other investment advisers for comparable services, but other firms may offer similar services for lower fees.

The specific manner in which fees are charged is established in a client's written agreement with VFA. VFA typically charges its clients a fixed percentage fee per annum for investment advice based on the market value of the assets under management, payable quarterly in arrears. In limited circumstances, we may offer fixed or other fee arrangements. Assets under management include a client's uninvested cash position for which VFA does not provide investment advice. First and last quarter fees are generally calculated based on the number of days in the quarter VFA managed the account. VFA will invoice the client or the client's custodian directly if instructed by the client in the investment advisory agreement or other written authorization. Clients can elect to be billed directly for fees or authorize VFA to directly debit fees from their accounts. If you direct your custodian to pay VFA from your account, your custodian should send a quarterly statement directly to you, which should disclose transactions made in the account and VFA's fees. VFA (or its service provider) will generally receive copies of the custodian's statements in paper or electronic form. It is important that you compare the client reports you receive directly from us to the official custodial records you receive from your custodian. VFA's standard advisory contract is cancelable by either a client or VFA thirty days after receipt or delivery of written notice. Other termination conditions may be negotiated to accommodate special client requirements.

When VFA uses an affiliated or unaffiliated subadviser in providing advisory services, clients will not incur any increase in advisory or other fees as a result of such sub-advisory arrangement. VFA generally shares its fees with the entity providing sub-advisory services to VFA (in the case of certain affiliates, this can be affected through the affiliated subadviser receiving the fee and allocating a portion of the fee to VFA through intercompany transactions).

Our fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which will be incurred by the client. Refer to "Item 12. Brokerage Practices" for more information.

To the extent that a client's assets are invested in an account overseen or held by the client's trustee or custodian, the client should be aware that the trustee or custodian may also charge management or transactional fees with respect to such assets. Mutual funds, UCITS, ETFs and alternative investments bear their own operating expenses, including compensation paid to their advisers and other service providers as well as other expenses and fees disclosed in their respective prospectus or offering documents.

*This Brochure describes VFA's services provided to the following types of clients: institutional accounts, registered investment companies, private funds, and collective funds. VFA's separate Form ADV, Part 2A brochure entitled: "Managed Account/Wrap-Fee Programs, Investment Model Delivery and Manager Recommendations to Unaffiliated Third Parties Brochure" provides descriptions of our services provided to such client types.*

The written terms of each client's contract will prevail with respect to all of those strategies listed below. In addition to those listed below, VFA may develop new strategies managed in seed accounts which may be offered with negotiated fees. Standard fee schedules and minimum separate account size for strategies directly managed by VFA (not utilizing subadvisers) are as follows:



**Virtus Multi-Asset:**

**Asset Allocation Advisory**

- 0.225% on the first \$50 million
- 0.200% on the next \$50 million
- 0.175% on the next \$100 million
- 0.150% on the balance of assets
- Minimum Separate Account: \$50 million

**Virtus Systematic:**

**Emerging Markets Equity**

- 0.7000% on the first \$50 million
- 0.6000% on the next \$50 million
- 0.5000% on the next \$400 million
- 0.4500% on the balance of assets
- Minimum Separate Account: \$25 million

**Global Equity**

- 0.50% on the first \$50 million
- 0.45% on the next \$50 million
- 0.40% on the next \$400 million
- 0.35% on the balance of assets
- Minimum Separate Account: \$25 million

**International Small Cap Equity**

- 0.800% on the first \$25 million
- 0.750% on the next \$25 million
- 0.700% on the next \$50 million
- 0.650 on the next \$150 million
- 0.600 on the balance of assets
- Minimum Separate Account: \$25 million

**U.S. Convertibles**

- 0.6500% on the first \$50 million
- 0.6000% on the next \$50 million
- 0.5500% on the next \$150 million
- 0.5000% on the balance of assets
- Minimum Separate Account: \$25 million

**U. S. Small Cap Equity**

- 0.700% on the first \$50 million
- 0.600 on the next \$50 million
- 0.550 on the next \$150 million
- 0.500 on the balance of asset
- Minimum Separate Account: \$25 million

Fees and minimum assets under management are subject to modification and negotiation to accommodate special client circumstances. The reasons for such modifications may include, without limitation, the type of product provided, the complexity and level of service provided, the number of different accounts and the total assets under management for that client and related clients, the particular type of client, required attendance at client meetings, other services provided by VFA, or other circumstances or factors that VFA deems relevant. We reserve the right to waive any and all minimum account requirements and to accept or continue to provide services to smaller accounts, at our sole discretion.

**Advisory Fees – CITs**

VFA receives fees for providing nondiscretionary advisory services to CITs. VFA does not maintain a standard fee schedule for nondiscretionary services to CITs. The advisory fees are based on assets under management and typically negotiated with, and paid by, each CIT pursuant to an agreement between the parties and will vary by CIT and strategy.



## **Advisory Fees –Registered Investment Companies**

The fee charged to Registered Investment Company clients is determined by our investment advisory contract as approved by such investment company in accordance with the provisions of the Investment Company Act. The contracts provide that we shall furnish to the investment company office space and all necessary office facilities, equipment and personnel for managing the investment and reinvestment of the assets of the investment company. Advisory fees for services rendered under such investment advisory contracts may be up to .85% depending upon the type and size of the portfolio. Specific advisory fees and expense related information may be found in the prospectus and/or statement of additional information describing the investment policies and restrictions for the respective portfolios. Furthermore, the investment advisory contracts provide for termination without penalty generally with a sixty-day notice by the client or adviser and termination in the event of an assignment (as such term is defined in the Investment Company Act). Terminated accounts will be charged advisory fees and additional expenses incurred by VFA in the transfer or final disposition of an advisory account.

## **Advisory Fees – Institutional / Other**

VFA provides investment advisory services to CITs; UCITS authorized under the European Directive; institutional clients including pension and profit-sharing plans, endowments and foundations, governmental entities, other corporate entities and high net worth clients. To the extent that these client accounts are invested in mutual funds, these funds generally charge a management fee for their services as investment managers. This management fee, along with other charges, is included in the “expense ratio” of the fund. These fees are described in each fund’s prospectus and are in addition to the fees you pay to VFA. With the exception of our asset allocation account clients, when a portfolio manager of one of our subadvisers determines to invest assets of an individual discretionary account in a mutual fund (an affiliated registered investment company) for which it (or an affiliate) also acts as adviser and/or subadviser and receives an investment advisory fee, VFA will not charge an account level fee on the market value of assets held in the affiliated mutual fund.

VFA manages Private Funds as an investment manager to, and receives an advisory fee based on an investment management agreement with its parent company, Virtus Partners, Inc., who is the managing member.

If a client account has chosen an asset allocation strategy using mutual funds or ETFs, an account level asset allocation fee is generally charged in addition to the management fees the funds pay to the adviser for investment management of the funds.

*This Brochure focuses on a subset of VFA’s clients including institutional accounts, registered investment companies, private funds, and collective funds. In addition, VFA has other client types that include managed account/wrap-fee program clients, investment model delivery, a 529 Plan, and the CDP Program. VFA manages accounts for certain of these various client types within the same strategy which may be offered at different fee schedules. Please refer to the separate VFA Form ADV, Part 2A Firm brochure entitled: “Managed Account/Wrap-Fee Programs, Investment Model Delivery and Manager Recommendations to Unaffiliated Third Parties” for fees related to clients other than those addressed by this Brochure.*



## **Compensation from the Sale of Securities**

VFA's supervised persons and related registered sales personnel typically market VFA investment capabilities to various prospects and intermediaries either directly through separate accounts and Wrap Programs or indirectly through Funds advised by VFA.

Certain of VFA's supervised persons and related registered sales personnel also may be associated with VP Distributors, LLC, an affiliated broker-dealer, and in that capacity may engage in marketing or selling activities with respect to shares or interests in Funds advised by VFA. (See "Item 10. Other Financial Industry Activities and Affiliations" for more information about other financial industry activities and affiliations.) The Funds may pay an investment management or administrative fee to VFA. In addition, fees are paid to one or more broker-dealers receiving sales commissions or distribution fees including 12b-1 fees, loads or contingent deferred sales charges payable by VFA or an affiliate, the Funds or their respective investors.

Certain VFA supervised persons and related registered sales personnel may be compensated by VFA or an affiliate for successful marketing or selling activities with respect to shares or interests in Funds advised by VFA. These VFA supervised persons and related registered sales personnel do not receive transaction-based compensation.

## **Custody Fees**

Funds will bear expenses associated with custody of their respective assets. VFA does not select account custodians on behalf of clients or serve as the custodian of client account assets. The custodian appointed by the client may charge custody and other fees that are in addition to the advisory fees payable to VFA.

## **Other Fees Incurred by Our Clients**

Subject to client-imposed restrictions if any, VFA (or generally its subadvisers) may invest or recommend investment in open-end and closed-end Registered Investment Companies, exchange traded funds ("ETFs") and other pooled investment vehicles. When VFA (or generally its subadvisers) invests client assets in these investment vehicles, unless otherwise agreed and if permitted by applicable law, the client may bear its proportionate share of fees and expenses as an investor in the investment vehicle in addition to VFA's investment advisory fees. The investment vehicle's prospectus, offering documents or other disclosure documents contain a description of its fees and expenses.

In addition, subject to any limitations provided by the investment management agreement, VFA (or generally its subadvisers) may invest client assets or recommend that clients invest in shares or other interests in certain open-end and closed-end Registered Investment Companies and ETFs to which VFA or its related persons (or its subadvisers) provide investment advice or other services, and from which VFA and its affiliates (and VFA's subadvisers and their affiliates) receive advisory, administrative and/or distribution fees. In the case of the foregoing, whereby client assets are invested in an affiliated fund, VFA may, depending on the arrangement with a separate account client, and any legal requirements, waive investment advisory fees on the assets invested in such investment company, credit the account for the fees paid by the Fund to VFA's related persons, avoid or limit the payment of duplicative fees to VFA and its related persons through other means, or charge fees both at the investment company level and separate account level. To the extent that fees and expenses incurred by any fund purchased for the client's account are in addition to certain of the expenses





covered by the managed account, VFA and its affiliates can receive additional economic benefit when a client account is invested in such fund, and a conflict of interest can exist.

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

As of the date of this Brochure, we have no performance based-fee arrangements, however we may enter into such arrangements (fees based upon documented performance metrics for all or a portion of designated client accounts). The terms of any incentive fee are based upon a negotiated arrangement with the client. VFA anticipates that such client relationships and arrangements will also pay a base fee calculated on the market value of the assets under management. We will enter into performance-based fee arrangements with only qualified clients in accordance with Section 205 of the Advisers Act, and the rules thereunder. We have an incentive to favor accounts for which we receive performance-based fees. VFA has written compliance policies and procedures designed to mitigate or manage these conflicts of interest, including policies and procedures regarding the equitable allocation of investment opportunities and/or separation of trading and portfolio management activities by firewalls (“information barriers”).

### **Side-by-side management**

Side-by-side management refers to an investment adviser’s simultaneous management of assets of various client types in the same investment strategy with varied fee structures. VFA manages accounts for various client types such as mutual funds, institutional clients, and wrap-fee program clients within the same strategy, which may present conflicts of interest. Due to different client investment objectives and strategies, clients should be aware that VFA can sell positions in securities for one or more client accounts while purchasing or holding long positions in the same or substantially similar securities for other client accounts. VFA has written compliance policies and procedures designed to mitigate or manage these conflicts of interest, including policies and procedures regarding the equitable allocation and sequencing of trade orders for investment opportunities, and the separation of trading and portfolio management activities by information barriers.

## Item 7 – Types of Clients

VFA provides discretionary and non-discretionary investment advisory services to investment accounts for pension and profit-sharing plans, endowments and foundations, governmental entities, other corporate entities, high net worth clients, open-end investment companies, UCITS, CITs, CDPs, 529 Plan, Private Funds, and registered investment advisers. Refer to VFA’s separate Form ADV, Part 2A Firm brochure entitled, “Managed Account/Wrap-Fee Programs, Investment Model Delivery and Manager Recommendations to Unaffiliated Third Parties Brochure” for descriptions of our services provided to such client types not addressed in this Brochure.

Subject to a master sub-advisory and services agreement, VFA provides investment advice indirectly to certain clients of Truist, formerly known as SunTrust Bank, an entity with which VFA was affiliated prior to VFA being acquired by Virtus Investment Partners, Inc.

The vast majority of our assets under management are delegated to affiliated and unaffiliated investment advisers pursuant to delegation or sub-advisory agreements (“subadvisers”). Under these circumstances, VFA is considered a “manager of managers.” The remaining assets under management are directly managed (do not utilize a subadviser) by the Virtus Multi-Asset and Virtus



Systematic teams. In addition, VFA delegates certain responsibilities such as trading and operations to affiliated and unaffiliated service providers.

In addition to its manager of managers business model, VFA also provides direct investment management (does not utilize subadvisers) for a limited number of client accounts.

We require new clients to enter into a signed written investment agreement outlining investment guidelines, fees and other conditions for starting or maintaining an account (such as minimum account size). The Board of Trustees for each Registered Investment Company and UCITS establishes guidelines and restrictions which can be found in the applicable offering documents.

Fees and minimum initial assets under management are subject to modification and negotiation to accommodate special client requirements. We reserve the right to waive any and all minimum account requirements and to accept or continue to provide services to smaller accounts, at our sole discretion.

Shareholders in investment companies, investors in other pooled products, and certain Wrap-Fee Program investors are not advisory clients of VFA.

VFA delegates certain responsibilities such as trading and operations to affiliated and unaffiliated service providers, including VFA's affiliate, Virtus Shared Services ("VSS") which provides a variety of back office and trading operations to VFA (in addition to other VFA affiliates).

## [Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss](#)

The following are broad descriptions of the methods of analysis and investment strategies offered by VFA and implemented by our subadvisers. It should be noted that investing in securities involves risk of loss that clients should be prepared to bear.

### **Methods of Analysis and Investment Process**

The vast majority of our assets under management are delegated to affiliated and unaffiliated investment advisers under sub-advisory agreements; descriptions of strategies and investment processes used in managing such assets can generally be found in the respective subadviser's Form ADV Part 2A.

VFA selects and employs subadvisers to implement investment management programs for the majority of client accounts, consistent with stated objectives. The subadvisers, subject to the VFA's supervision, are responsible for the day-to-day management of the respective portfolio or model portfolio, or sleeves thereof. In this respect, the subadvisers determine which securities to purchase and sell, consistent with the stated objectives of each client account and investment guidelines agreed upon by the subadviser and VFA, or any additional client-imposed restrictions provided to and accepted by VFA in writing.

In its role as a manager of managers, VFA's primary functions include developing new investment products, identifying and appointing investment managers (and/or making recommendations thereof, such as is the case for VAT and CITs) and monitoring those managers, who are generally appointed as subadvisers on an on-going basis. Subsequent to appointment, VFA monitors subadviser performance and in that capacity can affect termination or replacement (and/or make





recommendations thereof, such as is the case for VAT and CITs). Depending upon the requirements of our client agreement, VFA (or its service providers), generally affects one or more of the following: monitors the compliance of the subadviser with the investment objectives and related policies of our client accounts; monitors significant changes that may impact the subadviser's overall business and regularly performs reviews of the subadviser; and/or other will perform other activities as required by our client agreement.

Subsequent to appointment, VFA monitors subadviser performance and in that capacity can affect termination or replacement (and/or make recommendations thereof, such as is the case for VAT and CITs). Depending upon the requirements of the client agreements, VFA (or its service providers), among other things, does the following: monitors the compliance of the subadviser with the investment objectives and related policies of client accounts; monitors significant changes that may impact the subadviser's overall business and regularly performs reviews of the subadviser; and reviews the performance of the subadviser.

Pursuant to an order from the SEC, VFA, subject to VAT Board approval, is permitted to appoint a new subadviser for a VAT Fund or change the terms of a sub-advisory agreement.

VFA provides direct investment management (does not utilize subadvisers) for a limited number of client accounts. Investment services are provided by two teams, the Virtus Multi-Asset team and the Virtus Systematic team.

#### *Virtus Multi-Asset*

The Virtus Multi-Asset team specializes in constructing and managing multi-asset solutions to meet specific objectives, constraints and outcomes. The team has a two-part approach to managing these strategies.

1. Core portfolio design with strategic allocations across relevant asset classes and selection of underlying strategies, either active or passive, across those asset classes.
2. Active asset allocations across and within global financial markets using a combination of quantitative and fundamental approaches in the investment process.

The core portfolio design begins by defining the range of asset classes available to the strategic asset allocation process, which is generally based on the overall objectives for the mandate and any client, regulatory or other constraints. The strategic asset allocation is determined based on the target return and/or risk for the strategy and the expected returns and risks of the selected asset classes.

Next, for each asset class, the team decides to use either active, passive or both strategies based on the relative efficiency of the asset class and the overall fee level targeted for the core portfolio. The team conducts quantitative and qualitative assessments with a focus on philosophy, people, performance, and process, as well as any structural factor biases and particular return-dynamics and selects those determined to be a best fit for the asset class and the overall core portfolio. Upon a client's request, the team may also integrate other considerations such as sustainability into the design of the core portfolio.

For active asset allocations, the team first determines the asset classes across which to allocate. In determining active positions across this universe (which may be broader than the asset classes in



the core portfolio), the team implements a two-pillar approach that combines quantitative and fundamental components defined as the following: (1) a quantitative component focused on the market characteristics of momentum and mean reversion in a proprietary framework, and (2) a qualitative component focused on macroeconomic and fundamental characteristics in a team-based consensus driven framework. Each of the pillars is assigned a score that ranges from -1 to 1. The scores from the two pillars are combined and systematically translated into active asset allocation positions through several portfolio construction frameworks, which include implementation by adjusting core portfolio exposures or through derivative instruments such as futures.

The Virtus Multi-Asset team offers the Virtus Global Allocation strategy. The Virtus Global Allocation strategy employs active allocation across asset classes and actively managed strategies within those asset classes. The strategy allocates its investments across asset classes in response to changing market, macroeconomic, and other factors and events that the portfolio managers believe may affect the value of the strategy's investments. To gain exposure to different asset classes, the strategy incorporates actively managed underlying strategies, both directly through dedicated teams managing separate sleeves of the strategy and indirectly through investments in affiliated mutual funds, as well as through allocation to additional other underlying passive strategies. Under normal circumstances, the strategy invests directly and indirectly in global equity securities, fixed-income securities, and long and short positions using derivatives across multiple asset classes. The strategy may also invest in exchange-traded funds ("ETFs"), unaffiliated mutual funds, other pooled vehicles and derivative instruments such as futures, among others. The strategy's actively managed underlying strategies incorporate environmental, social and governance ("ESG") factors into the selection of individual securities, and the portfolio managers also consider ESG factors in the construction of the overall portfolio.

#### *Virtus Systematic*

The Virtus Systematic team specializes in differentiated investment solutions, strategies, and outcomes across asset classes, regions, and securities. The team uses a behavioral finance approach, rooted in the theory that investors often react inefficiently to new information. The team's portfolio management process is designed to identify companies poised to benefit from changes not yet fully reflected in the market. The team blends a quantitative data-driven investment process with a qualitative overlay to exploit pricing inefficiencies in the securities markets. The team uses a proprietary quantitative alpha model augmented by artificial intelligence and supported by technology. The alpha model integrates fifteen (15) factors, including behavioral finance factors however from time to time the number of factors may change. The final investment and trading decisions are made by the Virtus Systematic portfolio management personnel. In order to arrive at the final investment portfolio selection, the Virtus Systematic portfolio management personnel complement the recommendations produced by the alpha model with a dynamic risk management overlay and qualitative reviews.

- **Risk Control Methodology:** The risk model complements the results from the alpha model and used in the investment process to help lower volatility exposure versus the benchmark. The risk model seeks to offer a holistic viewpoint on risk, both at the stock level and total portfolio levels. The risk model leverages tools provided by Axioma, a third-party provider to analyze risk and construct portfolios. Embedded in the risk controls is a principal component analysis which assesses and monitors significant systematic risks in the market (including beta, growth, leverage, sector exposure, currency exposure, industry exposure, and others.). The risk model is updated daily with fundamental and statistical variants and varying time horizons. The risk model allows the team with capabilities to perform scenario analysis through the addition or subtraction



of specific stocks in order and to quantify their respective marginal contribution to active and total portfolio risk.

- ESG: At the request of clients, the Virtus Systematic Team can integrate ESG-related risks. Independently, ESG-related risks are identified through external data. ESG scores from third-party providers are integrated into the investment process on a daily basis and combined with the proprietary alpha and risk model. The team can also incorporate a proprietary “environmental sentiment score”, based upon publicly available research and company-related transcripts seeking to identify opportunities and risks through analyzing the sentiment across publicly available information utilizing a natural language processing technique.

Using the above investment methodologies, the Virtus Systematic team manages the following five investment strategies:

- The Virtus Systematic Emerging Markets Equity strategy seeks a broad exposure to emerging markets equity securities.
- The Virtus Systematic Global Equity strategy seeks a broad exposure to global equity securities.
- The Virtus Systematic International Small Cap Equity strategy seeks a broad exposure to primarily non-U.S. small cap equity securities across developed markets and emerging markets.
- The Virtus Systematic U.S. Small Cap Equity strategy seeks a broad exposure to primarily U.S. small cap equity securities.
- Virtus Systematic Convertibles strategy seeks a broad exposure to U.S. convertible bonds.

## **Investment Oversight and Governance**

Virtus’s product governance framework provides additional oversight tools for VFA with the goal of offering and maintaining quality, high-performing strategies that meet multiple investment needs. Virtus maintains a comprehensive, multi-faceted approach to investment oversight and evaluates product actions from an investment, compliance, operational, distribution and legal perspective. Virtus maintains a comprehensive, multi-faceted approach to investment oversight and evaluates product actions from an investment, compliance, operational, distribution and legal perspective. As part of its oversight, Virtus regularly reviews each Fund and the overall Fund product line resulting in product initiatives, which may include fund launches, modifications, mergers, liquidations, adoptions, fee reductions and subadviser changes. As a result, product initiatives are comprehensively vetted before they are presented to the Board for consideration.

Virtus’s Product Management team (“Product Management”) performs a critical oversight function for all subadvisers and strategies. Product Management reviews and monitors investment strategy performance on an ongoing basis. Individual product managers are assigned to each of the subadvisers and conduct regular dialogue, visits and detailed assessments of each strategy.

The results of these assessments are reported to the Investment Oversight Committee (“IOC”), which participates in the oversight of investment performance. The IOC comprises senior personnel



of Virtus, representing a cross section of investment expertise across multiple asset classes and investment styles.

On a quarterly basis, the IOC reviews the performance, style consistency, and discipline with which the subadvisers apply their investment processes and discusses strategies that are exhibiting persistent underperformance or results inconsistent with expectations. The results of the IOC review can result in certain strategies being placed on the review or management monitor list, or ultimate recommendations for subadviser replacement.

During the initial subadviser selection process, VFA Compliance evaluates each subadviser's regulatory compliance structure. Each subadviser is expected to have a compliance infrastructure and policies and procedures that are reasonably designed to prevent violations of securities laws and to promptly identify any potential violations and is also expected to have a protocol for pre- and post-trade portfolio guideline restriction testing.

Subsequent to subadviser appointment, VFA Compliance will generally conduct reviews and perform periodic forensic testing in the following manner:

- VFA Compliance periodically meets with representatives of its subadvisers and complete compliance reviews, including key compliance matters.
- Each subadviser completes a quarterly subadviser compliance oversight questionnaire and information request covering a variety of compliance and operations matters. The information request provides a framework for VFA's quarterly compliance review and assessment of subadvisers.
- VFA Compliance performs forensic testing of compliance with portfolio restrictions, applicable regulations and procedures as part of its compliance program and oversight of subadvisers. The forensic tests may be conducted by analysis of reports and data developed by VFA or provided by affiliated or unaffiliated service providers or by monitoring reports provided by a mutual fund's sub-administrator and other mutual fund service providers. Forensic tests are generally conducted on a daily, monthly, quarterly or annual frequency depending on the type of test.
- With respect to its oversight of affiliated subadvisers, VFA utilizes information and reporting processes managed by Virtus Corporate Compliance and the Virtus Compliance Committee. Representatives of VFA Compliance also meet with the compliance personnel of VFA's affiliated subadvisers to conduct periodic and annual compliance reviews, and as needed to discuss specific matters.

