

## Item 1. Cover Page

### **Part 2A of Form ADV Firm Brochure**

March 29, 2019

#### **Chou America Management, Inc.**

SEC File No. 801-70814

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This brochure provides information about the qualifications and business practices of Chou America Management, Inc. If you have any questions about the contents of this brochure, please contact us at [info@chouamerica.com](mailto:info@chouamerica.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or any State Securities Commission. Registration with the SEC or State Regulatory Authority does not imply a certain level of skill or expertise.

Additional information about Chou America Management, Inc., is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2. Material Changes

This Firm Brochure is our disclosure document prepared according to regulatory requirements and rules. Consistent with the rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business fiscal year. Furthermore, we will provide you with other interim disclosures about material changes as necessary.

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## Item 4. Advisory Business

### A. Description of Your Advisory Firm

Chou America Management, Inc. ("CAM"), is an investment adviser registered with the Securities and Exchange Commission and a corporation organized in Ontario, Canada. CAM is principally owned by Francis Chou and has been providing investment advisory services since September 2009.

### B. Description of Advisory Services Offered

CAM provides discretionary asset management services to Chou America Mutual Funds, established as a Delaware Statutory Trust ("Trust"), and comprises the Chou Opportunity Fund and the Chou Income Fund. In addition, although CAM presently does not provide separately managed account services, it reserves the right to do so in the future. To the extent that CAM offers separately managed account services, it will do so for individuals, trusts, corporations, banks and thrift institutions and other legal entities.

CAM has entered into an investment advisory agreement with the Trust and receives a limited power of attorney to effect securities transactions on behalf of the Chou America Mutual Funds that include securities and strategies itemized in Items 3 and 4 of CAM's Form ADV Part 2 and Schedule F. In addition, CAM, pursuant to the terms of its investment advisory agreement with the Trust, has discretionary authority to determine which securities are to be bought and sold, the price of such securities, the executing broker, and the commission rates to be paid to effect such transactions, as more fully described in Item 12 in this Brochure.

CAM is an affiliate of Chou Associates Management, Inc. ("Chou Associates"), which is registered in the Province of Ontario, Canada, as an Exempt Market Dealer and manages certain funds ("Chou Funds").

#### B.1. Chou Opportunity Fund

The investment objective of the Chou Opportunity Fund ("Opportunity Fund") is long-term growth of capital. The Opportunity Fund's investment objective may be changed by the Board of Trustees without a shareholder vote.

Under normal market conditions, the Opportunity Fund will invest primarily in equity and debt securities of companies located throughout the world that CAM believes are available at market prices less than their value, and financial instruments that provide exposure to these equity and debt securities. The Opportunity Fund will focus its investments in areas where it finds the most compelling opportunities at any given moment and on situations that, in CAM's opinion, have the potential for long-term growth of capital. Once an investment is made, the Opportunity Fund expects to be a patient, long-term investor. Portfolio holdings are typically concentrated in 25 to 35 companies without limits as to the size of an issuer, its earnings or the industry in which it operates. The Opportunity Fund may sell a security if CAM believes that (i) the market has recognized the security's full potential value, (ii) the security's fundamentals have deteriorated, or (iii) alternative investments have become more attractive.

CAM may decide to maintain a larger portion of the Opportunity Fund's assets in short-term fixed income securities during periods of high market valuations and volatility. This strategy permits CAM to protect capital while awaiting more favorable market conditions.

The Opportunity Fund may use financial instruments, including derivatives, as direct investments or to

- limit or hedge against losses that may occur because of the Opportunity Fund's investment in a security or exposure to a currency or market

- obtain exposure to financial markets
- reduce transaction costs
- create liquidity
- increase the speed of portfolio transactions

These financial instruments include:

- constant maturity swaps, total return swaps, interest rate swaps and credit default swaps
- options, including covered call options
- forward foreign currency exchange contracts
- currency futures contracts, currency swaps, options on currencies or options on currency futures

The Opportunity Fund may also use constant maturity swap caps, curve steepeners and other types of financial instruments as a hedge against inflation.