## **Risk of Loss**

Clients should not assume that portfolio investments will be profitable. The results for individual portfolios will vary depending on market conditions and the portfolio's overall composition. All investments involve the risk of loss, including the loss of principal, which clients should be prepared to bear. There is no assurance that your portfolio will achieve its investment objective or that any investment will provide positive performance over any period of time. Past performance is no guarantee of future results.



For investments in any pooled vehicles, please also refer to the prospectus, offering memoranda or other governing document that provides a more detailed discussion of strategies and risks.

The vast majority of our assets under management are delegated to affiliated and unaffiliated advisers under subadvisory agreements. Item 8 of each subadviser's Form ADV Part 2A includes a description of how the subadviser formulates the investment advice reflected in the portfolios, including the subadviser's methods of investment analysis.

***Clients or prospective clients should also refer to the applicable subadviser's Form ADV Part 2A to reference risks related to specific securities or strategies offered through a subadvisory relationship.***

***With respect to Registered Investment Companies, UCITS, Private Funds, 529 Plans, and CITs, clients and prospective clients should also refer to the respective Plan or offering documents.***

Accounts may be subject to additional risks other than those described below because the types of investments the Account can change over time. The risks are listed in alphabetical order, which is not necessarily indicative of importance. Depending on your strategy, the limitations imposed by your established portfolio investment guidelines, and the type of security, your Account may face the following investment risks:

#### ***Affiliated Funds***

Where permitted, VFA or the subadviser of an Account has the authority to select and substitute affiliated and/or unaffiliated mutual funds or exchange-traded funds ("Underlying Funds"), which may create a conflict of interest because the VFA or the subadviser, and/or their affiliate, receives fees from affiliated funds, some of which pay such party(ies) more than others. However, as a fiduciary to the Account VFA, or the subadviser is obligated to act in the Account's best interest when selecting Underlying Funds.

#### ***Allocation***

An Account's investment performance depends, in part, upon how its assets are allocated and reallocated by its adviser and/or subadviser. If the Account's exposure to equities and fixed income securities, or to other asset classes, deviates from the subadviser's intended allocation, or if the Account's allocation is not optimal for market conditions at a given time, the Account's performance may suffer. To the extent the portfolio managers employ quantitative models, whether proprietary or maintained by third parties, there can be no assurance that such models will behave as expected in all market conditions, including due to deviations between expected and actual relationships among variables. Any imperfections, errors, or limitations in such models could affect a fund's performance. By necessity, such models make simplifying assumptions that limit their effectiveness. In addition, the computer programming used to construct, or the data employed by quantitative models may contain errors, which may cause losses for an Account or reduce performance. In the event third-party models become increasingly costly or unavailable, the portfolio managers may be forced to rely on proprietary models or to reduce or discontinue their use of quantitative models. The funds and accounts are also subject to the risk that deficiencies in the operational systems or controls of the subadviser or another service provider will cause losses for the funds or accounts or hinder operations. For example, trading delays or errors (both human and systemic) could prevent an Account from purchasing a security expected to appreciate in value. Additionally, legislative, regulatory, or tax developments may affect the investment techniques available to the subadviser





and each individual portfolio manager in connection with managing the funds and accounts and may also adversely affect the ability of the funds and accounts to achieve their investment objectives. To the extent portfolio managers employ strategies that are not correlated to broader markets, or that are intended to seek returns under a variety of market conditions (such as managed volatility strategies), an Account may outperform the general securities market during periods of flat or negative market performance and underperform the securities market during periods of strong market performance. To the extent that an Account invests significantly in one or more mutual funds or exchange-traded funds (each, "Underlying Funds"), its investment performance will depend upon how its assets are allocated and reallocated among particular Underlying Funds and other investments. An Account that invests significantly in one or more Underlying Funds is subject to allocation risk, which is the risk that the subadviser will make less than optimal or poor asset allocation decisions and/or that the subadviser will make less than optimal or poor decisions in selecting the Underlying Funds and other investments in which each fund or account invests. The subadviser attempts to identify asset classes and sub-classes, and Underlying Funds and/or other means of obtaining exposure to such asset classes, and other investments that will provide consistent, quality performance for each fund or account, but there is no guarantee that the subadviser's allocation techniques will produce the desired results. It is possible that the subadviser will focus on Underlying Funds and other investments that perform poorly or underperform other available Underlying Funds under various market conditions. In addition, to the extent portfolio managers consider environmental, social and corporate governance ("ESG") factors as part of their investment strategy, there can be no guarantee that the portfolio managers' consideration of such factors or efforts to select investments based on ESG factors will be successful or produce the desired results.

You could lose money on your investment in an Account as a result of these allocation decisions.

#### ***Asset-Backed Securities***

Asset-backed securities represent interests in pools of underlying assets such as motor vehicle installment sales or installment loan contracts, leases of various types of real and personal property, and receivables from credit card agreements. The impairment of the value of collateral or other assets underlying an asset-backed security, such as that resulting from non-payment of loans, may result in a reduction in the value of such security and losses to an Account.

Early payoffs in the loans underlying such securities may result in an Account receiving less income than originally anticipated. The variability in prepayments will tend to limit price gains when interest rates drop and exaggerate price declines when interest rates rise. In the event of high prepayments, an Account may be required to invest proceeds at lower interest rates, causing an Account to earn less than if the prepayments had not occurred. Conversely, rising interest rates may cause prepayments to occur at a slower than expected rate, which may effectively change a security that was considered short- or intermediate-term into a long-term security. Long-term securities tend to fluctuate in value more widely in response to changes in interest rates than shorter-term securities.

#### ***Bank Loans***

Investing in loans (including floating rate loans, loan assignments, loan participations and other loan instruments) carries certain risks in addition to the risks typically associated with high- yield/high-risk fixed income securities. Loans may be unsecured or not fully collateralized, may be subject to restrictions on resale and sometimes trade infrequently on the secondary market. In the event a borrower defaults, an Account's access to the collateral may be limited or delayed by bankruptcy or other insolvency laws. There is a risk that the value of the collateral securing the loan may decline



after an Account invests and that the collateral may not be sufficient to cover the amount owed to an Account. If the loan is unsecured, there is no specific collateral on which an Account can foreclose. In addition, if a secured loan is foreclosed, an Account may bear the costs and liabilities associated with owning and disposing of the collateral, including the risk that collateral may be difficult to sell.

Transactions in many loans settle on a delayed basis that may take more than seven days. As a result, sale proceeds related to the sale of loans may not be available to make additional investments or to meet a fund's redemption obligations or an account owner's desire to take cash out of the account until potentially a substantial period of time after the sale of the loans. No active trading market may exist for some loans, which may impact the ability of an Account to realize full value in the event of the need to liquidate such assets. Adverse market conditions may impair the liquidity of some actively traded loans. Loans also may be subject to restrictions on resale, which can delay the sale and adversely impact the sale price. Difficulty in selling a loan can result in a loss. Loans made to finance highly leveraged corporate acquisitions may be especially vulnerable to adverse changes in economic or market conditions. Certain loans may not be considered "securities," and purchasers, such as an Account, therefore may not be entitled to rely on the strong anti-fraud protections of the federal securities laws. With loan participations, an Account may not be able to control the exercise of any remedies that the lender would have under the loan and likely would not have any rights against the borrower directly, so that delays and expense may be greater than those that would be involved if an Account could enforce its rights directly against the borrower.

#### *Brady Bonds*

Brady Bonds are dollar-denominated bonds issued by certain emerging market countries and collateralized by zero-coupon U.S. Treasury bonds. Brady Bonds have an uncollateralized component, and countries issuing such bonds have a history of defaults, making the bonds speculative in nature. In considering the risks associated with these bonds, an investor should also review and consider the risks associated with investing in emerging markets generally.

#### *Closed-End Funds*

Investing in closed-end funds involves substantially the same risks as investing directly in the underlying instruments, but the total return on such investments at an Account level may be reduced by the operating expenses and fees of such other closed-end funds, including advisory fees. There can be no assurance that the investment objective of any fund in which an Account invests will be achieved. Closed-end funds are subject to the risks of investing in the underlying securities. An Account, as a holder of the securities of a closed-end fund, will bear its pro rata portion of the closed-end fund's expenses, including advisory fees. These expenses are in addition to the direct expenses of an Account's own operations. To the extent an Account invests a portion of its assets in investment company securities, those assets will be subject to the risks of the purchased investment company's portfolio securities, and a shareholder in an Account will bear not only his proportionate share of the expenses of an Account, but also, indirectly, the expenses of the purchased investment company. The market price of a closed-end fund fluctuates and may be either higher or lower than the NAV of such closed-end fund.

- *Discount from Net Asset Value.* Shares of closed-end funds frequently trade at a discount from their net asset value. This characteristic is a risk separate and distinct from the risk that net asset value could decrease as a result of investment activities. Whether an Account will realize gains or losses upon the sale of shares of underlying closed-end funds will depend not upon the underlying closed-end funds' net asset values, but entirely upon whether the market price of the shares at the time of sale is above or below the purchase price for the shares.





- **Leverage Risk.** Closed-end funds may employ the use of leverage in their portfolios through the issuance of preferred stock, borrowing from banks or other methods. While this leverage often serves to increase yield, it also subjects a closed-end fund to increased risks. These risks may include the likelihood of increased price and NAV volatility and the possibility that such closed-end fund's common stock income will fall if the dividend rate on the preferred shares or the interest rate on any borrowings rises. The use of leverage is premised upon the expectation that the cost of leverage will be lower than the return on the investments made with the proceeds. However, if the income or capital appreciation from the securities purchased with such proceeds is not sufficient to cover the cost of leverage or if the closed-end fund incurs capital losses, the return to common stockholders, such as an Account, will be less than if leverage had not been used. There can be no assurance that a leveraging strategy will be successful during any period in which it is employed.
- **Proxy Voting.** To comply with provisions of the 1940 Act, on any matter upon which stockholders of a closed-end fund in which an Account has invested are solicited to vote, an Account's investment adviser will vote such shares in the same general proportion as shares held by other stockholders of such closed-end fund or seek instructions from an Account's shareholders with regard to the voting on such matter. Compliance with such provisions regarding its voting of proxies may cause an Account to incur additional costs. In addition, if an Account votes its proxies in the same general proportion as shares held by other stockholders, an Account may be required to vote contrary to that which the adviser believes is in an Account's best interests in light of its investment objective and strategy.
- Strategies may be employed by an underlying investment company that, under certain circumstances, has the effect of reducing its share price and an Account's proportionate interest. These include rights offerings in which an Account does not subscribe. However, an Account would subscribe only when the subadviser believes participation is consistent with pursuing an Account's investment objective.

#### *Collateralized Debt Obligations*

Collateralized Debt Obligations ("CDOs") are securitized interests in pools of assets. Assets called collateral usually comprise loans or debt instruments. A CDO may be called a collateralized loan obligation ("CLO") or collateralized bond obligation ("CBO") if it holds only loans or bonds, respectively. Investors bear the credit risk of the collateral. Multiple tranches of securities are issued by the CDO, offering investors various maturity and credit risk characteristics. Tranches are categorized as senior, mezzanine, and subordinated/equity, according to their degree of credit risk. Senior and mezzanine tranches are typically rated, with the former receiving ratings of A to AAA/Aaa and the latter receiving ratings of B to BBB/Baa. The ratings reflect both the credit quality of underlying collateral as well as how much protection a given tranche is afforded by tranches that are subordinate to it.

#### *Commodity and Commodity-Linked Instruments*

Investments by an Account in commodities or commodity-linked instruments may subject an Account's portfolio to greater volatility than investments in traditional securities. The value of commodity-linked instruments may be affected by overall market movements, changes in interest



rates or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. Individual commodity prices can fluctuate widely over short time periods.

Commodity investments typically do not have dividends or income and are dependent on price movements to generate returns. Commodity price movements can deviate from equity and fixed income price movements. The means by which a fund seeks exposure to commodities, both directly and indirectly through derivatives, may be limited by the fund's intention to qualify as a regulated investment company under the Internal Revenue Code of 1986, as amended. An Account's investments in commodity-linked derivative instruments may subject an Account to greater volatility than investments in traditional securities. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments.

#### *Common Stocks and Other Equity Securities*

Common stock represents an ownership interest in a company. Common stock may take the form of shares in a corporation, membership interests in a limited liability company, limited partnership interests, or other forms of ownership interests. The value of a company's stock may fall as a result of factors directly relating to that company, such as decisions made by its management or lower demand for the company's products or services. A stock's value may also fall because of factors affecting not just the company, but also companies in the same industry or in a number of different industries, such as increases in production costs. The value of a company's stock may also be affected by changes in financial markets that are relatively unrelated to the company or its industry, such as changes in interest rates or currency exchange rates or adverse circumstances involving the credit markets. In addition, a company's stock generally pays dividends only after the company invests in its own business and makes required payments to holders of its bonds, other debt and preferred securities. For this reason, the value of a company's stock will usually react more strongly than its bonds, other debt and preferred securities to actual or perceived changes in the company's financial condition or prospects.

To the extent that an Account focuses its investments on equity securities issued by dividend paying companies, the Account's performance may lag behind those that do not place emphasis on dividends. During periods of market advance, dividend paying companies typically experience lower levels of earnings growth and/or capital appreciation than non-dividend paying companies. Furthermore, the dividend payments may vary over time, and there is no guarantee that a company will maintain any minimum level of dividend payments or pay a dividend at all.

Stocks of smaller companies may be more vulnerable to adverse developments than those of larger companies. Stocks of companies that the portfolio managers believe are fast-growing may trade at a higher multiple of current earnings than other stocks. The value of such stocks may be more sensitive to changes in current or expected earnings than the values of other stocks. Seeking earnings growth may result in significant investments in sectors that may be subject to greater volatility than other sectors of the economy. Companies that a fund's portfolio manager believes are undergoing positive change and whose stock the portfolio manager believes is undervalued by the market may have experienced adverse business developments or may be subject to special risks that have caused their stocks to be out of favor. If a fund's portfolio manager's assessment of a company's earnings growth or other prospects is wrong, or if the portfolio manager's judgment of



how other investors will value the company is wrong, then the price of the company's stock may fall or may not approach the value that the portfolio manager has placed on it.

Equity securities represent an ownership interest, or the right to acquire an ownership interest, in an issuer. Different types of equity securities provide different voting and dividend rights and priority in the event of the bankruptcy and/or insolvency of the issuer. In addition to common stocks, equity securities include, without limitation, preferred stocks, convertible securities and warrants. Equity securities other than common stocks are subject to many of the same risks as common stocks, although possibly to different degrees. Accounts may invest in, and gain exposure to, common stocks and other equity securities through purchasing depositary receipts, such as ADRs, EDRs and GDRs.

Preferred stock represents an equity interest in a company that generally entitles the holder to receive, in preference for the holders of other stocks such as common stocks, dividends and a fixed share of the proceeds resulting from a liquidation of the company. Preferred stock may pay fixed or adjustable rates of return. Preferred stock is subject to issuer-specified and market risks applicable generally to equity securities. In addition, a company's preferred stock generally pays dividends only after the company makes required payments to holders of its bonds and other debt.

#### *Confidential Information Access Risk*

In managing funds or accounts that may invest in privately placed instruments, certain subadvisers will seek to avoid the receipt by the portfolio managers and analysts of material, non-public information ("Confidential Information") about the issuers of such instruments (which may include senior loans, other bank loans and related investments), because such issuers may have or later issue publicly traded securities. In many instances, issuers offer to furnish Confidential Information to prospective purchasers or holders of the issuer's loans. In circumstances when the subadvisers' portfolio managers and analysts do not receive Confidential Information from these issuers, an Account may be disadvantaged in comparison to other bank loan investors, including with respect to the price an Account pays or receives when it buys or sells a bank loan. Further, in situations when an Account is asked, for example, to grant consents, waivers or amendments with respect to bank loans, the subadvisers' ability to assess the desirability of such consents, waivers and amendments may be compromised. For these and other reasons, it is possible that a subadviser's decision not to receive Confidential Information under normal circumstances could adversely affect an Account's investment performance.

Notwithstanding its intention not to receive Confidential Information with respect to its management of investments in loans and privately placed instruments generally, a subadviser may from time to time come into possession of Confidential Information about issuers whose securities may be held in an Account's portfolio. Possession of such information may in some instances occur despite a subadviser's efforts to avoid such possession, but in other instances a subadviser may choose to receive such information (for example, in connection with participation in a creditors' committee with respect to a financially distressed issuer). As, and to the extent, required by applicable law, that subadviser's ability to trade in these securities for the account of an Account could potentially be limited by its possession of such information. Such limitation on the subadviser's ability to trade could have an adverse effect on an Account by, for example, preventing an Account from selling a loan that is experiencing a material decline in value. In some instances, these trading restrictions could continue in effect for a substantial period of time.



### *Contingent Convertible Securities Risk*

Contingent convertible securities ("CoCos") have no stated maturity, have fully discretionary coupons and are typically issued in the form of subordinated debt instruments. CoCos generally either convert into equity or have their principal written down upon the occurrence of certain triggering events ("triggers") linked to regulatory capital thresholds or regulatory actions relating to the issuer's continued viability. As a result, an investment by an Account in CoCos is subject to the risk that coupon (i.e., interest) payments may be cancelled by the issuer or a regulatory authority in order to help the issuer absorb losses. An investment by an Account in CoCos is also subject to the risk that, in the event of the liquidation, dissolution or winding-up of an issuer prior to a trigger event, an Account's rights and claims will generally rank junior to the claims of holders of the issuer's other debt obligations. In addition, if CoCos held by an Account are converted into the issuer's underlying equity securities following a trigger event, an Account's holding may be further subordinated due to the conversion from a debt-to-equity instrument. As CoCos may be perpetual or have long-dated maturities, they may face greater interest rate sensitivity and may be subject to greater fluctuations in value than securities with shorter maturity dates. Such securities also may be subject to prepayment risk due to optional or mandatory redemption provisions. Further, the value of an investment in CoCos is unpredictable and will be influenced by many factors and risks, including interest rate risk, credit risk, market risk and liquidity risk. An investment by an Account in CoCos may result in losses to an Account.

### *Convertible Securities*

Convertible securities are generally bonds, debentures, notes, preferred securities, "synthetic" convertibles and other securities or investments that may be converted or exchanged (by the holder or issuer) into equity securities of the issuer (or cash or securities of equivalent value). The price of a convertible security will normally vary in some proportion to changes in the price of the underlying equity security because of this conversion or exercise feature. However, the value of a convertible security may not increase or decrease as rapidly as the underlying common stock. A convertible security may be called for redemption or conversion by the issuer after a particular date and under certain circumstances (including a specified price) established upon issue. If a convertible security held by an Account is called for redemption or conversion, an Account could be required to tender it for redemption, convert it into the underlying common stock or sell it to a third party. A convertible security will normally also provide income and is subject to interest rate risk. Convertible securities may be lower-rated or high-yield securities subject to greater levels of credit risk and may also be less liquid than non-convertible debt securities. While convertible securities generally offer lower interest or dividend yields than non-convertible fixed income securities of similar quality, their value tends to increase as the market value of the underlying stock increases and to decrease when the value of the underlying stock decreases. However, a convertible security's market value tends to reflect the market price of the common stock of the issuing company when that stock price approaches or is greater than the convertible security's "conversion price." The conversion price is defined as the predetermined price at which the convertible security could be exchanged for the associated stock. As the market price of the underlying common stock declines, the price of the convertible security tends to be influenced more by the yield of the convertible security. Thus, it may not decline in price to the same extent as the underlying common stock. Depending upon the relationship of the conversion price to the market value of the underlying security, a convertible security may trade more like an equity security than a debt instrument. Also, an Account may be forced to convert a security before it would otherwise choose, which may decrease an Account's return.

- *Synthetic Convertible Securities.* "Synthetic" convertible securities are selected based on the



similarity of their economic characteristics to those of a traditional convertible security due to the combination of separate securities that possess the two principal characteristics of a traditional convertible security (i.e., an income producing component and a right to acquire an equity security). The income-producing component is achieved by investing in non-convertible, income-producing securities such as bonds, preferred securities and money market instruments while the convertible component is achieved by investing in warrants or options to buy common stock at a certain exercise price, or options on a stock index. Synthetic securities may also be created by third parties, typically investment banks or other financial institutions. Unlike a traditional convertible security, which is a single security having a unitary market value, a synthetic convertible consists of two or more separate securities, each with its own market value, and has risks associated with derivative instruments.

#### *Corporate Debt Securities*

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 factors such as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity. When interest rates rise, the value of corporate debt securities can be expected to decline. Debt securities with longer maturities or durations tend to be more sensitive to interest rate movements than those with shorter maturities.

#### *Credit Ratings and Unrated Securities*

An Account may invest in securities based on their credit ratings assigned by rating agencies such as Moody's, S&P and Fitch. Moody's, S&P, Fitch and other rating agencies are private services that provide ratings of the credit quality of fixed income securities, including convertible securities. The Account's offering materials will typically describe the various ratings assigned to fixed income securities by Moody's, S&P and Fitch. Ratings assigned by a rating agency are not absolute standards of credit quality and do not evaluate market risk. Rating agencies may fail to make timely changes in credit ratings and an issuer's current financial condition may be better or worse than a rating indicates. An Account will not necessarily sell a security when its rating is reduced below its rating at the time of purchase. The subadviser does not rely solely on credit ratings and may develop their own analyses of issuer credit quality.

An Account may purchase unrated securities (which are not rated by a rating agency) if the subadviser determines that the security is of comparable quality to a rated security that the Accounts may purchase. Unrated securities may be less liquid than comparable rated securities and involve the risk that the subadviser may not accurately evaluate the security's comparative credit rating. Analysis of the creditworthiness of issuers of high yield securities may be more complex than for issuers of higher-quality fixed income securities. In the event an Account invests a significant portion of assets in high yield securities and/ or unrated securities, the Account's success in achieving its investment objective may depend more heavily on the subadviser's creditworthiness analysis than if an Account invested exclusively in higher-quality and rated securities.

#### *Credit Risk Transfer Securities*

Credit risk transfer securities are fixed- or floating-rate unsecured general obligations issued from time to time by Freddie Mac, Fannie Mae or other government sponsored entities ("GSEs"). Typically, such securities are issued at par and have stated final maturities. The securities are structured so that: (i) interest is paid directly by the issuing GSE, and (ii) principal is paid by the issuing GSE in accordance with the principal payments and default performance of a certain pool of





residential mortgage loans acquired by the GSE ("reference obligations"). The performance of the securities will be directly affected by the selection of the reference obligations by the GSE. Such securities are issued in tranches to which are allocated certain principal repayments and credit losses corresponding to the seniority of the particular tranche. Each tranche of securities will have credit exposure to the reference obligations and the yield to maturity will be directly related to the amount and timing of certain defined credit events on the reference obligations, any prepayments by borrowers and any removals of a reference obligation from the pool.

Credit risk transfer securities are unguaranteed and unsecured debt securities issued by the GSE and therefore are not directly linked to or backed by the underlying mortgage loans. As a result, in the event that a GSE fails to pay principal or interest on its credit risk transfer securities or goes through a bankruptcy, insolvency or similar proceeding, holders of such credit risk transfer securities have no direct recourse to the underlying mortgage loans and will generally receive recovery on par with other unsecured note holders in such a scenario.

Accounts may also invest in credit risk transfer securities that are issued by private entities, such as banks or other financial institutions. Such securities are subject to risks similar to those associated with credit risk transfer securities issued by GSEs.

The risks associated with an investment in credit risk transfer securities are different than the risks associated with an investment in mortgage-backed securities issued by Fannie Mae and Freddie Mac, or other GSEs or issued by a private issuer, because some or all of the mortgage default or credit risk associated with the underlying mortgage loans is transferred to investors. As a result, investors in these securities could lose some or all of their investment in these securities if the underlying mortgage loans default.

#### *Counterparty Risk*

An Account is also subject to the risk that a counterparty to a derivatives contract, repurchase agreement, a loan of portfolio securities or an unsettled transaction may be unable or unwilling to make timely settlement payments or otherwise honor its obligations to an Account. If a counterparty fails to meet its contractual obligations, goes bankrupt, or otherwise experiences a business interruption, an Account could miss investment opportunities or otherwise hold investments it would prefer to sell, resulting in losses for an Account. In addition, transactions in some types of swaps (including interest rate swaps and credit default swaps on North American and European indices) are required to be centrally cleared ("cleared swaps"). For over-the-counter swaps, there is a risk that the other party to certain of these instruments will not perform its obligations to the Accounts or that an Account may be unable to enter into offsetting positions to terminate its exposure or liquidate its position under certain of these instruments when it wishes to do so. Such occurrences could result in losses to such Fund. For cleared swaps, the Account's counterparty is a clearinghouse rather than a bank or broker. In cleared swaps, such Fund makes payments (including margin payments) to and receives payments from a clearinghouse through its account at clearing members. Clearing members guarantee performance of their clients' obligations to the clearinghouse. Counterparty risk may be pronounced during unusually adverse market conditions and may be particularly acute in environments in which financial services firms are exposed to systemic risks of the type evidenced by the 2008 insolvency of Lehman Brothers and subsequent market disruptions.

#### *Covenant Lite Loans Risk*

Because covenant lite loans contain few or no financial maintenance covenants, they may not



include terms that permit the lender of the loan to monitor the borrower's financial performance and, if certain criteria are breached, declare a default, which would allow the lender to restructure the loan or take other action intended to help mitigate losses. As a result, the Fund could experience relatively greater difficulty or delays in enforcing its rights on its holdings of covenant lite loans than its holdings of loans or securities with financial maintenance covenants, which may result in losses, especially during a downturn in the credit cycle.

#### *Debt Instruments*

Debt instruments are subject to various risks, the most prominent of which are credit risk and interest rate risk. These risks can affect an instrument's price volatility to varying degrees, depending upon the nature of the instrument. Risks associated with investing in debt instruments include the following:

- *Credit Risk.* There is a risk that the issuer of an instrument will fail to pay interest or principal in a timely manner, or that negative perceptions exist in the market of the issuer's ability to make such payments will cause the price of the instrument to decline. Debt instruments rated below investment-grade are especially susceptible to this risk.
- *Income Risk.* The income shareholders receive from an Account is based primarily on the dividends and interest an Account earns from its investments, which can vary widely over the short- and/or long-term. If prevailing market interest rates drop, distribution rates of an Account's preferred stock holdings and any bond holdings could drop as well. An Account's income also would likely be affected adversely when prevailing short-term interest rates increase. In certain circumstances, an Account may be treated as receiving income even though no cash is received. An Account may not be able to pay distributions or may have to reduce distribution levels if the cash distributions that the Series receives from its investments decline.
- *Interest Rate Risk.* The values of debt instruments usually rise and fall in response to changes in interest rates. Declining interest rates generally increase the value of existing debt instruments, and rising interest rates generally decrease the value of existing debt instruments. Changes in a debt instrument's value usually will not affect the amount of interest income paid to an Account but will affect the value of the fund's shares or account's value. Interest rate risk is generally greater for investments with longer maturities. It is difficult to predict the pace at which central banks or monetary authorities may change interest rates or the timing, frequency, or magnitude of such changes. Any such changes could be sudden and could expose debt markets to significant volatility and reduced liquidity for investments.

Certain instruments pay interest at variable or floating rates. Variable rate instruments reset at specified intervals, while floating rate instruments reset whenever there is a change in a specified index rate. In most cases, these reset provisions reduce the effect of changes in market interest rates on the value of the instrument. However, some instruments do not track the underlying index directly, but reset based on formulas that can produce an effect similar to leveraging; others may also provide for interest payments that vary inversely with market rates. The market prices of these instruments may fluctuate significantly when interest rates change.

To the extent that an Account effectively has short positions with respect to fixed income instruments, the values of such short positions would generally be expected to rise when





nominal interest rates rise and to decline when nominal interest rates decline. A nominal interest rate can be described as the sum of a real interest rate and an expected inflation rate.

Some investments give the issuer the option to call or redeem an investment before its maturity date. If an issuer calls or redeems an investment during a time of declining interest rates, an Account might have to reinvest the proceeds in an investment offering a lower yield, and therefore it might not benefit from any increase in value as a result of declining interest rates. Actions by governmental entities may also impact certain instruments in which the Accounts invest. For example, certain instruments in which the funds invested may have relied in some fashion upon the London Interbank Offer Rate ("LIBOR"). LIBOR historically had been used extensively in the U.S. and globally as a "benchmark" or "reference rate" for various commercial and financial contracts, including corporate and municipal bonds, bank loans, asset-backed and mortgage-related securities, interest rate swaps and other derivatives. As a result of benchmark reforms, publication of most LIBOR settings has ceased. Some LIBOR settings continue to be published but only on a temporary, synthetic, and non-representative basis. Regulated entities have generally ceased entering new LIBOR contracts in connection with regulatory guidance or prohibitions. Public and private sector actors have worked to establish new or alternative reference rates to be used in place of LIBOR. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, has recommended an alternative reference rate derived from short-term repurchase agreements backed by Treasury securities, the Secured Overnight Financing Rate. Certain debt instruments in which an Account invests, or derivatives contracts of an Account may continue to reference synthetic LIBOR or may have converted from LIBOR to an alternative reference rate. Although the structured transition to alternative reference rates is designed to mitigate the risks of disruption to financial markets, such risks continue to exist. The transition from LIBOR could lead to significant short- and long-term uncertainty and market instability. The risks associated with this discontinuation and transition may be exacerbated if the work necessary to affect an orderly transition to an alternative reference rate is not completed in a timely manner. It remains uncertain the effects such changes will have on the Accounts on issuers of instruments in which the Accounts invest, and on the financial markets generally.

- *Investment Grade Securities.* An Account may invest in all types of long-term or short-term investment-grade debt obligations of U.S. issuers. In addition to the types of securities mentioned in connection with the Account's principal investment strategies, the Account may also invest in other bonds, debentures, notes, municipal bonds, equipment lease certificates, equipment trust certificates, conditional sales contracts, and commercial paper. Debt instruments with lower credit ratings have a higher risk of default on payment of principal and interest, and securities with longer maturities are subject to greater price fluctuations in response to changes in interest rates. If interest rates rise, the value of debt instruments generally will fall.
- *Limited Voting Rights Risk.* Debt instruments typically do not provide any voting rights, except in cases when interest payments have not been made and the issuer is in default.
- *Liquidity Risk.* Certain debt instruments may be substantially less liquid than many other securities, such as U.S. Government securities or common stocks.
- *Long-Term Maturities/Durations Risk.* Fixed income instruments with longer maturities or durations may be subject to greater price fluctuations due to interest rate, tax law, and general



market changes than instruments with shorter maturities or durations.

- *Prepayment/Call Risk.* There is a risk that issuers will prepay fixed rate obligations when interest rates fall. An Account holding callable instruments therefore may be forced to reinvest in obligations with lower interest rates than the original obligations and otherwise may not benefit fully from the increase in value that other fixed income investments experience when rates decline.
- *Redemption Risk.* Debt instruments sometimes contain provisions that allow for redemption in the event of tax or security law changes, in addition to call features at the option of the issuer. In the event of a redemption, an Account may not be able to reinvest the proceeds at comparable rates of return.

#### *Default Risk*

Certain Accounts may hold defaulted investments that may involve special considerations including bankruptcy proceedings, other regulatory and legal restrictions affecting the Account's ability to trade, and the availability of prices from independent pricing services or dealer quotations. Defaulted investments are often illiquid and may not be actively traded. Sale of investments in bankrupt companies at an acceptable price may be difficult and differences compared to the value of the securities used by the Accounts could be material. An Account may incur additional expenses to the extent it is required to seek recovery upon a portfolio investment's default in the payment of principal or interest. In any bankruptcy proceeding related to a defaulted investment, an Account may lose its entire investment or may be required to accept cash or securities with a value substantially less than its original investment.

#### *Depository Receipts*

Certain funds and/or accounts may invest in American Depositary Receipts (ADRs) sponsored by U.S. banks, European Depositary Receipts (EDRs), Global Depositary Receipts (GDRs), ADRs not sponsored by U.S. banks, other types of depository receipts (including non-voting depository receipts), and other similar instruments representing securities of foreign companies. The issuers of Depositary Receipts may discontinue issuing new Depositary Receipts and withdraw existing Depositary Receipts at any time, which may result in costs and delays in the distribution of the underlying assets to an Account and may negatively impact the fund or account's performance. Although certain depository receipts may reduce or eliminate some of the risks associated with foreign investing, these types of securities generally are subject to many of the same risks as direct investment in securities of foreign issuers.

#### *Derivatives and Other Similar Transactions*

Derivative and other similar transactions (collectively referred to in this section as "derivatives" or "derivatives contracts") are contracts whose value is derived from the value of an underlying asset, index or rate, including futures, options, non-deliverable forwards, foreign currency forward contracts and swap agreements. An Account may use derivatives to hedge against factors that affect the value of its investments, such as interest rates and foreign currency exchange rates. An Account may also utilize derivatives as part of its overall investment technique to gain or lessen exposure to various securities, markets, volatility, dividend payments and currencies.

Derivatives may give rise to a form of leverage which magnifies the potential for gain and the risk of loss. It is generally more difficult to ascertain the risk of, and to properly value, derivative contracts. Many derivatives, and particularly those that are privately negotiated, are complex and



often valued subjectively. Improper valuations can result in increased cash payment requirements to counterparties or a loss of value to an Account. The prices of derivatives may move in unexpected ways, especially in abnormal market conditions. Derivatives are usually less liquid than traditional securities and are subject to counterparty risk (the risk that the other party to the contract will default or otherwise not be able to perform its contractual obligations). Changes in the value of a derivative may also create margin delivery or settlement payment obligations for an Account. In addition, some derivatives transactions may involve potentially unlimited losses.

The use of derivatives is also subject to operational risk which refers to risk related to potential operational issues, including documentation issues, settlement issues, system failures, inadequate controls, and human error, as well as legal risk which refers to the risk of loss resulting from insufficient documentation, insufficient capacity or authority of counterparty, or legality or enforceability of a contract.

Derivative contracts entered into for hedging purposes may also subject an Account to losses if the contracts do not correlate with the assets, indexes or rates they were designed to hedge. In regard to currency hedging using forward contracts, it is generally not possible to precisely match the foreign currency exposure of such foreign currency forward contracts to the value of the securities involved due to fluctuations in the market values of such securities and cash flows into and out of an Account between the date a foreign currency forward contract is entered into and the date it expires.

Governments, agencies and/or other regulatory bodies may adopt or change laws or regulations that could adversely affect an Account's ability to invest in derivatives as an Account's subadviser intends. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), among other things, grants the Commodity Futures Trading Commission (the "CFTC") and SEC broad rulemaking authority to implement various provisions of the Dodd-Frank Act including comprehensive regulation of the over-the-counter ("OTC") derivatives market. The implementation of the Dodd-Frank Act could adversely affect an Account by placing limits on derivative transactions, and/or increasing transaction and/or regulatory compliance costs. For example, the CFTC has adopted rules that apply a new aggregation standard for position limit purposes, which may further limit an Account's ability to trade futures contracts and swaps.

There are also special tax rules applicable to certain types of derivatives, which could affect the amount, timing and character of an Account's income or loss and hence of its distributions to shareholders by causing holding period adjustments, converting short-term capital losses into long-term capital losses, and accelerating an Account's income or deferring its losses. An Account's use of derivatives may also increase the amount of taxes payable by shareholders or the resources required by an Account, or its adviser and/or subadviser(s) to comply with particular regulatory requirements.

#### *Distressed Company Risk*

An Account that invests in securities of distressed companies may be subject to greater levels of credit, issuer and liquidity risk than a portfolio that does not invest in such securities. Securities of distressed companies include both debt and equity securities. Debt securities of distressed companies are considered predominantly speculative with respect to the issuers' continuing ability to make principal and interest payments. Issuers of distressed company securities may also be involved in restructurings or bankruptcy proceedings that may not be successful. An economic downturn or period of rising interest rates could adversely affect the market for these securities



and reduce an Account's ability to sell these securities (liquidity risk). If the issuer of a debt security is in default with respect to interest or principal payments, the fund or account may lose the value of its entire investment. Investments in distressed securities often involve increased control position risk and litigation risk.

### *Equity Securities*

Generally, prices of equity securities are more volatile than those of fixed income securities. The prices of equity securities will rise and fall in response to a number of different factors. In particular, equity securities will respond to events that affect entire financial markets or industries (such as changes in inflation or consumer demand) and to events that affect particular issuers (such as news about the success or failure of a new product). Equity securities also are subject to "stock market risk," meaning that stock prices in general may decline over short or extended periods of time. When the value of the stocks held by an Account goes down, the value of an Account's shares will be affected. Risks associated with investing in equity securities include the following.

- ***Growth Stocks Risk.*** Growth stocks can react differently to issuer, political, market, and economic developments than the market as a whole and other types of stocks. Growth stocks also tend to be more expensive relative to their earnings or assets compared to other types of stocks, and as a result they tend to be sensitive to changes in their earnings and more volatile than other types of stocks.
- ***Large Market Capitalization Companies Risk.*** The value of investments in larger companies may not rise as much as investments in smaller companies, and larger companies may be unable to respond quickly to competitive challenges, such as changes in technology and consumer tastes.
- ***Small and Medium Market Capitalization Companies Risk.*** Small and medium-sized companies often have narrower markets, fewer products or services to offer, and more limited managerial and financial resources than larger, more established companies. As a result, the performance of small and medium-sized companies may be more volatile, and they may face a greater risk of business failure, which could increase the volatility and risk of loss to an Account.
- ***Value Stocks Risk.*** A company may be undervalued due to market or economic conditions, temporary earnings declines, unfavorable developments affecting the company and other factors, or because it is associated with a market sector that generally is out of favor with investors. Undervalued stocks tend to be inexpensive relative to their earnings or assets compared to other types of stock. However, these stocks can continue to be inexpensive for long periods of time and may not realize their full economic value.

### *ESG Consideration*

To the extent consistent with the fund's investment objective and strategies, VFA or its subadviser will consider as an element of its investment research and decision-making processes for an Account any environmental, social and/or governance ("ESG") factors that VFA or its subadviser believes may influence risks and opportunities of companies under consideration. However, the pursuit of ESG-related goals is not an Account's investment objective, nor one of its investment strategies. Therefore, ESG factors by themselves are not expected to determine investment decisions for an Account.



An Account's consideration of ESG factors could cause it to perform differently compared to funds or accounts that do not use such considerations. The relevance and weightings of specific ESG factors may vary across asset classes, sectors and strategies and no one factor is determinative. ESG factors are qualitative and subjective by nature and there are significant differences in interpretations of what it means for a company to have positive or negative ESG factors. There is no guarantee that the factors utilized by VFA or its subadviser or any judgment exercised by VFA or its subadviser will reflect the opinions of any particular investor, and the factors analyzed by VFA or its subadviser may differ from the factors any particular investor considers relevant in evaluating ESG practices. When integrating ESG factors into the investment process, the adviser or subadviser may rely on third-party data that it believes to be reliable, but it does not guarantee the accuracy of such third-party data. ESG information from third-party data providers may be incomplete, inaccurate or unavailable, which may adversely impact the investment process. Moreover, the current lack of common standards may result in different approaches to integrating ESG factors. As a result, an Account may invest in companies that do not reflect the beliefs and values of any particular investor. The ESG factors that may be evaluated as part of an Account's investment process are anticipated to evolve over time and one or more characteristics may not be relevant with respect to all issuers that are eligible for investment. Further, the regulatory landscape with respect to ESG integration in the United States is still developing and future rules and regulations may require an Account to modify or alter its investment process with respect to ESG integration.

#### *Exchange-Traded Funds (ETFs)*

ETFs invest in a portfolio of securities designed to track a particular market segment or index. The risks associated with investing in ETFs generally reflect the risks of owning shares of the underlying securities the ETF is designed to track, although lack of liquidity in an ETF could result in its value being more volatile than the underlying portfolio of securities. Assets invested in ETFs incur a layering of expenses, including operating costs and advisory fees that fund shareholders or account owners indirectly bear; such expenses may exceed the expenses the fund or account would incur if it invested directly in the underlying portfolio of securities the ETF is designed to track.

Shares of ETFs trade on a securities exchange and may trade at, above, or below their net asset value. The extent to which the investment performance and risks associated with a fund or account correlate to those of a particular ETF will depend upon the extent to which the portfolio's assets are allocated from time to time for investment in the ETF, which will vary.

#### *Fixed Income Securities*

As used in this Brochure, the term "fixed income securities" includes, without limitation: securities issued or guaranteed by the U.S. Government, its agencies or government-sponsored enterprises ("U.S. Government Securities"); corporate debt securities of U.S. and non-U.S. issuers, including convertible securities and corporate commercial paper; mortgage-backed and other asset-backed securities; inflation-indexed bonds issued both by governments and corporations; structured notes, including hybrid or "indexed" securities and event-linked bonds; loan participations and assignments; delayed funding loans and revolving credit facilities; bank certificates of deposit, fixed time deposits and bankers' acceptances; repurchase agreements and reverse repurchase agreements; debt securities issued by states or local governments and their agencies, authorities and other government-sponsored enterprises; obligations of non-U.S. governments or their subdivisions, agencies and government-sponsored enterprises; and obligations of international agencies or supranational entities. Securities issued by U.S. Government agencies or government-sponsored enterprises may not be guaranteed by the U.S. Treasury. Investments in U.S. Government Securities and other government securities remain





subject to the risks associated with downgrade or default. Where permitted, the Accounts may invest in derivatives based on fixed income securities and may also have significant investment exposure to fixed income securities through investments of cash collateral from loans of portfolio securities.

Fixed income securities are obligations of the issuer to make payments of principal and/or interest on future dates. Fixed income 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 factors such as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market conditions. As interest rates rise, the value of fixed income securities can be expected to decline. Fixed income securities with longer "durations" (a measure of the expected life of a fixed income security that is used to determine the sensitivity of a security's price to changes in interest rates) tend to be more sensitive to interest rate movements than those with shorter durations. Similarly, an Account with a longer average portfolio duration will be more sensitive to changes in interest rates than an Account with a shorter average portfolio duration. As a general rule, a 1% rise in interest rates means a 1% fall in value for every year of duration. By way of example, the price of a bond fund with a duration of five years would be expected to fall approximately 5% if interest rates rose by one percentage point and the price of a bond fund with a duration of three years would be expected to fall approximately 3% if interest rates rose by one percentage point. Certain fixed-income funds can have "negative" duration profiles (which may be achieved through the use of derivatives or other means), meaning they tend to increase in value in response to an increase in interest rates. For these funds, a 1% increase in interest rates would tend to correspond to a 1% increase in value for every year of negative duration. The timing of purchase and sale transactions in debt obligations may result in capital appreciation or depreciation because the value of debt obligations varies inversely with prevailing interest rates.

#### *Focused Investments*

Focusing an Account's investments in a small number of issuers, industries, foreign currencies, regions or portfolio themes increases risk. Accounts that are "non-diversified" because they may invest a significant portion of their assets in a relatively small number of issuers may have more risk because changes in the value of a single security or the impact of a single economic, political or regulatory occurrence may have a greater adverse impact on the Account's NAV. Similarly, certain underlying bond Accounts may have more risk because they may invest a substantial portion of their assets in bonds of similar projects or from issuers of the same status. Some of those issuers also may present substantial credit or other risks. Diversified Funds that invest in a relatively small number of issuers are subject to similar risks. In addition, the Accounts may be subject to increased risk to the extent they focus their investments in securities denominated in a particular foreign currency or in a narrowly defined geographic area, for example, regional economic risks relating to weather emergencies and natural disasters. Similarly, an Account that focuses its investments in a certain type of issuer is particularly vulnerable to events affecting such type of issuer. Also, an Account may have greater risk to the extent it invests a substantial portion of its assets in a group of related industries (or "sectors"). The industries comprising any particular sector and investments in a particular foreign currency or in a narrowly defined geographic area outside the United States may share common characteristics, are often subject to similar business risks and regulatory burdens, and react similarly to economic, market, political or other developments. Accounts may be subject to increased risk to the extent they allocate assets among investment styles and certain styles underperform relative to other investment styles. Furthermore, certain issuers, industries and regions may be adversely affected by the impacts of climate change on the demand for and the development of goods and services and related production costs, and the impacts of legislation, regulation and international accords related to climate change, as well as any indirect consequences of regulation or business trends driven by climate change. Risks associated with focused investments include the following:



- ***Geographic Concentration Risk.*** The value of the investments of an Account that focuses its investments in a particular geographic location will be highly sensitive to financial, economic, political and other developments affecting the fiscal stability of that location, and conditions that negatively impact that location will have a greater impact on an Account as compared with an Account that does not have its holdings similarly concentrated. Events negatively affecting such location are therefore likely to cause the value of the Account's shares to decrease, perhaps significantly.
- ***Industry/Sector Concentration Risk.*** The value of the investments of an Account that focuses its investments in a particular industry or market sector will be highly sensitive to financial, economic, political and other developments affecting that industry or market sector, and conditions that negatively impact that industry or market sector will have a greater impact on an Account as compared with an Account that does not have its holdings similarly concentrated. Events negatively affecting the industries or market sectors in which an Account has invested are therefore likely to cause the value of the Account's shares to decrease, perhaps significantly.
- ***Limited Number of Investments.*** There is a risk that the Account's portfolio may be more susceptible to factors adversely affecting issuers of securities in the Account's portfolio than would an Account holding a greater number of securities.
- ***Sector Focused Investing.*** The value of the investments of an Account that focuses its investments in a particular market sector will be highly sensitive to financial, economic, political and other developments affecting that market sector, and conditions that negatively impact that market sector will have a greater impact on an Account as compared with an Account that does not have its holdings similarly focused. Events negatively affecting the market sectors in which an Account has invested are therefore likely to cause the value of the Account's shares to decrease, perhaps significantly.
- ***Health Sciences-Related Risks.*** Accounts that focus their investments in the health sciences-related sector will be subject to risks particular to that sector, including rapid obsolescence of products and services, the potential and actual performance of a limited number of products and services, technological change, patent expirations, risks associated with new regulations and changes to existing regulations, changes in government subsidy and reimbursement levels, risks associated with the governmental approval process, and chances of lawsuits versus health sciences-related companies due to product or service liability issues.
- ***Industrial-Related Risks.*** Accounts that focus their investments in a limited number of issuers, sectors, industries or geographic regions may be subject to increased risk and volatility. Industrial companies are affected by supply and demand both for their specific product or service and for industrial sector products in general. Government regulation, world events, exchange rates and economic conditions, technological developments and liabilities for environmental damage and general civil liabilities will likewise affect the performance of these companies.
- ***Technology-Related Risks.*** Accounts that make significant investments in the technology sectors will be subject to risks particularly affecting technology or technology-related companies, such as the risks of short product cycles and rapid obsolescence of products and services, competition from new and existing companies, significant losses and/or limited earnings, security price





volatility, limited operating histories and management experience, and patent and other intellectual property considerations.

#### *Foreign Investing*

Investing in securities of non-U.S. companies involves special risks and considerations not typically associated with investing in U.S. companies, and the values of non-U.S. securities may be more volatile than those of U.S. securities. The values of non-U.S. securities are subject to economic, geopolitical, and political developments in countries and regions where the issuers operate or are domiciled, or where the securities are traded, such as changes in economic or monetary policies, and to changes in currency exchange rates. Values may also be affected by restrictions on receiving the investment proceeds from a non-U.S. country. In the event of nationalization, expropriation or other confiscation, an Account could lose its entire investment in non-U.S. securities.