The Opportunity Fund may also invest in bank debt, lower-rated or defaulted debt securities, comparable unrated debt securities or other indebtedness (or participations in the indebtedness) of such companies. The debt securities that the Opportunity Fund may purchase may either be unrated, or rated in any rating category established by one or more independent rating organizations, such as Standard & Poor's Ratings Group ("S&P") or Moody's Investors Service ("Moody's"). The Opportunity Fund may invest in securities that are rated in the medium to lowest rating categories by S&P and Moody's, some of which may be so-called "junk bonds" or distressed debt. The Opportunity Fund may also enter into repurchase and reverse repurchase and securities lending agreements in order to earn additional income and manage its portfolio.

## **B.2. Chou Income Fund**

The investment objective of the Chou Income Fund ("Income Fund") is to provide capital appreciation and income production, with capital preservation as a secondary consideration.

Under normal market conditions, the Income Fund will invest at least 80% of its net assets in fixed income securities and financial instruments that provide exposure to fixed income securities. The Income Fund's fixed income investments principally will include U.S. and non-U.S. government and municipal securities, distressed securities, corporate bonds (both investment grade and below-investment grade), income trusts, bank debt, mortgage or asset-backed securities, convertible securities and preferred convertible securities. The Income Fund invests in fixed income securities in both developed markets and emerging markets.

The Income Fund may invest substantially in distressed securities and corporate bonds that are rated below-investment grade. These are securities generally rated in the lower rating categories ("Ca" or lower by Moody's or "CC" or lower by S&P) and rated at least "CCC" (or a comparable rating) by at least one nationally recognized statistical rating organization at the time of investment or, if unrated, are determined to be of comparable quality by the portfolio manager.

CAM may decide to maintain a larger portion of the Income Fund's assets in short-term fixed income securities during periods of high market valuations and volatility. This strategy may permit CAM to preserve capital while awaiting more favorable market conditions.

The Income Fund may use financial instruments as investments or to: (i) limit or hedge against losses that may occur because of the Income Fund's investment in a security or exposure to a currency or market; (ii) obtain exposure to financial markets; (iii) reduce transaction costs; (iv) create liquidity; and/or (v) increase the speed of portfolio transactions. These financial instruments include: constant maturity swaps, total

return swaps, interest rate swaps, and credit default swaps; options, including covered call options; forward foreign currency exchange contracts; currency futures contracts, currency swaps, options on currencies, or options on currency futures. The Income Fund also may use constant maturity swap caps, curve steepeners and other types of financial instruments as a hedge against inflation. In addition, the Fund may purchase shares of equities and simultaneously sell call options as a way to generate investment return.

The Income Fund may invest up to 20% of its net assets in equity securities, including common and preferred shares (other than convertible preferred shares), ADRs, pooled investment vehicles, including private equity and hedge funds, rights and warrants.

### **C. CAM's Investment Philosophy**

Each Fund will be managed on the basis of the investment objectives and criteria established in the fund's prospectus and statement of additional information.

### **D. Wrap Fee Programs**

CAM does not participate in wrap fee programs. (Wrap fee programs offer services for one all-inclusive fee.)

### **E. Assets Under Management**

As of December 31, 2018, CAM had \$38,139,859 under management in the Chou Opportunity Fund and \$9,777,358 under management in the Chou Income Fund.

## Item 5. Fees and Compensation

### A. Investment Advisory Fees

In addition to receiving its advisory fee from the Funds, CAM may also act and be compensated as investment manager for its clients with respect to assets they invested in the Funds. A conflict of interest could be deemed to exist in that CAM has a financial incentive to recommend an investment in the Funds for its separately managed account clients, if any. To mitigate this potential conflict, if an investor has a separately managed account with CAM with assets invested in the Funds, CAM will credit an amount equal to all or a portion of the fees received by CAM against any investment management fee received from the client.

The Funds and CAM have entered into an investment advisory agreement whereby CAM acts as the investment advisor for each of the Funds and has full discretionary authority to manage assets on behalf of each Fund in conformity with the Fund's prospectus. CAM is not affiliated with Atlantic Fund Administration ("Atlantic"), Fund Administrator of the Funds' investment accounts, or any company affiliated with Atlantic. The investment advisory agreement remains in effect for a period of two years from the date of its effectiveness, and then must be approved at least annually by the Board or by majority vote of the shareholders, and in either case by a majority of the Trustees who are not parties to the agreements or interested persons of any such party (other than as Trustees of the Trust).

The investment advisory agreement is terminable without penalty by the Trust with respect to the Funds on 60 days' written notice when authorized either by vote of a Fund's shareholders or by a majority vote of the Board, or by CAM on 60 days' written notice to the Trust. The investment advisory agreement terminates immediately upon assignment.