In general, less information is publicly available about non-U.S. companies than about U.S. companies. Non-U.S. companies are generally not subject to the same accounting, auditing and financial reporting standards as are U.S. companies. In addition, an Account's investments in non-U.S. securities may be subject to withholding and other taxes imposed by countries outside the U.S., which could reduce the return on an investment in an Account. Certain foreign issuers classified as passive foreign investment companies may be subject to additional taxation risk. Risks associated with foreign investing include the following:

- **Currency Rate Risk.** Because the foreign securities in which an Account invests generally trade in currencies other than the U.S. dollar, changes in currency exchange rates will affect an Account's net asset value, the value of dividends and interest earned, and gains and losses realized on the sale of securities. Because the value of each fund's shares and account's value is calculated in U.S. dollars, it is possible for an Account to lose money by investing in a foreign security if the local currency of a foreign market depreciates against the U.S. dollar, even if the local currency value of an Account's holdings goes up. Generally, a strong U.S. dollar relative to such other currencies will adversely affect the value of the Account holdings in foreign securities.
- **Developing Market Risk.** The risks of foreign investments are generally greater in countries whose markets are still developing than they are in more developed markets. Developing market countries typically have economic and political systems that are less fully developed and can be expected to be less stable than those of more developed countries. For example, the economies of such countries can be subject to rapid and unpredictable rates of inflation or deflation. Since these markets are often small, they may be more likely to suffer sharp and frequent price changes or long-term price depression because of adverse publicity, investor perceptions or the actions of a few large investors. They may also have policies that restrict investment by foreigners, or that prevent foreign investors from withdrawing their money at will. Certain developing markets may also face other significant internal or external risks, including the imposition of sanctions and risk of war and civil unrest. For all of these reasons, investments in developing markets may be considered speculative. To the extent that an Account invests a significant portion of its assets in a particular emerging market, an Account will be more vulnerable to financial, economic, political and other developments in that country, and conditions that negatively impact that country will have a greater impact on an Account as compared with an Account that does not have its holdings concentrated in a particular country.

- *Investing in Brazil Risk.* Investment in Brazilian issuers involves risks that are specific to Brazil, including legal, regulatory, political, currency and economic risks. Specifically, Brazilian issuers are subject to possible regulatory and economic interventions by the Brazilian government, including the imposition of wage and price controls and the limitation of imports. In addition, the market for Brazilian securities is directly influenced by the flow of international capital and economic and market conditions of certain countries, especially other emerging market countries in Central and South America. The Brazilian economy is sensitive to fluctuations in commodity prices and commodity markets. The Brazilian economy has historically been exposed to high rates of inflation and a high level of debt, each of which may reduce and/or prevent economic growth. A rising unemployment rate could also have the same effect. Brazil has experienced security concerns, such as terrorism and strained international relations. Incidents involving the country's or region's security may cause uncertainty in Brazilian markets and may adversely affect its economy and an Account's investments. The Brazilian government currently imposes significant taxes on the transfer of currency. Brazilian law provides that whenever a serious imbalance in Brazil's balance of payments exists or is anticipated, the Brazilian government may impose temporary restrictions on the remittance to foreign investors of the proceeds of their investment in Brazil and on the conversion of the Brazilian real into foreign currency. These and other factors could have a negative impact on the Account's performance and increase the volatility of an investment in an Account.
- *Investing in China Risk.* The Chinese economy is generally considered an emerging and volatile market. Although China has experienced a relatively stable political environment in recent years, there is no guarantee that such stability will be maintained in the future. As an emerging market, many factors may affect such stability, such as increasing gaps between the rich and poor or agrarian unrest and instability of existing political structures and may result in adverse consequences to an Account investing in securities and instruments economically tied to China. A small number of companies represent a large portion of the Chinese and prices for securities of these companies may be very sensitive to adverse political, economic, or regulatory developments in China and other Asian countries, and may experience significant losses in such conditions. The value of Chinese currencies may also vary significantly relative to the U.S. dollar, affecting the fund's investments, to the extent an Account invests in China-related investments. Historically, China's central government has exercised substantial control over the Chinese economy through administrative regulation, state ownership, the allocation, expropriation, or nationalization of resources, by controlling payment of foreign currency-denominated obligations, by setting monetary policy and by providing preferential treatment to particular industries or companies. The emergence of domestic economic demand is still at an early stage, making China's economic health largely dependent upon exports. China's growing trade surplus with the U.S. has increased the risk of trade disputes. For example, recent developments in relations between the U.S. and China have heightened concerns of increased tariffs and restrictions on trade between the two countries. An increase in tariffs or trade restrictions, or even the threat of such developments, could lead to a significant reduction in international trade, which could have a negative impact on China's, or other countries', export industry and a commensurately negative impact on an Account that invests in securities and instruments that are economically tied to China. In addition, as China's economic and political strength has grown in recent years, it has shown a greater willingness to assert itself militarily in the region. Military or diplomatic moves to resolve any issues could adversely affect the economies in the region. Despite economic reforms that have resulted in less direct central and local government control over Chinese



businesses, actions of the Chinese central and local government authorities continue to have a substantial effect on economic conditions in China. These activities, which may include central planning, partial state ownership of or government actions designed to substantially influence certain Chinese industries, market sectors or Chinese companies, may adversely affect the public and private sector companies in which an Account invests. Government actions may also affect the economic prospects for, and the market prices and liquidity of, the securities of Chinese companies and the payments of dividends and interest by Chinese companies. In addition, currency fluctuations, monetary policies, competition, social instability, or political unrest may adversely affect economic growth in China. The Chinese economy and Chinese companies may also be adversely affected by regional security threats, as well as adverse developments in Chinese trade policies, or in trade policies toward China by countries that are trading partners with China. The economies, industries, and securities and currency markets of the China region may also be adversely affected by slow economic activity worldwide, dependence on exports and international trade, increasing competition from Asia's other low-cost emerging economies, and environmental events and natural disasters that may occur in China.

Investing in China A-shares through Stock Connect is subject to trading, clearance, settlement, and other procedures, which could pose risks to an Account. Trading through the Stock Connect program is subject to daily quotas that limit the maximum daily net purchases on any particular day, each of which may restrict or preclude the Account's ability to invest in China A-shares through the Stock Connect program. Trading through Stock Connect may require pre-validation of cash or securities prior to acceptance of orders. This requirement may limit the Account's ability to dispose of its A-shares purchased through Stock Connect in a timely manner. A primary feature of the Stock Connect program is the application of the home market's laws and rules applicable to investors in China A-shares. Therefore, the Account's investments in Stock Connect China A-shares are generally subject to the securities regulations and listing rules of the People's Republic of China ("PRC"), among other restrictions. Stock Connect can only operate when both PRC and Hong Kong markets are open for trading and when banking services are available in both markets on the corresponding settlement days. As such, the Shanghai and Shenzhen markets may be open at a time when Stock Connect is not trading, with the result that prices of China A-shares may fluctuate at times when an Account is unable to add to or exit its position, which could adversely affect the fund's performance. Changes in the operation of the Stock Connect program may restrict or otherwise affect the Account's investments or returns. Furthermore, any changes in laws, regulations and policies of the China A-shares market or rules in relation to Stock Connect may affect China A-share prices. For defaults occurring on or after January 1, 2020, the Hong Kong Investor Compensation Fund will cover the losses incurred by investors with respect to securities traded in a stock market operated by the SSE or SZSE and for which a buy or sell order may be directed through the Northbound Link of Stock Connect. These risks are heightened generally by the developing state of the PRC's investment and banking systems and the uncertainty about the precise nature of the rights of equity owners and their ability to enforce such rights under Chinese law.

An Account may obtain exposure to companies based or operated in China by investing through legal structures known as variable interest entities ("VIEs"). Because of Chinese governmental restrictions on non-Chinese ownership of companies in certain industries in China, certain Chinese companies have used VIEs to facilitate foreign investment without distributing direct ownership of companies based or operated in China. In such cases, the



Chinese operating company establishes an offshore company, and the offshore company enters into contractual arrangements (such as powers of attorney, equity pledge agreements and other services or business cooperation agreements) with the operating company. These contractual arrangements are intended to give the offshore company the ability to exercise power over and obtain economic rights from the operating company. Shares of the offshore company, in turn, are listed and traded on exchanges outside of China and are available to non-Chinese investors such as an Account. This arrangement allows non-Chinese investors in the offshore company to obtain economic exposure to the Chinese company without direct equity ownership in the Chinese company. Thus, VIE structures and its contractual arrangements are not equivalent to equity ownership in the operating Chinese company, which presents additional risks.

Although VIEs are a longstanding industry practice and well known to officials and regulators in China, VIEs are not formally recognized under Chinese law. On February 17, 2023, the China Securities Regulatory Commission ("CSRC") released the "Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies" (the "Trial Measures") which went into effect on March 31, 2023. The Trial Measures will require Chinese companies that pursue listings outside of mainland China, including those that do so using the VIE structure, to make a filing with the CSRC. While the Trial Measures do not prohibit the use of VIE structures, this does not serve as a formal endorsement either. There is a risk that China may cease to tolerate VIEs at any time or impose new restrictions on the structure, in each case either generally or with respect to specific industries, sectors or companies. Investments involving a VIE may also pose additional risks because such investments are made through a company whose interests in the underlying operating company are established through contract rather than through equity ownership. For example, in the event of a dispute, the offshore company's contractual claims with respect to the operating company may be deemed unenforceable in China, thus limiting (or eliminating) the remedies and rights available to the offshore company and its investors. Such legal uncertainty may also be exploited against the interests of the offshore company and its investors. There is also uncertainty related to the Chinese taxation of VIEs and the Chinese tax authorities could take positions that result in increased tax liabilities.

Further, the interests of the equity owners of the operating company may conflict with the interests of the investors of the offshore company, and the fiduciary duties of the officers and directors of the operating company may differ from, or conflict with, the fiduciary duties of the officers and directors of the offshore company. Foreign companies listed on U.S. exchanges, including offshore companies that utilize a VIE structure, also could face delisting or other ramifications for failure to meet the requirements of the SEC, the PCAOB or other United States regulators. Any of the foregoing risks and events could negatively impact the value and liquidity of the investment in the VIE, and therefore an Account's performance.

In addition, the relationship between China and Taiwan is particularly sensitive, and hostilities between China and Taiwan may present a risk to an Account's investments in China.

- *Investing in India Risk.* The value of an Account's investments in Indian securities may be affected by political and economic developments, changes in government regulation and government intervention, high rates of inflation or interest rates and withholding tax affecting India. The risk of loss may also be increased because there may be less information available about Indian issuers because they are not subject to the extensive accounting, auditing and



financial reporting standards and practices which are applicable in the U.S. and other developed countries. There is also a lower level of regulation and monitoring of the Indian securities market and its participants than in other more developed markets.

The laws in India relating to limited liability of corporate shareholders, fiduciary duties of officers and directors, and the bankruptcy of state enterprises are generally less well developed than or different from such laws in the United States. It may be more difficult to obtain or enforce a judgment in the courts in India than it is in the United States. India also has less developed clearance and settlement procedures, and there have been times when settlements have been unable to keep pace with the volume of securities and have been significantly delayed. The Indian stock exchanges have in the past been subject to repeated closure and there can be no certainty that this will not recur. In addition, significant delays are common in registering transfers of securities and an Account may be unable to sell securities until the registration process is completed and may experience delays in receipt of dividends and other entitlements.

India's guidelines under which foreign investors may invest in securities of Indian companies are evolving. There can be no assurance that these investment control regimes will not change in a way that makes it more difficult or impossible for an Account to achieve its investment objective or repatriate its income, gains and initial capital from India. In addition, India may require withholding on dividends paid on portfolio securities and on realized capital gains, and taxes may be substantial. There can be no assurance that restrictions on repatriation of an Account's income, gains or initial capital from India will not occur.

The Indian population is composed of diverse religious, linguistic and ethnic groups. Religious and border disputes continue to pose problems for India. From time to time, India has experienced internal disputes between religious groups within the country. In addition, India has faced, and continues to face, military hostilities with neighboring countries and regional countries. These events could adversely influence the Indian economy and, as a result, negatively affect an Account's investments.

Agriculture occupies a more prominent position in the Indian economy than in the United States, and the Indian economy therefore is more susceptible to adverse changes in weather. Economic growth in India is constrained by inadequate infrastructure, a cumbersome bureaucracy, corruption, labor market rigidities, regulatory and foreign investment controls, the "reservation" of key products for small-scale industries and high fiscal deficits. Changes in economic policies, or lack of movement toward economic liberalization, could negatively affect the general business and economic conditions in India, which could in turn affect an Account's investments. Further, the economies of developing countries such as India generally are heavily dependent upon international trade and, accordingly, have been and may continue to be adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. The Indian economy also has been and may continue to be adversely affected by economic conditions in the countries with which it trades. There is also the possibility of nationalization, expropriation or confiscatory taxation, political changes, government regulation, social instability or diplomatic developments (including war or terrorist attacks). All of these factors could adversely affect the economy of India, make the prices of Indian securities generally more volatile than the prices of securities of companies in developed markets and increase the risk of loss to an Account.



India is also located in a part of the world that has historically been prone to natural disasters, such as earthquakes and tsunamis. Any such natural disaster could cause a significant impact on the Indian economy, causing an adverse impact on an Account. In addition, religious and border disputes persist in India. Moreover, India has experienced civil unrest and hostilities with neighboring countries, including Pakistan, and the Indian government has confronted separatist movements in several Indian states. India has experienced acts of terrorism that has targeted foreigners. Such acts of terrorism have had a negative impact on tourism, an important sector of the Indian economy.

- *Investing in Indonesia Risk.* Investments in Indonesian involve risks not typically associated with investments in developed countries. These risks include, among others, expropriation and/or nationalization of assets, confiscatory taxation, political instability, armed conflict, and social instability as a result of religious, ethnic and/or socioeconomic unrest. Indonesia is considered an emerging market country characterized by a small number of listed companies, high price volatility and a relatively illiquid secondary trading market. These factors, coupled with restrictions on foreign investment and other factors, limit the supply of securities available for investment by an Account. This will affect the rate at which an Account is able to invest in Indonesia, the purchase and sale prices for such securities and the timing of purchases and sales.

The democratic government of Indonesia is relatively new, which increases the risk of political and economic instability in the country. Indonesia has also experienced acts of terrorism and separatist violence, which has negatively impacted the economy of Indonesia. Indonesia is also prone to natural disasters such as typhoons, tsunamis, earthquakes, and flooding, which may also present risks to a fund's investments in Indonesia. In addition, many economic development problems remain, including high unemployment, a fragile banking sector, endemic corruption, inadequate infrastructure, a poor investment climate, and unequal resource distribution among regions.

The economic and market conditions of certain countries, especially emerging market countries in Southeastern Asia, along with the flow of international capital have a strong influence on the securities market in Indonesia. Adverse economic conditions or developments in other emerging market countries have at times significantly affected the availability of credit in the Indonesian economy and resulted in considerable outflows of funds and declines in the amount of foreign currency invested in Indonesia. Issues in neighboring emerging market countries also may increase investors' perception of risk in Indonesia, which may adversely impact the value of the Indonesian securities.

- *Investing in South Korea Risk.* Investing in South Korean securities has special risks, including political, economic and social instability, and the potential for increasing militarization in North Korea. Substantial political tensions exist between North Korea and South Korea. Escalated tensions involving the two nations and the outbreak of hostilities between the two nations, or even the threat of an outbreak of hostilities, could have a severe adverse effect on the South Korean economy. In addition, South Korea's financial sector has shown certain signs of systemic weakness and illiquidity, which, if exacerbated, could prove to be a material risk for any investments in South Korea. The South Korean economy's dependence on the economies of Asia and the U.S. means that a reduction in spending by these economies on South Korean products and services or negative changes in any of these



economies may cause an adverse impact on the South Korean economy and therefore, on an Account's investments. South Korea is dependent on foreign sources for its energy needs. A significant increase in energy prices could have an adverse impact on South Korea's economy. The South Korean government has historically exercised and continues to exercise substantial influence over many aspects of the private sector. The South Korean government from time to time has informally influenced the prices of certain products, encouraged companies to invest or to concentrate in particular industries and induced mergers between companies in industries experiencing excess capacity. South Korea has privatized, or has begun the process of privatizing, certain entities and industries. Newly privatized companies may face strong competition from government-sponsored competitors that have not been privatized. In some instances, investors in newly privatized entities have suffered losses due to the inability of the newly privatized entities to adjust quickly to a competitive environment or changing regulatory and legal standards or, in some cases, due to re-nationalization of such privatized entities. There is no assurance that similar losses will not recur.

In addition, South Korea is located in a part of the world that has historically been prone to natural disasters such as earthquakes, hurricanes or tsunamis, and is economically sensitive to environmental events. Any such event may adversely impact South Korea's economy or business operations of companies in South Korea.

- *Investing in Taiwan Risk.* Taiwan's geographic proximity and history of political contention with China have resulted in ongoing tensions between the two countries. These tensions may materially affect the Taiwanese economy and its securities market. Taiwan's economy is export-oriented, so it depends on an open world trade regime and remains vulnerable to fluctuations in the world economy.

Rising labor costs and increasing environmental consciousness have led some labor-intensive industries to relocate to countries with cheaper work forces, and continued labor outsourcing may adversely affect the Taiwanese economy. Taiwan's economy also is intricately linked with economies of other Asian countries, which are often emerging market economies that often experience over-extensions of credit, frequent and pronounced currency fluctuations, devaluations, and restrictions, rising unemployment and fluctuations in inflation. Political and social unrest in other Asian countries could cause further economic and market uncertainty in Taiwan. In particular, the Taiwanese economy is dependent on the economies of Japan and China, and also the United States, and a reduction in purchases by any of them of Taiwanese products and services or negative changes in their economies would likely have an adverse impact on the Taiwanese economy. Taiwan's geographic proximity to the People's Republic of China and Taiwan's history of political contention with China have resulted in ongoing tensions with China, including the continual risk of military conflict with China. These tensions may materially affect the Taiwanese economy and securities markets. Lastly, Taiwan is a small island state with few raw material resources and limited land area and thus it relies heavily on imports for its commodity needs. Any fluctuations or shortages in the commodity markets could have a negative impact on the Taiwanese economy.

- *Emerging Market Risk.* The risks of foreign investments are generally greater in countries whose markets are still developing than they are in more developed markets. Emerging market countries typically have economic and political systems that are less fully developed and can be expected to be less stable than those of more developed countries. For example, the economies of such countries can be subject to rapid and unpredictable rates of inflation or

deflation. Since these markets are often small, they may be more likely to suffer sharp and frequent price changes or long-term price depression because of adverse publicity, investor perceptions or the actions of a few large investors. They may also have policies that restrict investment by foreigners, or that prevent foreign investors from withdrawing their money at will. Certain emerging markets may also face other significant internal or external risks, including the imposition of sanctions and risk of war and civil unrest. For all of these reasons, investments in emerging markets may be considered speculative. To the extent that an Account invests a significant portion of its assets in a particular emerging market, an Account will be more vulnerable to financial, economic, political, and other developments in that country, and conditions that negatively impact that country will have a greater impact on an Account as compared with an Account that does not have its holdings concentrated in a particular country.

- *Equity-Linked Instruments Risk.* Equity-linked instruments are instruments of various types issued by financial institutions or special purpose entities located in foreign countries to provide the synthetic economic performance of a referenced equity security, including benefits from dividends and other corporate actions, but without certain rights of direct investment in the referenced securities, such as voting rights. In addition to the market and other risks of the referenced equity security, equity-linked instruments involve counterparty risk, which includes the risk that the issuing entity may not be able to honor its financial commitment. Equity-linked instruments have no guaranteed return of principal and may experience a return different from the referenced equity security. Typically, an Account will invest in equity-linked instruments in order to obtain exposure to certain countries in which it does not have local accounts.
- *Participatory Notes Risk.* An Account may invest in P-Notes, to seek to gain economic exposure to markets where holding an underlying security is not feasible. P-Notes are participation interest notes that are issued by banks or broker-dealers and are designed to offer a return linked to a particular underlying equity, debt, currency, or market. When purchasing a P-Note, the posting of margin is not required because the full cost of the P-Note (plus commission) is paid at the time of purchase. When the P-Note matures, the issuer will pay to, or receive from, the purchaser the difference between the minimal value of the underlying instrument at the time of purchase and that instrument's value at maturity. Investments in P-Notes involve the same risks associated with a direct investment in the underlying foreign companies or foreign securities markets that they seek to replicate. In addition, there can be no assurance that the trading price of P-Notes will equal the underlying value of the foreign companies or foreign securities markets that they seek to replicate. The holder of a P-Note that is linked to a particular underlying security is entitled to receive any dividends paid in connection with an underlying security or instrument. However, the holder of a P-Note does not receive the same voting rights as it would if it directly owned the underlying security or instrument.
- *P-Notes are generally traded over-the-counter.* P-Notes constitute general unsecured contractual obligations of the banks or broker-dealers that issue them. There is also counterparty risk associated with these investments because an Account is relying on the creditworthiness of such counterparty and has no rights under a P-Note against the issuer of the underlying security. In addition, an Account will incur transaction costs as a result of investment in P-Notes.



- *Foreign Currency Transactions Risk.* An Account may engage in foreign currency transactions, including foreign currency forward contracts, options, swaps and other similar strategic transactions. These transactions may be for the purposes of hedging or efficient portfolio management, or may be for investment purposes, and they may be exchange traded or traded directly with market counterparties. Such transactions may not prove successful or may have the effect of limiting gains from favorable markets movements.

Where permitted, an Account may use derivatives to acquire positions in various currencies, which presents the risk that an Account could lose money on its exposure to a particular currency and also lose money on the derivative. An Account also may take positions in currencies that do not correlate to the currency exposure presented by the Account's other investments. As a result, the Account's currency exposure may differ, in some cases significantly, from the currency exposure of its other investments and/or its benchmarks.

- *Frontier Market Risk.* Frontier market countries generally have smaller economies and less developed capital markets or legal, regulatory, and political systems than traditional emerging market countries. As a result, the risks of investing in emerging market countries are magnified in frontier market countries. The magnification of risks is the result of: (1) the potential for extreme price volatility and illiquidity in frontier markets; (2) government ownership or control of parts of the private sector or other protectionist measures; (3) large currency fluctuations; (4) fewer companies and investment opportunities; or (5) inadequate investor protections and regulatory enforcement. In certain frontier market countries, fraud and corruption may be more prevalent than in developed market countries. Investments that an Account holds may be exposed to these risks, which could have a negative impact on their value. Additional risks of frontier market securities may include: greater political instability (including the risk of war or natural disaster); increased risk of nationalization, expropriation, or other confiscation of assets of issuers to which an Account is exposed; increased risk of embargoes or economic sanctions on a country, sector or issuer; greater risk of default (by both government and private issuers); more substantial governmental involvement in the economy; less governmental supervision and regulation; differences in, or lack of, auditing and financial reporting standards, which may result in unavailability of material information about issuers; less developed legal systems; inability to purchase and sell investments or otherwise settle security or derivative transactions (i.e., a market freeze); unavailability of currency hedging techniques; slower clearance and settlement; difficulties in obtaining and/or enforcing legal judgments; and significantly smaller market capitalizations of issuers.

#### *Geopolitical*

Some countries and regions in which an Account invests have experienced security concerns, war or threats of war and aggression, terrorism, economic uncertainty, natural and environmental disasters and/or systemic market dislocations that have led, and in the future may lead, to increased short-term market volatility and may have adverse long-term effects on the U.S. and world economies and markets generally, each of which may negatively impact the Account's investments. Such geopolitical and other events may also disrupt securities markets and, during such market disruptions, the Account's exposure to the other risks described herein will likely increase.

#### *Hedging Risk*

The success of the Account's hedging strategy, if used, will be subject to, among other things, the subadviser's ability to assess correctly the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being



hedged. Since the characteristics of many securities change as markets change or time passes, the success of the Account's hedging strategy will also be subject to the subadviser's ability to continually recalculate, readjust, and execute hedges in an efficient and timely manner. If the subadviser's assessments or calculations prove inaccurate, the Account's hedging strategy may prove ineffective, and an Account may incur greater losses than it otherwise would have incurred had an Account not employed the hedging strategies. Hedging strategies in general are usually intended to limit or reduce investment risk, but also can be expected to limit or reduce the potential for profit or the opportunity for gain if the value of a hedged portfolio position should increase. Further, hedging strategies may not perform as anticipated and may generate losses. Hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the values of those portfolio positions or prevent losses if the values of those positions decline. Rather, hedging typically establishes other positions designed to gain from those same declines, thus seeking to moderate the decline in the portfolio position's value. For a variety of reasons, the subadviser may not establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent an Account from achieving the intended hedge or expose an Account to risk of loss. In addition, it is not possible to hedge fully or perfectly against any risk, and hedging entails its own costs. The subadviser may determine, in its sole discretion, not to hedge against certain risks and certain risks may exist that cannot be hedged. Furthermore, the subadviser may not anticipate a particular risk so as to hedge against it effectively. In addition, hedging will generally require the use of a portion of the Account's assets for margin or settlement payments or other purposes. For example, an Account from time to time may be required to make margin, settlement or other payments, including intra-month, in connection with the use of certain hedging instruments. Counterparties to any hedging transaction may demand payments on short notice, including intra-day. As a result, an Account may liquidate assets sooner than it otherwise would have and/or maintain a greater portion of its assets in cash and other liquid securities than it otherwise would have, which portion may be substantial, in order to have available cash to meet current or future margin calls, settlement or other payments, or for other purposes. Moreover, due to volatility in the currency markets and changing market circumstances, the subadviser may not be able to accurately predict future margin requirements, which may result in an Account holding excess or insufficient cash and liquid securities for such purposes. Where an Account does not have cash or assets available for such purposes, an Account may be unable to comply with its contractual obligations, including without limitation, failing to meet margin calls or settlement or other payment obligations. If an Account defaults on any of its contractual obligations, an Account (and accordingly, its shareholders) may be materially adversely affected. Hedging activities involve additional expenses and the risk of loss when a hedge is unwound, especially in the case of reorganizations that are terminated. There is no assurance that any such hedging techniques employed by the subadviser on behalf of an Account or that any of those employed will be successful.

#### *High-Yield / High Risk Fixed Income Securities (Junk Bonds)*

Securities rated below the four highest rating categories of a nationally recognized statistical rating organization, may be known as "high-yield" securities and commonly referred to as "junk bonds." The highest of the ratings among these nationally recognized statistical rating organizations is used to determine the security's classification. Such securities entail greater price volatility and credit and interest rate risk than investment-grade securities. Analysis of the creditworthiness of high-yield issuers is more complex than for higher-rated securities, making it more difficult for an Account's subadviser to accurately predict risk. There is a greater risk with high-yield fixed income securities that an issuer will not be able to make principal and interest payments when due. If an Account pursues missed payments, there is a risk that an Account's expenses could increase. In addition, lower-rated securities may not trade as often and may be less liquid than higher-rated securities, especially during periods of economic uncertainty or change. As a result of all of these factors,



these bonds are generally considered to be speculative. In recent years, there has been a broad trend of weaker or less restrictive covenant protections in the high yield market. Among other things, under such weaker or less restrictive covenants, borrowers might be able to exercise more flexibility with respect to certain activities than borrowers who are subject to stronger or more protective covenants. For example, borrowers might be able to incur more debt, including secured debt, return more capital to shareholders, remove or reduce assets that are designated as collateral securing high yield securities, increase the claims against assets that are permitted against collateral securing high yield securities or otherwise manage their business in ways that could impact creditors negatively. In addition, certain privately held borrowers might be permitted to file less frequent, less detailed or less timely financial reporting or other information, which could negatively impact the value of the high yield securities issued by such borrowers. Each of these factors might negatively impact the high yield instruments held by an Account.

#### *Illiquid and Restricted Securities*

Certain securities in which an Account invests may be difficult to sell at the time and price beneficial to an Account, for example due to low trading volumes, declining prices of the securities sold, or legal restrictions. When there is no willing buyer or a security cannot be readily sold, an Account may have to sell at a lower price or may be unable to sell the security at all. The sale of such securities may also require an Account to incur expenses in addition to those normally associated with the sale of a security.

#### *Income*

The income shareholders receive from an Account is based primarily on the dividends and interest an Account earns from its investments, which can vary widely over the short- and long-term. If prevailing market interest rates drop, distribution rates of an Account's preferred stock holdings and any bond holdings could drop as well. An Account's also income also would likely be affected adversely when prevailing short-term interest rates increase. In certain circumstances, an Account may be treated as receiving income even though no cash is received. An Account may not be able to pay distributions or may have to reduce distribution levels if the cash distributions that an Account receives from its investments decline. For investments in inflation-protected treasuries (TIPS), income may decline due to a decline in inflation (or deflation) or due to changes in inflation expectations.

#### *Index Risk*

Investments in index-linked derivatives are subject to the risks associated with the applicable index.

#### *Industry/Sector Concentration*

The value of the investments of an Account that focuses its investments in a particular industry or market sector will be highly sensitive to financial, economic, political and other developments affecting that industry or market sector, and conditions that negatively impact that industry or market sector will have a greater impact on an Account as compared with an Account that does not have its holdings similarly concentrated. Events negatively affecting the industries or market sectors in which an Account has invested are therefore likely to cause the value of the fund's shares or account's value to decrease, perhaps significantly.

#### *Inflation-Linked Investments*

The current market value of inflation-protected securities is not guaranteed and will fluctuate. Inflation-protected securities may react differently from other fixed income securities to changes in interest rates. Because interest rates on inflation-protected securities is adjusted for inflation, the





values of these securities are not materially affected by inflation expectations. Therefore, the value of inflation-protected securities is anticipated to change in response to changes in “real” interest rates, which represent nominal (stated) interest rates reduced by the expected impact of inflation. Generally, the value of an inflation-protected security will fall when real interest rates rise and will rise when real interest rates fall.

Because the interest and/or principal payments on an inflation-protected security are adjusted periodically for changes in inflation, the income distributed by a fund or received by an account invested in such securities may be irregular. Although the U.S. Treasury guarantees to pay at least the original face value of any inflation-protected securities the Treasury issues, other issuers may not offer the same guarantee. Also, inflation-protected securities, including those issued by the U.S. Treasury, are not protected against deflation. As a result, in a period of deflation, the inflation-protected securities held by an Account may not pay any income and an Account may suffer a loss. While inflation-protected securities are expected to be protected from long-term inflationary trends, short-term increases in inflation may lead to a decline in an Account’s value. If interest rates rise due to reasons other than inflation, an Account’s investment in these securities may not be protected to the extent that the increase is not reflected in the securities’ inflation measures. In addition, positive adjustments to principal generally will result in taxable income to an Account at the time of such adjustments (which generally would be distributed by an Account as part of its taxable dividends), even though the principal amount is not paid until maturity. There can be no assurance that the inflation index used will accurately measure the real rate of inflation in the prices of goods and services. An Account’s investments in inflation-linked securities may lose value in the event that the actual rate of inflation is different from the rate of the inflation index.

#### *Infrastructure-Related*

Infrastructure-related entities are subject to a variety of factors that may adversely affect their business or operations including high interest costs in connection with capital construction programs, costs associated with environmental and other regulations, the effects of economic slowdown and surplus capacity, increased competition from other providers of services, uncertainties concerning the availability of fuel at reasonable prices, the effects of energy conservation policies and other factors. Additionally, infrastructure-related entities may be subject to regulation by various governmental authorities and may also be affected by governmental regulation of rates charged to customers, service interruption due to environmental, operational or other mishaps and the imposition of special tariffs and changes in tax laws, regulatory policies and accounting standards.

#### *Initial Public Offerings (“IPOs”)*

An Account may acquire common and preferred stock of issuers in an IPO. Investment returns from IPOs may be highly volatile and subject to varying patterns of trading volume, and these securities may at times be difficult to sell. In addition, information about the issuers of IPO securities is often difficult to obtain since they are new to the market and may not have lengthy operating histories. From time to time, an Account may purchase stock in an IPO and then immediately sell the stock. This practice will increase portfolio turnover rates and increase costs to the fund or account, affect performance, and may increase capital gain distributions, resulting in greater tax liability to the fund shareholders or account owners. At any particular time or from time to time, an Account may not be able to invest in securities issued in IPOs, or invest to the extent desired, because, for example, only a small portion (if any) of the securities being offered in an IPO may be made available to an Account. In addition, under certain market conditions, a relatively small number of companies may issue securities in IPOs. Similarly, as the number of funds to which IPO securities are allocated increases, the number of securities issued to any one Account may decrease. The investment performance of an Account during periods when it is





unable to invest significantly or at all in IPOs may be lower than during periods when an Account is able to do so. In addition, as increases in size, the impact of IPOs on the Account's performance will generally decrease.

#### *Issuer Risk*

The value of a security will be affected by factors specific to the issuer of the security and other instruments in which an Account invests, including actual or perceived changes in the financial condition or business prospects of such issuers.

#### *Large Shareholder Risk*

Certain account holders, including a subadviser or Accounts over which VFA or its subadviser has investment discretion, may from time to time own or control a significant percentage of an Account's shares. An Account may be subject to the risk that a redemption by large shareholders of all or a portion of an Account shares or a purchase of Account shares in large amounts and/or on a frequent basis, including as a result of asset allocation decisions made by VFA or its subadviser, will adversely affect the Account's performance if it is forced to sell portfolio securities or invest cash when the subadviser would not otherwise choose to do so. This risk will be particularly pronounced if one shareholder owns a substantial portion of an Account. Redemptions of a large number of shares may affect the liquidity of the Account's portfolio, increase the Account's transaction costs and/or lead to the liquidation of an Account. Such transactions also potentially limit the use of any capital loss carryforwards and certain other losses to offset future realized capital gains (if any).

#### *Legal and Regulatory Risk*

Legal, tax and regulatory changes could occur and may adversely affect an Account, its investments, and its ability to pursue its investment strategies and/or increase the costs of implementing such strategies. New (or existing) laws or regulations imposed by the U.S. Commodity Futures Trading Commission ("CFTC"), the Securities and Exchange Commission ("SEC"), the Internal Revenue Service ("IRS"), the Federal Trade Commission ("FTC"), the U.S. Federal Reserve or other domestic or foreign governmental regulatory authorities or self-regulatory organizations that could adversely affect an Account's investments, including, for example, by preventing the completion of a proposed merger or eliminating some or all of the benefits of a proposed merger. An Account also may be adversely affected by changes in the enforcement or interpretation of existing statutes and rules by governmental regulatory authorities or self-regulatory organizations, such as statutes and regulations governing mergers, takeovers or potential monopolies. Governments may take actions, including unexpected actions contrary to past policy and precedent, specifically designed to prevent or limit mergers or reorganizations for, among other reasons, to achieve political goals, to preserve domestic jobs, tax revenue or important industries, all of which may adversely affect the Account's investments.

Regulators around the globe have increasingly taken measures to seek to increase the stability of the financial markets, including by adopting rules that may curtail the Account's ability to use derivative and other instruments and that may require an Account to change how it has been managed historically. An Account and its agents continue to evaluate these measures, and there can be no assurance that they will not adversely affect an Account and its performance. In addition, the securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. The CFTC, the SEC, the Federal Deposit Insurance Corporation, FTC, other regulators and self-regulatory organizations and exchanges are authorized under these statutes, regulations and otherwise to take extraordinary actions in the event of market emergencies. Additionally, the withdrawal of governmental and/or self-regulatory support, failure of governmental and/or self-regulatory efforts in response to a financial crisis, or investor perception that those efforts are not succeeding could negatively affect financial markets generally as well as the values and liquidity of certain securities. Federal, state, and other governments, their



regulatory agencies, or self-regulatory organizations may take actions that affect the regulation of the securities in which an Account invests or the issuers of such securities in ways that are unforeseeable. The CFTC and certain futures exchanges have established limits, referred to as “position limits,” on the maximum net long or net short positions which any person may hold or control in particular options and futures contracts; those position limits may apply to certain other derivatives positions an Account may wish to take. All positions owned or controlled by the same person or entity, even if in different accounts, may be aggregated for purposes of determining whether the applicable position limits have been exceeded. Thus, even if an Account does not intend to exceed applicable position limits, it is possible that different clients managed by a subadviser, and its affiliates may be aggregated for this purpose. Therefore, it is possible that the trading decisions of a subadviser may have to be modified and that positions held by an Account may have to be liquidated in order to avoid exceeding such limits. The modification of investment decisions or the elimination of open positions, if it occurs, may adversely affect the performance of an Account. The SEC has in the past adopted interim rules requiring reporting of all short positions above a certain de minimis threshold and may adopt rules requiring monthly public disclosure in the future. In addition, other non-U.S. jurisdictions where an Account may trade have adopted reporting requirements. If the Account’s short positions or its strategy become generally known, it could have a significant effect on a subadviser’s ability to implement its investment strategy. In particular, it would make it more likely that other investors could cause a short squeeze in the securities held short by an Account forcing an Account to cover its positions at a loss. In addition, if other investors engage in copycat behavior by taking positions in the same issuers as an Account, the cost of borrowing securities to sell short could increase drastically and the availability of such securities to an Account could decrease drastically. Such events could make an Account unable to execute its investment strategy. In addition, if the SEC were to adopt restrictions regarding short sales, they could restrict the Account’s ability to engage in short sales in certain circumstances, and an Account may be unable to execute its investment strategies as a result. The SEC and regulatory authorities in other jurisdictions may adopt (and in certain cases, have adopted) bans on short sales of certain securities in response to market events. Bans on short selling may make it impossible for an Account to execute certain investment strategies and may have a material adverse effect on the Account’s ability to generate returns. Investing in companies involved in significant mergers, restructurings and other similar transactions or corporate events tends to involve increased litigation risk. This risk may be greater in the event an Account takes a large position or is prominently involved on a bankruptcy or creditors’ committee. The expense of asserting claims (or defending claims) and recovering any amounts pursuant to settlements or judgments may be borne by an Account. Further, ownership of companies over certain threshold levels involves additional filing requirements and substantive regulation on such owners, and if an Account fails to comply with all of these requirements, an Account may be forced to disgorge profits, pay fines or otherwise bear losses or other costs from such failure to comply. Public disclosure of the Account’s positions could have a significant effect on a subadviser’s ability to implement its investment strategies for an Account. For example, if other investors engage in copycat behavior by taking positions in the same issuers as an Account, the cost of such securities to an Account could increase drastically. Additionally, to the extent that such purchases are opposed by management of the target company or others, an Account may be subject to litigation. Such events could increase the Account’s costs significantly, reduce the Account’s returns, and prevent an Account from executing its investment strategy.

### *Leverage*

When an Account makes investments in futures contracts, forward contracts, swaps and other derivative instruments, the futures contracts, forward contracts, swaps and certain other derivatives provide the economic effect of financial leverage by creating additional investment exposure, as well as the potential for greater loss. When an Account uses leverage through activities such as



borrowing, entering into short sales, purchasing securities on margin or on a when-issued basis, or purchasing derivative instruments in an effort to increase its returns, an Account has the risk of magnified capital losses that occur when losses affect an asset base, enlarged by borrowings or the creation of liabilities, that exceeds the net assets of an Account. The value of the shares of an Account employing leverage will be more volatile and sensitive to market movements. Leverage may also involve the creation of a liability that requires an Account to pay interest.

#### *Limited Number of Investments*

There is a risk that an Account's portfolio may be more susceptible to factors adversely affecting issuers of securities in an Account's portfolio than would an Account holding a greater number of securities.

#### *Liquidity Risk*

Certain securities in which an Account invests may be difficult to sell at the time and price beneficial to an Account, for example due to low trading volumes or legal restrictions. When there is no willing buyer or a security cannot be readily sold, an Account may have to sell at a lower price or may be unable to sell the security at all. The sale of such securities may also require an Account to incur expenses in addition to those normally associated with the sale of a security.

In addition to this, certain shareholders, including affiliates of an Account's investment adviser and/or subadviser(s), may from time to time own or control a significant percentage of the Account's shares. Redemptions by these shareholders of their shares of the Account may increase an Account's liquidity risk by causing the Account to have to sell securities at an unfavorable time and/or price.

#### *Location of Issuers*

An Account's policies may be determined by reference to whether an issuer is "located in" a particular country or group of countries. In determining whether an issuer is "located in" a particular country for those purposes, the subadviser will consider a number of factors, including but not limited to: (i) whether the issuer's securities are principally traded in the country's markets; (ii) where the issuer's principal offices or operations are located; (iii) where the issuer is headquartered or organized; and (iv) the percentage of the issuer's revenues derived from goods or services sold or manufactured in the country. The subadviser may also consider other factors in making this determination. No single factor will necessarily be determinative nor must all be present for the subadviser to determine that an issuer is in a particular country.

#### *Location of Issuers*

An Account's policies may be determined by reference to whether an issuer is "located in" a particular country or group of countries. In determining whether an issuer is "located in" a particular country for those purposes, the subadviser will consider a number of factors, including but not limited to: (i) whether the issuer's securities are principally traded in the country's markets; (ii) where the issuer's principal offices or operations are located; (iii) where the issuer is headquartered or organized; and (iv) the percentage of the issuer's revenues derived from goods or services sold or manufactured in the country. The subadviser may also consider other factors in making this determination. No single factor will necessarily be determinative nor must all be present for the subadviser to determine that an issuer is in a particular country.

#### *Long-Term Maturities/Durations Risk*

Fixed income instruments with longer maturities or durations may be subject to greater price fluctuations due to interest rate, tax law, and general market changes than instruments with shorter



maturities or durations.

#### *Management Risks*

As it relates to the services provided to the 529 Plan, the risk that the asset allocation strategy for an investment portfolio approved by the plan Sponsor and/or the mutual funds which are selected for the investment policy applicable to an investment portfolio may fail to produce the intended results. Management risks include the risk that VFA will make less than optimal or poor recommendations regarding asset allocations of any investment portfolios or the underlying funds in which an investment portfolio invests. VFA applies its investment techniques in selecting the asset classes and underlying funds that it believes will be consistent with the investment objective of each investment portfolio, but there is no guarantee that VFA's allocation techniques will produce the desired results. It is possible that VFA will allocate all or a portion of the assets of an investment portfolio to asset classes or underlying fund(s) that perform poorly or underperform other investments having similar investment strategies under various market conditions. In addition, there are Investment Risks. Investment portfolios will be invested in underlying funds and thus are subject to the risks associated with the applicable underlying funds in which the investment portfolio invests. These investment risks include management risk, market risk, and interest rate risk, among others. Participants in the 529 Plan should refer to the Plan Disclosure Document for related risks.

#### *Market Volatility*

The value of the securities in which an Account invests may go up or down in response to the prospects of individual issuers and/or general economic conditions. Such price changes may be temporary or may last for extended periods.

Instability in the financial markets may expose each fund or account to greater market and liquidity risk and potential difficulty in valuing portfolio instruments that it holds. In response to financial markets that experienced extreme volatility, and in some cases a lack of liquidity, the U.S. Government and other governments have taken a number of unprecedented actions, including acquiring distressed assets from financial institutions and acquiring ownership interests in those institutions. The implications of government ownership and disposition of these assets are unclear. Additional legislation or government regulation may also change the way in which funds themselves are regulated, which could limit or preclude a fund's ability to achieve its investment objective.

Local, regional or global events such as war or military conflict (e.g. Russia's invasion of Ukraine), acts of terrorism, the spread of infectious illness or other public health issue, recessions, inflation, rapid interest rate changes, supply chain disruptions, sanctions, or other events could have a significant impact on an Account and its investments, hampering the ability of an Account's portfolio manager(s) to invest an Account's assets as intended.

Likewise, natural and environmental disasters, such as the earthquake and tsunami and systemic market dislocations, would be highly disruptive to economies and markets, adversely affecting individual companies and industries, securities markets, interest rates, credit ratings, inflation, investor sentiment, and other factors affecting the value of an Accounts' investments.

#### *Money Market Instruments*

To meet margin requirements, redemptions or for investment purposes, an Account may hold money market instruments, including full faith and credit obligations of the United States, high quality short-term notes and commercial paper.



### *Mortgage-Backed and Asset-Backed Securities*

Mortgage-backed securities represent interests in pools of residential mortgage loans purchased from individual lenders by a federal agency or originated and issued by private lenders. Asset-backed securities represent interests in pools of underlying assets such as motor vehicle installment sales or installment loan contracts, leases of various types of real and personal property, and receivables from credit card arrangements. These two types of securities share many of the same risks. The impairment of the value of collateral or other assets underlying a mortgage-backed or asset-backed security, such as that resulting from non-payment of loans, may result in a reduction in the value of such security and losses to an Account.

Early payoffs in the loans underlying such securities may result in an Account receiving less income than originally anticipated. The variability in prepayments will tend to limit price gains when interest rates drop and exaggerate price declines when interest rates rise. In the event of high prepayments, an Account may be required to invest proceeds at lower interest rates, causing the fund to earn less than if the prepayments had not occurred. Conversely, rising interest rates may cause prepayments to occur at a slower than expected rate, which may effectively change a security that was considered short- or intermediate-term into a long-term security. Due to these risks, asset-backed securities may become more volatile in certain interest rate environments. Long-term securities tend to fluctuate in value more widely in response to changes in interest rates than shorter-term securities.

### *Municipal Securities*

The amount of public information available about municipal bonds is generally less than that for corporate equities or bonds, and the investment performance of an Account may be more dependent on the analytical abilities of the subadviser than would be the case for an Account that does not invest in municipal bonds. Certain factors, such as legislative changes, and state and local economic and business developments, may adversely affect the yield and/or value of an Account's investments in municipal securities. Other factors include the general conditions of the municipal securities market, the size of the particular offering, the maturity of the obligation and the rating of the issue. Changes in economic, business or political conditions relating to a particular municipal project, municipality, or state, territory or possession of the United States in which an Account invests may have an impact on an Account's share price. The secondary market for municipal bonds also tends to be less well-developed and less liquid than many other securities markets, which may adversely affect an Account's ability to sell its bonds at attractive prices. In addition, municipal obligations can experience downturns in trading activity, and the supply of municipal obligations may exceed the demand in the market. During such periods, the spread can widen between the price at which an obligation can be purchased and the price at which it can be sold. Less liquid obligations can become more difficult to value and be subject to erratic price movements. Economic and other events (whether real or perceived) can reduce the demand for certain investments or for investments generally, which may reduce market prices and cause the value of the fund's shares or account to fall. The frequency and magnitude of such changes cannot be predicted. An Account may invest in municipal obligations that do not appear to be related, but in fact depend on the financial rating or support of a single government unit, in which case, events that affect one of the obligations will also affect the others and will impact an Account's portfolio to a greater degree than if an Account's investments were not so related. The increased presence of non-traditional participants in the municipal markets may lead to greater volatility in the markets.





### *Mutual Fund Investing*

Through its investments in other mutual funds, a fund is exposed not only to the risks of the underlying funds' investments but also to certain additional risks. Assets invested in other mutual funds incur a layering of expenses, including operating costs, advisory fees and administrative fees that you, as a shareholder in the fund, indirectly bear. Such fees and expenses may exceed the fees and expenses the fund would have incurred if it invested in the underlying fund's assets directly. To the extent that the expense ratio of an underlying fund changes, the weighted average operating expenses borne by the fund may increase or decrease. An underlying fund may change its investment objective or policies without the approval of the fund, and the fund might be forced to withdraw its investment from the underlying fund at a time that is unfavorable to the fund. If a fund invests in closed-end funds, it may incur added expenses such as additional management fees and trading costs and additional risks associated with trading at a discount to NAV and use of leverage.

### *Non-Diversification Risk*

An Account designated as a "non-diversified investment company", is not limited in the proportion of assets that it may invest in the securities of any one issuer. If an Account takes concentrated positions in a small number of issuers, an Account may be more susceptible to the risks associated with those issuers, or to a single economic, political, regulatory or other event affecting those issuers.

### *Non-Performing Securities*

Non-performing securities are those whose quality is comparable to securities rated as low as D by Standard & Poor's or C by Moody's. Repayment of obligations under such securities is subject to significant uncertainties, and as such investment in such securities may be considered speculative.

### *Portfolio Turnover*

An Account's investment strategy may result in consistently frequently high turnover rate. A high portfolio turnover rate may result in correspondingly greater brokerage commission expenses and the distribution to shareholders or accountholders of additional capital gains for tax purposes, some of which may be taxable at ordinary income rates. These factors may negatively affect an Account's performance.

### *Preferred Stocks*

Preferred stocks may provide a higher dividend rate than the interest yield on debt instruments of the same issuer but are subject to greater risk of fluctuation in market value and greater risk of non-receipt of income. Unlike interest on debt instruments, dividends on preferred stocks must be declared by the issuer's board of directors before becoming payable. Preferred stocks are in many ways like perpetual debt instruments, providing a stream of income but without stated maturity date. Because they often lack a fixed maturity or redemption date, preferred stocks are likely to fluctuate substantially in price when interest rates change. Such fluctuations generally are comparable to or exceed those of long-term government or corporate bonds (those with maturities of fifteen to thirty years). Preferred stocks have claims on assets and earnings of the issuer which are subordinate to the claims of all creditors but senior to the claims of common stockholders. A preferred stock rating differs from a bond rating because it applies to an equity issue which is intrinsically different from, and subordinated to, a debt issue. Preferred stock ratings generally represent an assessment of the capacity and willingness of an issuer to pay preferred stock dividends and any applicable sinking fund obligations. Preferred stock also may be subject to optional or mandatory redemption provisions and may be significantly less liquid than many other securities, such as U.S. Government securities, corporate debt or common stock.





### *Real Estate Investment*

Investing in companies that invest in real estate ("Real Estate Companies") exposes an Account to the risks of owning real estate directly, as well as to risks that relate specifically to the way in which Real Estate Companies are organized and operated. Real estate is highly sensitive to general and local economic conditions and developments and characterized by intense competition and periodic overbuilding. Real Estate Companies may lack diversification due to ownership of a limited number of properties and concentration in a particular geographic region or property type. Risks associated with investing in Real Estate Companies include the following:

- *REIT and REOC Securities Risk.* Real Estate Investment Trusts ("REITs") are financial vehicles that pool investor capital to purchase or finance real estate. Equity REITs invest primarily in direct ownership or lease of real property, and they derive most of their income from rents. Equity REITs can also realize capital gains by selling properties that have appreciated in value. Investing in equity REITs and REIT-like entities involves certain unique risks in addition to those risks associated with investing in the real estate industry in general. REITs and REIT-like entities are typically small or medium market capitalization companies, and they are subject to management fees and other expenses. An Account that invests in REITs and REIT-like entities will bear its proportionate share of the costs of the REITs' and REIT-like entities' operations. REITs and REIT-like entities are dependent upon management skill, may not be diversified, and are subject to heavy cash flow dependency and self-liquidation. REITs and REIT-like entities also are subject to the possibility of failing to qualify for tax-free pass-through of income. Also, because REITs and REIT-like entities typically are invested in a limited number of projects or in a particular market segment, these entities are more susceptible to adverse developments affecting a single project or market segment than more broadly diversified investments. In the event of a default by a borrower or lessee, a REIT may experience delays in enforcing its rights as a mortgagee or lessor and may incur substantial costs associated with protecting its investments. In addition, investment in REITs could cause a fund to possibly fail to qualify as a regulated investment company. A Real Estate Operating Company ("REOC") is similar to an equity REIT in that it owns and operates commercial real estate, but unlike a REIT it has the freedom to retain all its funds from operations and, in general, faces fewer restrictions than a REIT. REOCs do not pay any specific level of income as dividends, if at all, and there is no minimum restriction on the number of owners nor limits on ownership concentration. The value of an Account's REOC securities may be adversely affected by the same factors that adversely affect REITs. In addition, a corporate REOC does not qualify for the federal tax treatment that is accorded a REIT. An Account also may experience a decline in its income from REOC securities due to falling interest rates or decreasing dividend payments.

### *Redemption*

The redemption by one or more large shareholders or groups of shareholders of their holdings in a fund could have an adverse impact on the remaining shareholders in the fund by, for example, accelerating the realization of capital gains and/or increasing the fund's transaction costs.

### *Repurchase Agreements*

Where permitted, certain Accounts may enter into repurchase agreements with commercial banks, brokers and dealers considered by the fund's subadviser to be creditworthy. Such agreements subject the fund to the risk of default or insolvency of the counterparty.



### *Reverse Repurchase Agreements and Other Borrowings*

Where permitted, certain Accounts may enter into reverse repurchase agreements and dollar rolls, subject to an Account's limitations on borrowings. A reverse repurchase agreement involves the sale of a security by an Account and its agreement to repurchase the instrument at a specified time and price. A dollar roll is similar except that the counterparty is not obligated to return the same securities as those originally sold by Account but only securities that are "substantially identical." Reverse repurchase agreements and dollar rolls may be considered forms of borrowing for some purposes. A fund will segregate assets determined to be liquid by the VFA in accordance with Rule 22e-4 under the Investment Company Act, to cover its obligations under reverse repurchase agreements, dollar rolls and other borrowings. Each fund also may borrow money to the extent permitted under the Investment Company Act, subject to any policies of the fund currently described in its prospectus or Statement of Additional Information. In addition, to the extent permitted by and subject to applicable law or SEC exemptive relief, certain funds may make short-term borrowings from investment companies (including money market mutual funds) advised or sub-advised by the adviser or its affiliates. Reverse repurchase agreements, dollar rolls and other forms of borrowings will create leveraging risk for a fund.

### *Restricted Securities*

Certain Accounts are permitted to invest in securities that are subject to legal or contractual restrictions on resale. These securities generally may be resold in transactions exempt from registration or to the public if the securities are registered. Disposal of these securities may involve time-consuming negotiations and expenses, and prompt sale at an acceptable price may be difficult.

### *Securities Lending*

Certain Accounts may loan portfolio securities with a value up to one-third of its total assets to increase its investment returns. If the borrower is unwilling or unable to return the borrowed securities when due, the lending Account can suffer losses. In addition, there is a risk of delay in receiving additional collateral or in the recovery of the securities, and a risk of loss of rights in the collateral, in the event that the borrower fails financially. There is also a risk that the value of the investment of the collateral could decline, causing a loss to the lending Account.

### *Sector Focused Investing*

The value of the investments of an Account that focuses its investments in a particular market sector will be highly sensitive to financial, economic, political and other developments affecting that market sector, and conditions that negatively impact that market sector will have a greater impact on an Account as compared with an Account that does not have its holdings similarly focused. Events negatively affecting the market sectors in which an Account has invested are therefore likely to cause the value of the account or of the fund's shares to decrease, perhaps significantly.

- *Industrial-Related Risk.* Funds that focus their investments on industrial companies will be subject to risks particular to that sector, including supply and demand both for their specific product or service and for industrial sector products in general. Government regulation, world events, exchange rates and economic conditions, technological developments and liabilities for environmental damage and general civil liabilities will likewise affect the performance of these companies.

### *Short Sales*

Certain Accounts are permitted to engage in short sales, which are transactions in which an Account sells a security that it does not own (or that it owns but does not intend to deliver) in anticipation that the price of the security will decline. In order to establish a short position in a security, an Account must first



borrow the security from a broker or other institution to complete the sale. An Account may not always be able to borrow a security, or to close out a short position at a particular time or at an acceptable price. If the price of the borrowed security increases between the date of the short sale and the date on which an Account replaces the security, an Account may experience a loss. An Account's loss on a short sale is limited only by the maximum attainable price of the security (which could be limitless) less the price an Account paid for the security at the time it was borrowed.

The use by an Account of short sales in combination with long positions in its portfolio in an attempt to improve performance may not be successful and may result in greater losses or lower positive returns than if an Account held only long positions. It is possible that the Account's long equity positions will decline in value while the value of the securities underlying its short positions increase, thereby increasing potential losses to an Account. If an Account is required to return a borrowed security at a time when other short sellers are also required to return the same security, a "short squeeze" can occur, and an Account may be forced to purchase the security at a disadvantageous price. In addition, the Account's short selling strategies may limit its ability to fully benefit from increases in the equity markets. The potential for the price of a fixed-income security sold short to rise is a function of both the remaining maturity of the obligation, its credit worthiness and its yield. Unlike short sales of equities or other instruments, the potential for the price of a fixed-income security to rise may be limited because the security will be no more than par at maturity. However, the short sale of other instruments or securities generally, including fixed-income securities convertible into equities or other instruments, a fixed-income security trading at a deep discount from par or which pays a coupon that is high in relative or absolute terms, or which is denominated in a currency other than the U.S. dollar, involves the possibility of a theoretically unlimited loss since there is a theoretically unlimited potential for the market price of the security sold short to increase. Short selling also involves a form of financial leverage that may exaggerate any losses realized by an Account to the extent that it utilizes short sales.

Also, there is the risk that the counterparty to a short sale may fail to honor its contractual terms, causing a loss to an Account. To the extent an Account seeks to obtain some or all of its short exposure by using derivative instruments instead of engaging directly in short sales on individual securities, it will be subject to many of the foregoing risks, as well as to those described under "Derivatives and Other Similar Transactions" above.

#### *Short-Term Investments*

Short-term investments include money market instruments, repurchase agreements, certificates of deposit and bankers' acceptances and other short-term instruments that are not U.S. Government securities. These securities generally present less risk than many other investments, but they are generally subject to credit risk and may be subject to other risks as well.

#### *Structured Products*

Holders of structured products bear risks of the underlying investments, index or reference obligation and are subject to counterparty risk. An Account investing in a structured product may have the right to receive payments only from the structured product, and generally will not have direct rights against the issuer or the entity that sold the assets to be securitized. Certain structured products may be thinly traded or have a limited trading market, and the Account's investments in structured products may be characterized by an Account as illiquid securities. In addition to the general risks associated with debt instruments discussed herein, structured products carry additional risks, including, but not limited to following: the possibility that distributions from collateral securities will not be adequate to make interest or other payments; the quality of the collateral may decline in value or default; and the possibility that the structured products are subordinate to other classes. Structured notes are based upon the



movement of one or more factors, including currency exchange rates, interest rates, reference bonds and stock indices, and changes in interest rates and impact of these factors may cause significant price fluctuations. Additionally, changes in the reference instrument or security may cause the interest rate on the structured note to be reduced to zero.

#### *Tax-Exempt Securities*

Tax-exempt securities may not provide a higher after-tax return than taxable securities, or the tax-exempt status of such securities may be lost or limited.

#### *Tax Liability*

Distributions by a Fund could become taxable to shareholders as ordinary income due to noncompliant conduct by a municipal bond issuer, unfavorable changes in federal or state tax laws, or adverse interpretations of tax laws by applicable tax authorities. Such adverse interpretations or actions could cause interest from a security to become taxable, possibly retroactively, subjecting shareholders to increased tax liability. In addition, such adverse interpretations or actions could cause the value of a security, and therefore the value of a Fund's shares, to decline.

#### *Underlying Fund*

An Account will be indirectly affected by factors, risks and performance specific to any other fund in which it invests. When an Account invests in mutual funds or exchange-traded funds ("Underlying Funds"), certain Underlying Funds may have more risk because they have a particular geographic or sector focus. An Underlying Fund that holds or obtains exposure to a particular geography, such as Europe or the Far East, may be affected by economic, regulatory or political developments affecting issuers in that geography. Similarly, Underlying Funds that focus their investments in companies that have exposure, directly or indirectly, to a particular sector, such as the eco-sectors or water-related sectors, will be impacted more by events or factors affecting those sectors than if their portfolios were more diversified among a number of unrelated sectors and industries. To the extent that an Account concentrates a significant portion of its assets in a single Underlying Fund, it will be particularly sensitive to the risks associated with that Underlying Fund and any investments in which that Underlying Fund concentrates.

#### *Unrated Fixed Income Securities*

VFA or its subadvisers have the authority to make determinations regarding the quality of unrated fixed-income securities for the purposes of assessing whether they meet an Account's investment restrictions. However, analysis of unrated securities is more complex than that of rated securities, making it more difficult for the subadviser to accurately predict risk. Unrated fixed income securities may not be lower in quality than rated securities, but due to their perceived risk they may not have as broad a market as rated securities, making it more difficult to sell unrated securities.

#### *U.S. and Foreign Government Securities*

Obligations issued or guaranteed by the U.S. Government, its agencies, authorities and instrumentalities and backed by the full faith and credit of the United States only guarantee principal and interest will be timely paid to holders of the securities. The entities do not guarantee that the value of an account or of fund shares will increase, and in fact, the market values of such obligations may fluctuate. In addition, not all U.S. Government securities are backed by the full faith and credit of the United States; some are the obligation solely of the entity through which they are issued. There is no guarantee that the U.S. Government would provide financial support to its agencies and instrumentalities if not required to do so by law. Foreign obligations may not be



backed by the government of the issuing country and are subject to foreign investing risks.

#### *Variable Distribution Risk*

Periodic distributions by investments of variable or floating interest rates vary with fluctuations in market interest rates.

#### *Variable Rate, Floating Rate and Variable Amount Securities*

Variable rate, floating rate, or variable amount securities are generally short-term, unsecured, fluctuating, interest-bearing notes of private issuers. To the extent an Account invests in fixed income securities that have variable or floating interest rates, the amounts of an Account's periodic distributions to shareholders may vary with fluctuations in market interest rates. Generally, when market interest rates fall, the amount of the distributions to shareholders will likewise decrease. The absence of an active secondary market with respect to certain such instruments could make it difficult for an Account to dispose of the instrument if the issuer defaulted on its payment obligation or during periods that an Account is not entitled to exercise its demand rights, and an Account could, for these or other reasons, suffer a loss with respect to such instruments.

#### *When-Issued, Delayed-Delivery and Forward Commitment Transactions*

Each Account may purchase securities which it is eligible to purchase on a when-issued basis, may purchase and sell such securities for delayed delivery and may make contracts to purchase such securities for a fixed price at a future date beyond normal settlement time (forward commitments). When-issued transactions, delayed delivery purchases and forward commitments involve a risk of loss if the value of the securities declines prior to the settlement date. This risk is in addition to the risk that an Account's other assets will decline in value. Therefore, these transactions may result in a form of leverage and increase an Account's overall investment exposure. Typically, no income accrues on securities an Account has committed to purchase prior to the time delivery of the securities is made, although an Account may earn income on securities it has segregated to cover these positions.

#### *Zero Coupon, Step Coupon, Deferred Coupon and PIK Bonds*

An Account may invest in any combination of zero coupon and step coupon bonds and bonds on which interest is payable in kind ("PIK"). The market prices of these bonds generally are more volatile than the market prices of securities that pay interest on a regular basis. Since an Account will not receive cash payments earned on these securities on a current basis, an Account may be required to make distributions from other sources. This may result in higher portfolio turnover rates and the sale of securities at a time that is less favorable.

### **Other Risks**

#### *Cybersecurity Risk*

In addition to the risks associated to the value of investments, there are various operational, systems, information security and related risks involved in investing, including but not limited to "cybersecurity" risk. With the increased use of technologies such as the Internet to conduct business, the funds and accounts are potentially more susceptible to operational and information security risks through breaches in cybersecurity. In general, a breach in cybersecurity can result from either a deliberate attack or an unintentional event. Cybersecurity breaches may involve, among other things, infection by computer viruses or other malicious software code or unauthorized access to the digital information systems, networks or devices of the funds, the accounts or their respective service providers (including, but not limited to, their investment adviser,, custodian,





administrators, other financial intermediaries; and fund transfer agent) through “hacking” or other means, in each case for the purpose of misappropriating assets or sensitive information (including, for example, personal shareholder information), corrupting data or causing operational disruption or failures in the physical infrastructure or operating systems that support the funds. Any such cybersecurity breaches or losses of service may cause the funds and accounts to lose proprietary information, suffer data corruption or lose operational capacity, which, in turn, could cause the funds to incur regulatory penalties, reputational damage, additional compliance costs associated with corrective measures, and/or financial loss.

While VFA and its service providers have established business continuity plans and risk management systems designed to prevent or reduce the impact of cybersecurity attacks, there are inherent limitations in such plans and systems due in part to the ever-changing nature of technology and cybersecurity attack tactics, and there is a possibility that certain risks have not been adequately identified or prepared for.

Cybersecurity risks may also impact issuers of securities in which the Accounts invest, which may cause the Accounts’ respective investments in such issuers to lose value. Similar adverse consequences could result from cybersecurity incidents affecting counterparties with which we engage in transactions, third-party service providers (e.g., a client account’s custodian), governmental and other regulatory authorities, exchange and other financial market operators, banks, brokers, dealers and other financial institutions and other parties.

#### *Tax Information (for tax-paying entities)*

Ordinary income dividends, including distributions of short-term capital gain, paid by certain mutual funds to the client who are shareholders may be subject to a United States withholding tax under existing provisions of the Internal Revenue Service Code of 1986 applicable to non-U.S. individuals and entities, unless a withholding exemption is provided under applicable treaty law.

VFA does not, and will not, offer tax advice to clients on any such issues and clients are encouraged to seek the advice of a qualified tax professional. Clients should also understand that VFA is not responsible for making any tax credit or similar claim or any legal filing (including but not limited to proofs of claim) on a client’s behalf.

#### **Operational Risk**

Operational risks arise from factors such as processing errors, human errors, inadequate or failed internal or external processes, failures in systems and technology, changes in personnel and errors caused by third-party service providers. The occurrence of any of these failures, errors or breaches could result in a loss of information, regulatory scrutiny, reputational damage or other events, any of which could have a material adverse effect on a fund. While we seek to minimize such events through controls and oversight, there may still be failures that could cause losses to an Account.

#### *Tax Information (for tax-paying entities)*

Clients should also understand that VFA (or generally its subadvisers) may sell all or a portion of the securities in a client’s account, either initially or during the course of the client’s participation in any Wrap Program. Clients are responsible for all tax liabilities, including but not limited to foreign stamp duties, transfer taxes, and withholding taxes arising from these transactions. In addition, if the client is not a resident of the United States, the adverse tax consequences and other risks involved in investing in U.S. securities will be assumed by the client. Furthermore, ordinary income dividends, including distributions of short-term capital gain, paid by certain mutual funds to the client





who are shareholders may be subject to a United States withholding tax under existing provisions of the Internal Revenue Service Code of 1986 applicable to non-U.S. individuals and entities, unless a withholding exemption is provided under applicable treaty law.

VFA does not, and will not, offer tax advice to clients on any such issues and clients are encouraged to seek the advice of a qualified tax professional. Clients should also understand that VFA is not responsible for making any tax credit or similar claim or any legal filing (including but not limited to proofs of claim) on a client's behalf.

#### *Other*

The value of securities used in all of our strategies, whether equity or fixed income, may go up, or down, in response to factors not within our control, such as but not limited to the status of an individual company underlying a security, or the general economic climate.

***Investors should be aware their investment is not guaranteed and understand that there is a risk of loss of value in their investment.***

### Item 9 – Disciplinary Information

VFA is required to disclose all material facts regarding any legal or disciplinary event that would be material to your evaluation of VFA or the integrity of VFA's management. VFA has not been involved in any legal or disciplinary events that would be material to a client's evaluation of the company or its personnel.

From time to time, VFA and/or its affiliates may be involved in litigation and arbitration as well as examinations and investigations by various regulatory bodies, including the SEC, involving such companies' compliance with, among other things, securities laws, client investment guidelines, laws governing the activities of broker-dealers and other laws and regulations affecting their products and other activities. At this time, VFA believes that the outcomes of such matters are not likely, either individually or in the aggregate, to have a material adverse effect on the management or other services VFA provides to investment advisory accounts.

### Item 10 – Other Financial Industry Activities and Affiliations

VFA has material relationships with its affiliates, as described below.

VFA is a wholly owned subsidiary of Virtus Partners, Inc., which is a wholly owned subsidiary of Virtus. Virtus is a publicly traded company operating a multimanager asset management business (NYSE: VRTS). Certain officers and directors of Virtus serve as officers of Virtus's indirect, wholly owned affiliates, including VFA.

Our investment management services are offered by Virtus under its multi-adviser asset management platform. Distribution of investment products and services offered in conjunction with this platform may involve VFA, its affiliates and other entities in support of these activities. Certain potential or actual conflicts of interests within these interrelationships may or may not be readily apparent to an investor. VFA has procedures to manage, its fiduciary duties and any potential conflicts that may arise related to providing services through affiliates.

In providing services to its clients, VFA will use personnel or services of one or more of its affiliated



investment advisers or other corporate affiliates, and VFA's affiliated investment advisers will use personnel or services of VFA. Services provided in these arrangements may include, among other things, investment advice, portfolio execution and trading, back-office processing, accounting, reporting, and client servicing. These services may be provided through arrangements that take a variety of forms, including dual employee, participating affiliate, delegation arrangement, sub-advisory, consulting, or other servicing agreements. In each case, the personnel of the entity providing services are required to follow policies and procedures designed to ensure that the applicable clients' accounts are handled appropriately and in the best interests of the clients. When VFA uses the personnel or services of an affiliate to provide services to VFA's clients, VFA remains responsible for the account from a legal and contractual perspective. Similarly, if an affiliated investment adviser uses the personnel or services of VFA to provide services to such affiliated investment adviser's clients, the affiliated investment adviser remains responsible for the account from a legal and contractual perspective. No additional fees are charged to the clients for such services except as otherwise set forth in the client's applicable investment management or other agreement. Without limiting generality of the foregoing, persons who serve as VFA portfolio managers and analysts for the Virtus Systematic and Virtus Multi-Asset Teams also serve in the same capacity for our affiliate VIA and are direct employees thereof; and provide advisory services to certain open-end Registered Investment Companies clients of VIA using the same or similar strategies under which they also provide advisory services to certain clients of VFA. Members of the equity trading team serving the Virtus Systematic and Virtus Multi-Asset Teams are organized under our affiliate, VSS, and these individuals (under VSS) also provide the same or similar services to our affiliates, Ceredex, NFJ, Silvant, VEA, and VIA. VFA and its above referenced affiliates have policies and procedures in place to ensure that their respective clients who share the same portfolio management and trading facilities are treated fairly with respect to allocation of investment opportunities.

VFA engages certain of its affiliated investment advisers to provide sub-advisory services with respect to certain open-end funds, CITs, Institutional Accounts, Wrap Programs, and Investment Model Delivery/Manager Recommendations to third parties. Additional relationships of this nature can be entered into by VFA in the future. The compensation for such arrangements is typically structured as a percentage of the overall management fee being paid to the affiliated subadviser from VFA, as the hiring affiliated investment adviser.

VFA generally shares its fees with the entity providing sub-advisory services to VFA (in the case of certain affiliates, this is affected through the affiliated subadviser receiving the fee and allocating a portion of the fee to VFA through intercompany transactions).

VFA is not registered, and does not have an application pending to register, as a broker-dealer. However, an affiliate of VFA, VP Distributors, LLC ("VPD"), is a registered broker-dealer. VPD is a limited purpose broker-dealer that serves as principal underwriter and distributor of certain open-end mutual funds and ETFs managed by VFA and/or its affiliated investment advisers. Certain VFA personnel whose job responsibilities either require or are appropriate for registering as broker-dealer representatives are registered representatives of VPD.

VPD is the Program Manager and Underwriter for a 529 Plan and has entered into an Investment Advisory Services Agreement with VFA delegating to VFA certain rights, duties, and obligations of VPD with regard to investment advisory services provided to the Program. The assets invested in certain of the investment portfolios may be invested primarily or exclusively in mutual funds advised by VFA, or one of its affiliates. Expenses of such mutual funds include the fund's investment



advisory (and administrative) fees, which are paid to an affiliate of Virtus and/or VFA.

Certain employees of VPD promote VFA's services and the products managed by VIA. When VFA pays a fee to VPD for the efforts of VPD's employees to promote VFA's services, VPD is considered an affiliated third-party promoter for VFA as discussed further in "Item 14. Client Referrals and Other Compensation", below.

VFA's affiliates that are SEC registered investment advisers are the following:

- AlphaSimplex Group, LLC
- Ceredex Value Advisors LLC ("Ceredex")
- Duff & Phelps Investment Management Co.
- Kayne Anderson Rudnick Investment Management, LLC
- NFJ Investment Group, LLC ("NFJ")
- Seix CLO Management LLC
- Silvant Capital Management LLC ("Sylvant")
- Sustainable Growth Advisers, LP ("SGA")
- Virtus Alternative Investment Advisers, Inc. ("VAIA")
- Virtus ETF Advisers LLC ("VEA")
- Virtus Fixed Income Advisers, LLC ("VFIA")<sup>3</sup>
- Virtus Investment Advisers, Inc. ("VIA")
- Westchester Capital Management, LLC
- Westchester Capital Partners, LLC

VFA's affiliates that are foreign registered investment advisers are the following:

- Virtus International Management LLP
- Virtus International Fund Limited
- Virtus Global Partners Pte. Ltd.

Virtus International Management LLP ("Virtus International") is a foreign registered investment adviser and affiliate of VFA. Virtus International is located in London, United Kingdom and registered with the Financial Conduct Authority ("FCA"). Certain employees of Virtus International promote the services of VFA as well as the products managed by VFA. Virtus International's representatives are permitted to introduce VFA's investment advisory services to institutional entities and sovereign wealth funds and other foreign official institutions within the United Kingdom and in other jurisdictions globally, to the extent permitted by the laws of each applicable jurisdiction.

Virtus International Fund Management Limited (the "MANCO") is incorporated in Ireland as a private limited liability company under the Companies Act 2014 (as may be amended). The MANCO is authorized by the Central Bank of Ireland to act as a management company to UCITS funds pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011, as amended, and as a European Union alternative investment fund manager in accordance with the E.U. Directive on Alternative Investment Fund Managers ("AIFMD") and the AIFMD Regulations.

In the Asia-Pacific region, approved persons of Virtus Global Partners Pte. LTD ("Virtus Singapore")

---

<sup>3</sup> Three separate divisions operate under a single legal entity named Virtus Fixed Income Advisers, LLC ("VFIA"). The three divisions of VFIA maintain their distinct investment process and philosophy, portfolio management teams, investment culture and brand. The divisions operate under the names of Newfleet Asset Management, Seix Investment Advisors and Stone Harbor Investment Partners.



(UEN 201018015Z), which is authorized and regulated by the Monetary Authority of Singapore ("MAS"), are permitted to introduce the investment advisory services of VFA and certain of its affiliates to institutional entities, sovereign wealth funds, and other foreign official institutions.

Ceredex, Silvant, SGA and VFIA are affiliated subadvisers to Accounts for which VFA is the investment adviser.

In addition to serving VFA as an affiliated subadviser, NFJ, Silvant, VFIA, and WCM are affiliated subadvisers to VFA's affiliate, VIA for which they manage the assets of certain open- and closed-end funds.

VFA is the investment adviser to the Virtus Asset Trust, a series of Registered Investment Companies offered by the Virtus family of funds.

VFA, VAIA, VIA and VEA utilize some of the same affiliated and unaffiliated subadvisers as VFA, in managing open-end and closed-end Registered Investment Companies, UCITS, and exchange traded funds. This includes but is not limited to Zevenbergen Capital Investments LLC ("Zevenbergen"). Virtus indirectly holds a minority ownership interest in Zevenbergen.

Virtus Fund Services, LLC, an affiliate of VFA, serves as the administrator and transfer agent to certain funds for which VFA and its affiliates act as the adviser or subadviser. Additionally, Virtus Fund Services, LLC is the administrator for the open-end and closed-end Registered Investment Companies advised by VFA (listed above); and managed by affiliates of VFA.

VFA and certain affiliates manage private funds. Complete and accurate information about such private funds is available in the Form ADV of the respective affiliate; and with respect to VFA, within this Brochure.

Virtus Shared Services ("VSS") provides certain back- and mid- office investment operations and support services; information technology infrastructure and support services for certain Virtus affiliates including VFA. In addition, VSS conducts trading for VFA's directly managed strategies. VSS also provides trading and trade administration to certain affiliates of VFA.

### **Legal Restrictions Related to Our Affiliations**

VFA and its affiliates are limited by certain laws, regulations, or contracts as to how much of a particular security they may invest in on behalf of their respective clients. For example, the SEC, federal, state, and foreign regulations impose limits (in some cases determined on an enterprise-wide basis for VFA together with its affiliates) on the levels of investment in a security VFA can make on behalf its clients. When such holdings reach certain regulatory thresholds VFA (and when applicable its affiliates) must restrict additional purchases. When this occurs, those clients who contract with the firm after a limitation has been reached will not receive an allocation of the security and existing clients may not receive any additional allocations. These restrictions and limitations could adversely impact the performance an account would otherwise be able to achieve.

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

We endeavor to ensure that the investment management and overall business of the firm complies



with both our firm and Virtus (parent) policies and applicable U.S. federal and state securities laws and regulations. We have adopted the Virtus Code of Conduct and the Code of Ethics (the “Codes”) in accordance with Rule 204A-1 of the Advisers Act. The Codes have been reasonably designed to prevent and detect possible conflicts of interest with client trades. Compliance with the Codes is a condition of employment. All of our supervised persons must acknowledge terms of the Codes, annually, or as amended. Any employee found to have engaged in improper or unlawful activity faces appropriate disciplinary action. Each employee is responsible for ensuring that they and those they manage conduct business professionally and comply with our firm’s policies and procedures. Employees must immediately report (to their supervisor, a compliance officer or corporate legal counsel) their knowledge of any wrongdoing or improper conduct. Failure to do so may result in disciplinary action being taken against that individual. Our reporting procedures are supported by a telephone number and similar on-line reporting technology available 24-hours/day to any employee to confidentially report, or request assistance concerning possible violations of the Codes and other firm policies. This technology and reporting platform is administered by an independent, third-party.

Our officers and employees are encouraged to invest in shares of investment products that we and/or our affiliates advise. Subject to limitations described herein and set forth by our Codes, our directors, officers, and/or associated personnel may buy, hold, or sell the same investments for their own accounts as are held or to be held or sold for a client account and they may engage in the following:

- Recommend that clients buy or sell securities or investment products in which we or a related person have some financial interest; and/or
- Buy or sell securities or investment products that our firm and/or our directors, officers, associated personnel or a related person recommends to our clients.

Our Codes are designed to prevent and detect conflicts of interest regarding the above.

None of our officers, Access or Advisory persons may buy or sell any security or any option to buy or sell such security, such that they hold or acquire any direct or indirect beneficial ownership as a result of the transaction, if they know at the time of such transaction that such a security or option is being bought, sold, or considered for purchase or sale for a client account, unless one or more of the following conditions exist:

- They have no influence or control over the transaction from which they will acquire a beneficial interest;
- The transaction is non-volitional on their part or the client’s;
- The transaction is a purchase under an automatic dividend reinvestment plan or pursuant to the exercise of rights issues, pro-rata to them and other holders of the same class of the issuer’s securities; or
- They have obtained, in advance, approval from someone authorized to grant such approval when circumstances indicate no reasonable likelihood of harm to the client or violation of applicable laws and regulations.





## Code of Conduct

The Virtus Code of Conduct directs our employees' conduct in the following areas:

- Compliance with Applicable Laws,
- Rules and Regulations
- Insider Trading
- Conflicts of Interest and Related Party Transactions
- Corporate Opportunities
- Fair Dealing
- Protection and Proper Use of Company Assets
- Confidentiality
- Recordkeeping
- Interaction with Government Officials and Lobbying
- Contract Review and Execution
- Company Disclosures and Public Communications
- Information Protection Policies
- Human Resource Policies
- Use of Social Media
- Intellectual Property
- Designation of Compliance Officers
- Seeking Guidance About Requirements of the Code
- Reporting Violations
- Waivers, Discipline and Penalties

## Code of Ethics

Employees are categorized as either Supervised, Access or Advisory Persons under our Code of Ethics. All Supervised Persons are required to comply with the following:

- Instruct their brokers to directly provide our Compliance Department with duplicate copies of brokerage statements and trade confirmations or the electronic equivalent;
- Provide Initial Holdings Reports, Quarterly Transaction Reports, and Annual Certification and Holdings Reports, which our Compliance Department reviews for trading activity; and
- Conduct their personal transactions consistent with the Code of Ethics and in a manner that avoids any actual or potential conflict of interest.

In addition to the above, those employees classified as Access Persons are further required to comply with the following:

- Pre-clear all non-exempt transactions with respect to which an employee is beneficial owner in order to prevent the employee from buying or selling at the same time as the firm; and
- Hold all covered securities no less than 30-days.

Employees classified as Advisory Persons are further prohibited from directly or indirectly acquiring or disposing of a security on the date of, and within seven calendar days before and after the portfolio(s) associated with that person's portfolio management activities.

Any covered employee not in observance of the above may be subject to a variety of disciplinary actions.

We do not purchase or sell securities for our own account. However, when we do not engage a



subadviser, we can at times utilize personnel as members of our portfolio management and trading team who also serve certain VFA affiliates in the same and/or similar capacities. In serving in this capacity these personnel serve an affiliate in managing assets of portfolio owned by another affiliate. VFA and its applicable affiliates have policies and procedures in place to ensure that their respective clients who share the same portfolio management and trading facilities are treated equitably and fairly over time, with respect to allocation and/or sequencing of trade orders for investment opportunities and to mitigate conflicts of interest with Virtus proprietary accounts.

### **Other Related Policies and Procedures**

We have adopted the Insider Trading Policy and Procedures designed to mitigate the risks of our firm and its employees misusing and misappropriating any material non-public information that they may become aware of, either on behalf of our clients or for their own benefit. Personnel are not to divulge or act upon any material, non-public information, as defined under relevant securities laws and in our Insider Trading Policy and Procedures. The policy applies to each of our Supervised, Access and Advisory Persons and extends to activities both within and outside their duties to our firm, including for an employee's personal account.

In addition to the above, our policies set limitations on and require reporting of gifts, entertainment, business meals, sponsorships, business building and charitable donations, whether given or received. Generally, our employees are prohibited from accepting or providing gifts or other gratuities from clients or individuals seeking to conduct business with us in excess of \$250 per year unless the gift involves a VPD registered representative or VPD line of business in which case the gift limit is \$100.

Our personnel may, under certain conditions, be granted permission to serve as directors, trustees, or officers of outside organizations. Prior to doing so, approval must be provided by Compliance. A complete copy of our Code of Conduct and/or our Code of Ethics is available by sending a written request to Virtus Fund Advisers, LLC, Attn: Corporate Compliance, One Financial Plaza, Hartford, CT 06103 or by emailing a request to us at: [InvestmentAdviser@Virtus.com](mailto:InvestmentAdviser@Virtus.com).

### **Participation or Interest in Client Transactions**

The existence of business relationships and investment practices creates the potential for conflicts of interest. VFA has adopted restrictive policies and procedures wherever deemed appropriate, to seek to detect and mitigate or prevent potential conflicts of interest. Certain known conflicts and VFA's handling of such conflicts are disclosed below.

- VFA, indirectly through affiliates, may manage simultaneously parallel accounts in some cases with the same portfolio managers, with similar objectives, but with differing fees to VFA or affiliates. VFA's policy is to manage each account independently and fairly, and recognizes and seeks to control the conflicts of interests inherent in such practices;
- VFA's affiliate personnel who provide administrative services to VFA's clients also will have information about VFA clients' investments;
- Certain VFA officers have officer titles at other VFA affiliates; and
- VFA has a policy of not purchasing or recommending the purchase of securities issued by its



parent company, Virtus.

## Item 12 – Brokerage Practices

As a result of our business model, we generally delegate brokerage and trading activity on behalf of the vast majority of our clients to affiliated and non-affiliated subadvisers. VFA manages (does not utilize subadvisers) for a limited number of client accounts (those client accounts managed by the Virtus Multi-Asset and the Virtus Systematic Teams. In doing so, VFA delegates trading and trade administration to our affiliate, VSS. VSS also provides trading and trade administration to VFA's affiliates, Ceredex, Silvant, NFJ, VEA, and VIA (together, the "Affiliated RIAs"). Ceredex, Silvant and NFJ provide subadviser services to VFA.

***In addition to the general descriptions of brokerage practices provided below, descriptions of each subadviser's specific brokerage practices can be found in their respective Form ADV, Part 2A brochure.***

### **Discretionary Clients**

When VFA receives full discretionary authority to determine the broker to be used and the commission paid to such broker, and VFA employs subadvisers, the subadvisers, subject to the supervision of VFA, determine the securities and other investments to be purchased, sold or entered into by a sub-advised portfolio or a portion thereof; and place orders with brokers or dealers that they select. Each of our subadvisers is primarily responsible for seeking "best execution" when effecting transactions for our client accounts. Best execution refers to seeking the best overall terms for a client when affecting a trade. Factors generally considered in assessing best execution include, but are not limited to, the following: the breadth of the market in the security, price of the security, execution capability, investment research provided, and experience in dealing with the particular brokers and/or dealers. Each subadviser oversees its own execution quality and brokerage selection, typically by means of a brokerage committee or its equivalent. VFA Compliance receives confirmation of the subadviser reviews through its quarterly oversight process and during the compliance due diligence meetings. In addition, on a quarterly basis, subadvisers are required to confirm that trading activity is in compliance with applicable Fund policies and regulations, including the safe harbor provisions of Section 28(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") regarding soft dollar usage.

When VFA does not employ a subadviser, VFA determines the securities and other investments to be purchased, sold or entered into by a portfolio or a portion thereof; and places orders with brokers and dealers they select. VFA is subject to "best execution" when effecting transactions for VFA's directly managed client accounts and is responsible for overseeing execution quality and brokerage selection. VFA has established a Broker Selection and Best Execution Committee ("Best Execution Committee") that meets quarterly to oversee VFA's overall trading practices, including trading strategies, policies and processes.

We can provide no assurance and cannot take any responsibility for best execution when a client elects to retain discretion over broker selection or commission rate.

We perform investment advisory services for various clients. We may give advice, and take action, with respect to any of those clients which may differ from the advice given, or the timing or nature of action taken, with respect to any one other account. When not employing services of a subadviser,



VFA, to the extent practical and over a period of time, will seek to allocate investment opportunities to each account on a fair and equitable basis relative to other similarly situated client accounts.

### **Non-Discretionary Clients**

VFA also accepts accounts for which it does not have full discretionary authority. In these cases, VFA<sup>4</sup> recommends purchases and sales of securities for such accounts, subject to the client's approval and implementation.

When VFA makes a recommendation that is accepted by a non-discretionary client, who chooses to execute the transaction without VFA's assistance, the nondiscretionary client may unknowingly purchase or sell securities at the same time as VFA's other nondiscretionary and/or discretionary clients, to a potential mutual disadvantage. Alternatively, the nondiscretionary client may request VFA to place orders for the purchase or sale of the securities recommended and VFA may either be given the right (which is generally further delegated to the applicable subadviser) to determine the executing broker-dealer or the client may direct that such transactions be affected through specified broker-dealers. As a result, the timing of the non-discretionary client's transaction and price received may differ from that of other VFA clients because their transactions are typically executed after the transactions for VFA's fully discretionary accounts.

### **Cross Trades**

It is not VFA's general practice to conduct cross trades; however, to reduce transaction costs and promote trading efficiency, certain client portfolios and/or portfolios managed by affiliates of VFA will transact with one another. VFA will only enter into such inter-account transactions when it is determined to be in the best interests of all affected clients. Furthermore, such transactions will be consistent with Advisers Act and other applicable regulations including Rule 17a-7 of the Investment Company Act (to the extent that such transactions include mutual funds) or will be made only when permitted by the advisory account(s) affected.

### **Soft Dollar Programs**

Subject to the requirements of seeking best execution; complying with any imposed client restrictions provided to VFA in writing; and complying with a "safe harbor" of Section 28(e) of the Securities Exchange Act of 1934, as amended ("Section 28(e)") VFA's or its subadvisers can direct a trade to broker-dealers who provide them with permissible brokerage or research services. When VFA does not utilize subadvisers, VFA will direct trades for the respective accounts based on VFA's brokerage and soft dollar policies. Subadvisers, when utilized, are subject to VFA's subadviser oversight process. The subadvisers are responsible for directing trades in accordance with their respective brokerage and soft dollar policies.

When engaging in the trading activities, VFA or its subadvisers can affect securities transactions which cause a client to pay an amount of commission in excess of the amount of commission another broker would have charged; and can generate commission credits which can be used to pay for brokerage and research services provided or paid for by brokers-dealers or other permissible parties. When VFA or its subadvisers use client brokerage commissions (or markups or

---

<sup>4</sup> VFA, as referenced in this section, includes VFA's subadvisers if VFA is employing the use of a subadviser to provide investment management to non-discretionary clients.



markdowns) to obtain research or other products or services, they receive a benefit because they do not have to produce or pay for the research, products or services. VFA and its subadvisers are required to make a good faith determination that the amount of commission is reasonable in relation to the value of the brokerage services and research and investment information received, viewed in terms of either the specific transaction or overall responsibility to the accounts for which VFA and its subadvisers exercise investment discretion. VFA and its subadvisers regularly evaluate commissions paid in order to ensure that the commission represents reasonable compensation for any brokerage and research services provided by such brokers.

When engaging in soft dollar programs, VFA or its subadvisers can obtain services, other products and research to supplement their research, analysis and execution capabilities without incurring incremental costs. In these circumstances, VFA or its subadvisers can be incented to select or recommend a broker dealer based on their interest in receiving the research or other products or services, rather than clients' interests in receiving most favorable execution. VFA or its subadvisers can be further incented if such broker dealers require minimum levels of client commissions to provide research or brokerage services.

VFA and its subadvisers, when not limited by written agreement, are permitted to use "step-out" trade mechanisms. A "step-out" trade occurs when the executing broker-dealer agrees to "step out" a portion of a bunched execution, and that "stepped-out" portion is cleared through the broker-dealer providing the research and brokerage services. The client is assessed a commission only by the broker-dealer who clears the transaction. The executing broker-dealer receives compensation in the form of commission from the portion of the bunched execution that was not "stepped-out" to other brokers.

Research products and services received for a particular client's brokerage commissions may be used for the benefit of all or a segment of VFA's (or our subadvisers') clients and not exclusively or specifically for the benefit of the client account or accounts whose transactions generated the commissions.

VFA does not receive services, other products or research through our subadvisers' use of soft dollars.

At times VFA will receive Section 28(e) eligible research based on direct trading activities. When doing so, research services obtained directly or indirectly generally include one or more of the following:

- Analytical and other information pertaining to specific securities;
- Research information relating to overall investment strategy including macroeconomics forecasts and analyses; and
- Analyst reports, analyst models, analyst access, conferences, invitations to analyst events and/or other 28(e) eligible research.

VFA does not have any agreement or understanding with any broker-dealer that would obligate the VFA to direct a specific amount of brokerage transactions or commissions in return for such services.





## **Execution Only Accounts**

Unless otherwise agreed to in writing, clients who prohibit the generation of commission credits ("execution only accounts") should not necessarily expect to incur commission rates lower than the rates paid by our client accounts which generate commission credits because their respective portfolio trades are typically included in "bunched" trades effected on behalf of all client accounts buying the same security on the same day; will incur the same commission rate paid by other clients included in the trade; and the resulting commission rate may be higher than another broker-dealer would have charged.

Client directed prohibitions against generating commission credits will generally apply to only third-party research products and services. Any research products and services that are provided directly by a broker-dealer and bundled with their other brokerage services are usually obtained by directing transactions to that particular broker-dealer.

## **Commission Sharing Arrangements**

VFA and certain of its subadvisers have elected to participate in commission sharing arrangements whereby VFA or its subadvisers request brokers affecting transactions on behalf of their respective clients to allocate a portion of the commission to a commission credit account maintained by the executing broker or a commission management provider for VFA or for the applicable subadviser. VFA or its subadvisers can direct an executing broker or commission management provider to pay independent research providers (which may or may not be other brokers) for research products and services. Commission sharing arrangements may be used to pay for both proprietary and third-party research products and services. Commission sharing arrangements enable VFA or its subadvisers to direct their respective client trades to broker-dealers irrespective of whether or not the broker provides research products and services. Subsequently, VFA or its subadvisers will direct the executing broker or commission management provider to pay the research provider from their respective commission credit account. We also use an aggregator whereby the executing broker sends their portion of commission to be aggregated (at an aggregating broker dealer) and further paid out for 28e eligible services.

## **Trade Aggregation and Allocation**

When VFA employs subadvisers, it is VFA's policy and expectation that the respective subadvisers (subject to VFA's subadviser oversight), to the extent practicable, will allocate all investment opportunities among their respective applicable clients over a period of time on a fair and equitable basis.

When VFA does not employ a subadviser, then VFA has a fiduciary duty to obtain best execution for its clients. Where securities are purchased on behalf of more than one client at the same time, the VFA must fulfill its duty to obtain best execution for all clients and will not favor one client at the expense of the other. VFA will attempt (to the extent appropriate, permissible, and/or feasible) to aggregate multiple orders for the purchase or sale of the same security placed at or at approximately the same time, to achieve best execution with respect to all transactions being affected on behalf of client accounts. This "block" trading process generally includes pro-rata allocations of trades across all accounts and clients to promote fairness. Employee trades are not blocked with client trades as employees must use an outside broker to conduct personal trades which are subject to black-out periods to prevent employees from trading in front of VFA for its



clients.

Generally, VSS will (in accordance with the agreement between VFA and VSS) aggregate or “block” transactions on behalf of various affiliates’ (including VFA) clients in order to facilitate best execution and possibly negotiate more favorable pricing and commission rates. VSS will aggregate transactions wherever possible except when directed brokerage or other restrictions makes aggregation impractical or not permissible. Orders to reduce or raise cash at the strategy level will be aggregated for all accounts within the strategy and traded as a block, subject to any restrictions at the account level. To the extent that transactions are blocked, VSS will allocate such transactions to all participating client accounts in a fair and equitable manner consistent with its trade allocation policies, fiduciary obligations and each participating client’s investment advisory agreement.

VSS follows the process below when executing like orders:

1. Like orders sent at overlapping times from different portfolio managers within VFA and our affiliate, VIA will be combined and traded together, subject to any limits managers place on the orders. When a trade is in progress at the time a subsequent trade is received in the same security, the existing block may be closed, and a new block established combining the remaining unexecuted trades with the subsequent trade.
2. Like orders sent at overlapping times from affiliates (excluding VIA) will not be combined but will share executions on a one-for-one basis starting when the second order arrives, regardless of the size of either order. This is subject to any limits managers place on the orders.

Due to market conditions or a change in portfolio management decisions, a specific aggregated order may not be completely filled at one price or in total. At such times, the order will be average-priced so that all accounts receive a fair price, and the transaction will be distributed among all accounts in a fair and equitable manner so that no account will be systematically disadvantaged by the allocation.

VFA realizes such situations present inherent conflicts of interest and that certain VFA accounts may appear to be disadvantaged in specific instances. VFA will, however, at all times allocate trades on a basis believed to be fair and equitable. In addition, VFA will not disproportionately allocate trades in a manner inconsistent with the manager’s ability to effectively and efficiently maintain or sell the position (i.e., “odd lots” or less than standard incremental amounts). The trader will, however, ensure that all accounts are treated fairly based on all distribution criteria (i.e., no client will disproportionately receive rounded-up allocations).

Determining the quality of trade executions requires the evaluation of subjective, objective, and complex qualitative and quantitative factors. VFA, along with VSS, must manage the trading process to fulfill their duty for all clients by selecting the appropriate trading techniques, venues and brokers; controlling the pace of the liquidity search to avoid excessive market impact; understanding clients’ and regulatory restrictions; and monitoring results. These are all factors taken into consideration as VFA and VSS apply the standards of prudent fiduciary behavior in seeking best execution for all client accounts.

VFA performs investment advisory and investment management services for various clients and may give advice and take action with respect to one client that differs from advice given or the



timing or nature of action taken with respect to another client. It is, however, VFA's policy not to favor or disfavor consistently or consciously any clients or class of clients in the allocation of investment opportunities, with the result that, to the extent practicable, all investment opportunities will be allocated among clients over a period of time on a fair and equitable basis.

Allocation of initial public offerings and secondary offerings (equity) to client accounts is as follows:

- *Full Allocation*  
If a full allocation is received, VSS will, in most cases, allocate syndicate transactions on a pro rata basis across eligible accounts. Eligible accounts requesting the allocation may be within one discipline or multiple disciplines or one Virtus affiliate or multiple Virtus affiliates.
- *Partial Allocation – One Discipline*  
If a full allocation is not received and only one discipline indicated interest, that discipline will receive the allocation and it will be allocated to eligible accounts on a pro rata basis.
- *Partial Allocation – Multiple Disciplines within One Virtus Affiliate*  
If a full allocation is not received and multiple disciplines have entered an indication of interest, VSS will allocate shares to disciplines based on the discipline's indication of interest. VFA and VIA will be considered as one affiliate for allocation purposes. At the discipline level, the shares will then be allocated on a pro rata basis to all eligible accounts.

After completing the above, each Virtus affiliate will allocate its shares on a pro rata basis among its eligible accounts. In most instances, allocation will be made in 100 share lots to minimize client trading costs. However, if a de minimis amount is received from the underwriter, VSS can allocate at the account level using a rotational basis, which may result in clients receiving an odd lot.

### **Error Correction**

Although we take all reasonable steps to avoid errors in our trading process, occasionally errors do occur. It is our policy that trade errors be identified and resolved promptly and resolved in a manner consistent with our fiduciary duty to our clients. Consistent with this duty, the overriding goal in trade error resolution is to seek to place the client in the same position that the client would have been in had the error not occurred. There is no single method of calculating gains, losses or compensation due as a result of a trade error. We will determine the most appropriate calculation methodology on a case-by-case basis in light of the specific facts and circumstances of each trade error.

### **Item 13 – Review of Accounts**

VFA provides discretionary investment supervisory services to Registered Investment Companies, specifically the VAT, registered under the Investment Company Act, as amended. VFA also provides investment advisory services to CITs; UCITS authorized under the European Directive; institutional clients including pension and profit-sharing plans, endowments and foundations, governmental entities, other corporate entities, a 529 Plan, Private Funds and high net worth clients. The offering documents for the Registered Investment Companies, UCITS and CITs, Private Funds, the 529 Plan; and client investment management agreements for our other institutional clients establish guidelines and restrictions with respect to investment strategies, that include the types of securities to be bought and sold. We monitor our client portfolios for performance and compliance with applicable investment restrictions. In our capacity as manager of



affiliated and unaffiliated subadvisers to the VAT, we set the overall investment strategies; evaluate, select, and recommend to the Board of Trustees the subadvisers to manage all or part of the assets within these series; monitor and evaluate the subadvisers' investment programs and results; and review the accounts' compliance with the stated investment objectives, policies, and restrictions. Generally, our representatives meet with the respective Fund Board of Trustees at least quarterly to review the performance and other account attributes.

VFA's affiliated subadvisers that manage accounts under a sub-advisory contract with VFA perform the review at the client level.

Portfolio managers for each investment discipline determine the specific securities purchased or sold within a portfolio based on the investment discipline's philosophy and process, as well as the client's investment policy guidelines. Portfolio managers are familiar with the client's philosophy, investment guidelines and objectives and continually evaluate all client relationships and verify portfolios are continuously serviced, monitored and supervised. The portfolio manager (VFA portfolio manager, if applicable or portfolio manager from an appointed subadviser, if applicable) works with each client to make certain that the assets are invested in accordance with regulations and stated client and investment discipline guidelines.

The IOC also provides investment oversight and analysis of VFA and affiliates' activities including performance attribution evaluation and analysis on certain accounts and strategies.

Depending on the type of client account, specific client guidelines and restrictions are coded into one or more compliance guideline systems at the subadviser and/or VFA level upon account opening and periodically reviewed and updated as appropriate. The compliance guideline systems are designed to screen individual transactions to prevent and/or forensically identify trade allocations to accounts that do not comply with specific client guidelines.

VFA's policy (carried out through its affiliates for those clients' accounts that are subadvised) is to provide institutional separately managed account clients with quarterly reports listing current assets (as of the report date), which generally include summary information of account activity since the previous report. Some clients request reports or meeting booklets that contain portfolio holdings, portfolio characteristics and investment performance. Other special reports are prepared when requested. The frequency of reports depends upon the investment style and agreed upon timeframe of the client; however, VFA's general policy is to issue reports quarterly. You will receive statements from your custodian and certain clients will receive an additional report from VFA. These reports will differ in presentation and type of information presented, but should be consistent with regard to assets, contributions and withdrawals. In addition, external events may trigger a non-periodic account review or action by the portfolio manager. These include, but are not limited to the following:

- Change in the fundamentals or performance expectations of a security held in an account;
- Change in investment strategy;
- Additions to or withdrawals from an account;
- Meeting with a client when its needs are reviewed and/or changed; or
- A material market or economic change.

Investors in mutual funds, UCITS, and CITs receive reports from the respective transfer agent, administrator or custodian.



VFA provides compliance and other reports as requested by the Board of Trustees of the VAT or Trustees of the CITs.

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

VFA generally does not receive an economic benefit from anyone other than its clients for providing investment advice to its clients. However, as discussed in “Item 10, Other Financial Industry Activities and Affiliations”, VFA and its personnel may provide services to VFA’s affiliates, and VFA may receive services from its affiliates. Such services may include investment advice for which the providing entity may be compensated directly or indirectly by the receiving entity.

As discussed in Item 10, above, VFA has third-party promoter arrangements with VPD, Virtus International and Virtus Singapore, each of which is an affiliate of VFA, whereby VFA compensates those entities for referrals in certain circumstances. The compensation paid by VFA to VPD, Virtus International and Virtus Singapore for these referral arrangements generally is structured as being all or a portion of any variable compensation paid by the affiliate to its employee(s) relating to assets under management by VFA that were referred by such employee(s), and in some cases the compensation also includes a percentage of the affiliate’s costs with respect to employment of the individual(s).

While VFA currently does not compensate any unaffiliated third parties for client referrals, VFA may have relationships with certain consulting firms and other intermediaries. For example, VFA may, from time to time, purchase products or services, such as investment manager performance data, from consulting firms. In compliance with applicable law and regulation, VFA or an affiliate from time to time may also pay event attendance or participation or other fees; underwrite educational, charitable or industry events; or provide gifts of value to, or at the request of, an organization or individual (including VFA affiliates) that, among other things: (i) offers or includes products or services of VFA or an affiliate in a particular program; (ii) permits VFA or an affiliate access to their financial advisers, brokers, employees, or other affiliated persons to provide training, marketing support, and educational presentations on products or services affiliated with VFA; and/or (iii) refers or has referred a client to VFA. VFA may obtain products and/or services from consulting firms separate and apart from any recommendations made to clients for VFA’s investment services, and also may provide cash or non-cash support for educational, training, marketing and other events sponsored by consulting firms and other intermediaries, subject to internal policies and regulatory restrictions. Additionally, certain affiliated or third-party institutions provide financial support on a voluntary basis for marketing, educational, and sales meetings of VFA or affiliates. VFA also may, from time to time, pay a fee for inclusion of information about the firm in databases maintained by certain unaffiliated third-party data providers that in turn make such information available to their investment consultant clients. The payments and benefits described in this paragraph could give the firms receiving them and their personnel an incentive to favor VFA’s investment advisory services over those of firms that do not provide the same payments and benefits.

Additionally, VFA or any of its affiliates enter into arrangements with, and/or make payments from their own assets to certain intermediaries to enable access to Virtus Funds on platforms made available by such intermediaries or to assist such intermediaries to upgrade existing technology systems or implement new technology systems or programs in order to improve the methods through which the intermediary provides services to VFA and its affiliates and/or their clients. Such arrangements or payments establish contractual obligations on the part of such intermediary to provide VFA’s or an affiliate’s fund clients with certain exclusive or preferred access to the use of





the subject technology or programs or preferable placement on platforms operated by such intermediary. The services, arrangements and payments described in this paragraph present conflicts of interest because they provide incentives for intermediaries, customers or clients of intermediaries, or such customers' or clients' service providers to recommend, or otherwise make available, VFA's or its affiliates' strategies or Virtus Funds to their clients in order to receive or continue to benefit from these arrangements from VFA or its affiliates. The provision of these services, arrangements and payments described above by VFA or its affiliates is only to the extent permitted by applicable law and guidance and is not dependent on the amount of Virtus Funds or strategies sold or recommended by such intermediaries, customers or clients of intermediaries, or such customers' or clients' service providers.

### Item 15 – Custody

VFA does not provide custodial services to its clients. Our clients are solely responsible for selecting banks or registered broker-dealers that are “qualified custodians” to provide custody of their assets. However, under the SEC’s Custody Rule, in certain circumstances, VFA is deemed to have custody due to the fact that VFA can inform the custodian to remit investment advisory fees directly to VFA.

Generally, with the exception of our registered investment account clients, VFA does not select, recommend, or require certain account custodians on behalf of clients.

You should receive quarterly custodial statements directly from your qualified custodian. We urge you to carefully review those statements and compare the custodial records to any statements we provide you.

Comparing reports will allow you to determine whether account transactions, including advisory fees, are proper.

The information in our reports may vary from custodial statements based on accounting procedures, reporting dates or valuation of methodologies of certain securities.

VFA provides advisory services to Private Funds that are exempt from registration under the Securities Act and the Investment Company Act. VFA’s parent company, Virtus Partners, Inc. serves as the managing member. The Private Funds have retained an unaffiliated custodian to be responsible for the custody and safekeeping of the private fund assets. Although VFA will not have physical custody of such private fund’s assets, the Advisers Act defines custody broadly, and VFA believes that it is deemed to have custody of the Private Funds’ assets by reason of its parent company serving as the Private Funds’ managing member. In accordance with applicable custody requirements under the Advisers Act, an accountant registered with and subject to inspection by the Public Company Accounting Oversight Board (“PCAOB”) will conduct an annual audit of the Private Funds and investors in the private fund will receive audited financial statements annually.

### Item 16 – Investment Discretion

We manage our clients’ assets on a discretionary and non-discretionary basis and from time to time we may accept new accounts on either a discretionary or non-discretionary basis.

Generally, in the absence of specific written instructions from a client, we will have complete



discretion with respect to the accounts on non-investment company clients, without any limitations on our authority. Investment guidelines and restrictions must be provided to VFA in writing and may impact performance.

When managing accounts on a discretionary basis, we have full authority to buy and sell securities without prior client approval under its investment advisory contracts. We exercise our investment discretion consistent with our investment policies, as well as with any investment guidelines or restrictions adopted by a client and accepted by VFA in writing. Restrictions may impact performance.

When managing accounts on a non-discretionary basis, we perform our duties in accordance with the limitations described in the client contract.

VFA's decision to accept a new account or continue to manage an existing account will include consideration of the nature and extent of the instructions given by the respective client.

### Item 17 – Voting Client Securities

When employing the services of a subadviser and when granted discretionary authority to manage accounts, VFA will generally delegate to its subadvisers the responsibility to vote proxies, unless the client has explicitly reserved the authority for itself. The subadvisers generally delegate to an unaffiliated third-party vendor the responsibility to review proxy proposals, make voting recommendations and cast votes. VFA seeks (or as applicable, requires its subadvisers to seek) to make voting decisions solely in the best interests of its clients and to enhance the economic value of the underlying portfolio securities held in its clients' accounts.

Unless directed otherwise by our clients, our basic policies and procedures are as follows:

- VFA will accept proxy voting responsibility only with written agreement with the client. When VFA accepts proxy voting responsibility, generally the client will be allowed to request to vote its proxies on a particular solicitation (consistent with the agreement entered into with VFA) and VFA will attempt to comply with the request if it is operationally possible.
- When VFA employs the use of subadvisers, VFA delegates to the subadviser, subject to VFA's oversight, the responsibility to review proxy proposals, make voting recommendations and cast votes. VFA and its subadvisers have each adopted policies regarding proxy voting and VFA, as well as each subadviser has a proxy committee or similar body (the "Committee"); or other designated party that is responsible for establishing policies and procedures designed to enable the firm to ethically and effectively discharge its fiduciary obligation in voting proxies on behalf of all discretionary client accounts and funds.
- Unless a client chooses custom guidelines, VFA, or if applicable, its affiliated subadviser will vote all shares per its proxy guidelines. In the case that a ballot item is not covered under the policy or is coded as case-by-case in the firm's guidelines, a research analyst or portfolio manager will review the available information and will utilize such information, along with his knowledge of the company, to make a vote recommendation to the firm's Committee. The Committee members consider the information and recommendation and will then vote on that ballot item. As reflected in the firms' proxy policies, the Committee will affirmatively vote proxies for proposals that it deems to be in the best economic interest of its clients, as a whole, as



shareholders and beneficiaries of those actions.

Due to its diversified client base and numerous product lines, a committee or other designated party of VFA or if applicable, its subadvisers may determine a potential conflict exists in connection with a proxy vote. The Committee or other designated party will determine how to address the conflict and that may include voting strictly in accordance with policy, and/or allowing the third-party service provider to vote in accordance with its guidelines. Additional conflicts of interests will be evaluated by the Committee or designated party on an individual basis. Although VFA strives to alleviate or diffuse known conflicts, there is no guarantee that all situations have been or will be mitigated through proxy policy incorporation.

In an effort to make well-informed and qualified proxy vote decisions, VFA and if applicable, its subadvisers generally utilize a third-party proxy service provider for support services related to the proxy voting processes/procedures which include, but are not limited to the following:

- The collection of proxy material from our clients' custodians;
- The review of proxy proposals and appropriate voting recommendations on behalf of the firm;
- The facilitation of proxy voting, reconciliation, and disclosure, in accordance with the firm's proxy policies and the Committee's direction; and
- Recordkeeping and voting record retention.

When VFA does not employ the use of a subadviser in managing accounts, to assist it in analyzing proxies, VFA subscribes to Institutional Shareholder Services ("ISS"), an unaffiliated third-party corporate governance research service that provides in-depth analyses of shareholder meeting agendas and vote recommendations. VFA fully reviews the ISS Proxy Voting Guidelines and follows its recommendations on most issues brought to a shareholder vote. In the case that a ballot item is not covered under the guidelines or VFA's guidelines are coded as case-by-case, a research analyst or portfolio manager will review the available information and will utilize such information, along with his/her knowledge of the company, to make a vote recommendation to the firm's Committee. The Committee members consider the information and recommendation and will then vote on that ballot item. In special circumstances, including where VFA in good faith believes that any ISS recommendation would be to the detriment of our investment clients, VFA will override an ISS recommendation, based on the approval of VFA's Committee. As reflected in the firm's Proxy policies, the Committee or designated party will affirmatively vote proxies for proposals that it deems to be in the best economic interest of its clients, as a whole, as shareholders and beneficiaries of those actions.

Each proxy vote must be evaluated on its own merits. Factors such as a company's organizational structure, executive and operational management, Board of Directors structure, corporate culture and governance process, and the impact of economic, environmental and social implications remain key elements in all voting decisions.

VFA and if applicable, its affiliated subadvisers will review the third-party proxy service provider's capabilities as agent for the contracted services noted above.

To obtain a copy of the complete proxy voting guidelines or information about how your proxies were



voted, please send a written request to sending a written request to Virtus Fund Advisers, LLC, Attn: Corporate Compliance, One Financial Plaza, Hartford, CT 06103 or by emailing a request to us at: [InvestmentAdviser@Virtus.com](mailto:InvestmentAdviser@Virtus.com).

VFA or if applicable, its subadvisers can occasionally be subject to conflicts of interest in the voting of proxies because of business or personal relationships it maintains with persons having an interest in the outcome of specific votes. VFA, or if applicable, its subadvisers, and their respective employees can also occasionally have business or personal relationships with other proponents of proxy proposals, participants in proxy contests, corporate directors, or candidates for directorships. Conflicts of interest are handled in various ways depending on the type and materiality.

VFA may abstain from voting client proxies if, based on its evaluation of relevant criteria, it determines that the costs associated with voting a proxy exceed the expected benefits to affected clients, such as but not limited to the following situation: Untimely notice of a shareholder meeting; requirements to vote proxies in person; restrictions on a foreigner's ability to exercise votes, and requirements to provide local agents with power of attorney to execute the voting instructions.

### **Class Actions, Bankruptcies and Similar Claims**

Unless otherwise stipulated by law or written agreement, VFA, or if applicable, its subadvisers, are not responsible to initiate and pursue litigation claims and related filings for class actions, bankruptcies, and similar claims on behalf of its clients' accounts. VFA will attempt to forward to client materials it receives in this regard and will employ reasonable efforts to assist clients in responding to claims but disclaims responsibility for any reasonable delays in transmission that may occur. With respect to our registered investment company clients, we or our subadviser will generally file for participation in class action settlements. We or our subadviser will generally retain a non-affiliated third-party vendor to carry out the activities required for participation. The vendor determines the eligibility pertinent to the specific class action, files the claim as appropriate, monitors the class action and processes receipt of any settlement.

Unless otherwise stipulated by written agreement, VFA or if applicable, its subadvisers, may at their discretion, elect to participate in bankruptcy proceedings, make investment-related elections and join creditors' committees on behalf of some or all of VFA's clients, but are not obligated to do so.

### **Item 18 – Financial Information**

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about their financial condition. VFA has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients. VFA does not require or solicit prepayment of advisory fees six months or more in advance. VFA does not act as custodian for any client account. VFA has not been the subject of a bankruptcy proceeding.

**FACTS**
**WHAT DOES VIRTUS FUND ADVISERS, LLC  
DO YOUR WITH PERSONAL INFORMATION?**
**Why?**

Financial companies choose how they share your personal information. Federal law gives consumers the right to limit some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.

**What?**

The types of personal information we collect and share depend on the product or service you have with us. This information can include:

- Investment experience
- Account balances and assets
- Risk tolerance and transaction history

**How?**

All financial companies need to share customer's personal information to run their everyday business. In the section below, we list the reasons financial companies can share their customer's personal information; the reasons Virtus Fund Advisers, LLC ("Virtus Fund Advisers") chooses to share; and whether you can limit this sharing.

| Reasons we can share your personal information  | Does Virtus Fund Advisers share? | Can you limit this sharing? |
|---|----------------------------------|-----------------------------|
| <b>For our everyday business purposes—</b><br>such as to process your transactions, maintain your account(s), respond to court orders and legal investigations, or report to credit bureaus | <b>Yes</b>                       | <b>No</b>                   |
| <b>For our marketing purposes—</b><br>to offer our products and services to you   | <b>Yes</b>                       | <b>No</b>                   |
| <b>For joint marketing with other financial companies</b>   | <b>No</b>                        | <b>We do not share</b>      |
| <b>For our affiliates' everyday business purposes—</b><br>information about your transactions and experiences   | <b>Yes</b>                       | <b>No</b>                   |
| <b>For our affiliates' everyday business purposes—</b><br>information about your creditworthiness   | <b>No</b>                        | <b>We do not share</b>      |
| <b>For our affiliates to market to you</b>  | <b>No</b>                        | <b>We do not share</b>      |
| <b>For nonaffiliates to market to you</b>   | <b>No</b>                        | <b>We do not share</b>      |

**Questions?**

Call 800-248-7971 or go to [www.Virtus.com](http://www.Virtus.com)



## What we do

|   |   |
|---|---|
| <b>How does Virtus Fund Advisers protect my personal information?</b> | To protect your personal information from unauthorized access and use, we use security measures that comply with federal law. These measures include computer safeguards and secured files and buildings.   |
| <b>How does Virtus Fund Advisers collect my personal information?</b> | <p>We collect your personal information, for example, when you</p> <ul style="list-style-type: none"> <li>■ Open an account or give us your contact information</li> <li>■ Seek advice about your investments</li> <li>■ Enter into an investment advisory contract</li> <li>■ Tell us about your investment or retirement portfolio</li> </ul>   |
| <b>Why can't I limit all sharing?</b>                                 | <p>Federal law gives you the right to limit only Sharing for affiliates' everyday business purposes—information about your creditworthiness</p> <ul style="list-style-type: none"> <li>■ Affiliates from using your information to market to you</li> <li>■ Sharing for nonaffiliates to market to you</li> </ul> <p>State laws and individual companies may give you additional rights to limit sharing.</p> |

## Definitions

|                        |  |
|------------------------|--|
| <b>Affiliates</b>      | <p>Companies related by common ownership or control. They can be financial and nonfinancial companies.</p> <ul style="list-style-type: none"> <li>■ Our affiliates include companies such as: AlphaSimplex Group, LLC; Ceredex Value Advisors LLC; Duff &amp; Phelps Investment Management Co.; Kayne Anderson Rudnick Investment Management, LLC; NFJ Investment Group LLC; SEIX CLO Management LLC; Silvant Capital Management LLC; Sustainable Growth Advisers LP; Westchester Capital Management, LLC; Westchester Capital Partners, LLC; Virtus Alternative Investment Advisers, Inc.; Virtus ETF Advisers, LLC; Virtus Fixed Income Advisers, LLC; Virtus Fund Services, LLC; Virtus Global Partners PTE. Ltd.; Virtus International Fund Management Limited; Virtus International Management LLP; Virtus Investment Advisers, Inc.; Virtus Investment Partners, Inc.; Virtus Investment Partners International Ltd.; Virtus Partners, Inc.; Virtus Shared Services, LLC; and VP Distributors, LLC.</li> </ul> |
| <b>Nonaffiliates</b>   | <p>Companies not related by common ownership or control. They can be financial and nonfinancial companies.</p> <ul style="list-style-type: none"> <li>■ Virtus Fund Advisers does not share with non-affiliates so they can market to you.</li> </ul>  |
| <b>Joint marketing</b> | <p>A formal agreement between nonaffiliated financial companies that together market financial products or services to you.</p> <ul style="list-style-type: none"> <li>■ Virtus Fund Advisers does not jointly market.</li> </ul>  |

### For California Residents Only

In addition to our Privacy Policy, the below notice is provided solely to certain **California residents** who are clients of Virtus Fund Advisers. To the extent that the California Consumer Privacy Act ("CCPA"), as amended by CPRA applies, you have the right to know what personal information we intend to collect or have collected about you and why. For clients of Virtus Fund Advisers, this information is provided in our **Privacy Notice**, above.

The CCPA also provides you the right to request access to specific pieces of information we have collected from you. You have the right to request correction of inaccurate information that we maintain about you. You also can request that we delete personal information about you. You can contact our Compliance Department at 800-248-7971 or go to [www.virtus.com](http://www.virtus.com) if you wish to make any of these requests. It is important to note, however, that the CCPA does not apply to all businesses, nor does it apply to personal information maintained by financial services firms that is covered under certain exemptions described in the CCPA, and as such, the CCPA will typically not apply to Virtus Fund Advisers' customers.

If we do not delete certain items of personal information because we have a legal right or obligation to retain that information, we will notify you of that. Further, if we do not delete certain items of personal information because we have a legal right or obligation to retain that data, we will delete that information at such later time that we no longer have a legal right or obligation to retain that information upon such a request.

At this time, we do not sell personal data or share personal data for purposes of cross-context advertising. We are not required under CCPA to provide information to you about our collection of your personal information or our sale or disclosure of personal information about you more than twice within a 12-month period. Additionally, we are permitted to refuse to honor unfounded or excessive repetitive requests to us or charge a reasonable administrative fee for honoring those requests, and in either case, will notify you of any such decision. We will not discriminate against you for making a rights request under California law. You have the right to appeal any decision regarding your rights and can do that by contacting us as described above.