Under the investment advisory agreement, CAM is not liable for any error of judgment or mistake of law or for any loss suffered by the Trust or any Fund in connection with the matters to which the investment advisory agreement relates, except a loss resulting from the willful misfeasance, bad faith or gross negligence on CAM's part in the performance of its duties, or from reckless disregard by CAM of its obligations and duties under the investment advisory agreement.

Investment advisory fees for the Funds are negotiated separately between CAM and the Trust and disclosed in the prospectus for both the Opportunity and Income Funds. The investment advisory agreement between the Trust and CAM has an initial two-year period, which must be renewed annually after the initial two-year period by a majority of the Funds' Board as well as by a majority vote of the Board of Trustees of the Trust. Fees for investment advisory fees are billed monthly in arrears based upon the average daily value.

#### A.1. Opportunity Fund Fees

Pursuant to the Advisory Agreement, Chou receives an advisory fee from the Opportunity Fund at an annual rate equal to 1.00% of the Fund's average daily net assets. Chou has agreed to cap its advisory fee and/or reimburse certain expenses of the Opportunity Fund and Income Fund to the extent that each Fund's annual operating expenses exceed 1.20%, of each Fund's average daily net assets through May 1, 2019 (the "Expense Cap"). The Expense Cap excludes other expenses, taxes, leverage interest, acquired fund fees and expenses, dividends or interest on short positions, other interest expenses, brokerage commissions, and extraordinary expenses such as litigation. The Expense Cap may be changed only with the approval of the Board.

## **A.2. Income Fund Fees**

Pursuant to the Advisory Agreement, Chou receives an advisory fee from the Income Fund at an annual rate equal to 1.00% of the Fund's average daily net assets. Chou has agreed to cap its advisory fee and/or reimburse certain expenses of the Opportunity Fund and Income Fund to the extent that each Fund's annual operating expenses exceed 1.20%, of each Fund's average daily net assets through May 1, 2019 (the "Expense Cap"). The Expense Cap excludes other expenses, taxes, leverage interest, acquired fund fees and expenses, dividends or interest on short positions, other interest expenses, brokerage commissions, and extraordinary expenses such as litigation. The Expense Cap may be changed only with the approval of the Board.

## **B. Fee Deduction**

CAM does not deduct its fees. Fees for investment management are billed monthly in arrears based upon the average daily value of the fund's assets.

## **C. Other Fees**

### **C.1. Opportunity Fund**

CAM has agreed to cap its investment advisory fee and/or reimburse certain expenses of the Opportunity Fund to the extent that its annual operating expenses exceed 1.20% of the Opportunity Fund's average daily net assets through May 1, 2019. This expense limitation excludes other expenses, taxes, leverage interest, dividends or interest on short positions, other interest expenses, brokerage commissions, expenses incurred in connection with any merger or reorganization, and extraordinary expenses such as litigation. The Board of Trustees may agree to change fee limitations without the approval of Opportunity Fund shareholders. Any reimbursement of Opportunity Fund expenses or reduction in CAM's investment advisory fees is subject to reimbursement by the Opportunity Fund within the following three fiscal years, and any additional periods if overall expenses fall below the lesser of its then-current expense cap or the expense cap in effect at the time of the Opportunity Fund reimbursement.

### **C.2. Income Fund Fees**

CAM has agreed to cap its investment advisory fee and/or reimburse certain expenses of the Income Fund to the extent that its annual operating expenses exceed 1.20% of the Income Fund's average daily net assets through May 1, 2019. This expense limitation excludes other expenses, taxes, leverage interest, dividends or interest on short positions, other interest expenses, brokerage commissions, expenses incurred in connection with any merger or reorganization, and extraordinary expenses such as litigation. The Board of Trustees may agree to change fee limitations without the approval of Income Fund shareholders. Any reimbursement of Income Fund expenses or reduction in CAM's investment advisory fees is subject to reimbursement by the Income Fund within the following three fiscal years, and any additional periods if overall expenses fall below the lesser of its then-current expense cap or the expense cap in effect at the time of the Income Fund reimbursement.

## **D. Payment of Fees**

CAM's fees will be disbursed to CAM by Atlantic Fund Administration.

## **E. Financial Advisor Compensation**

CAM's portfolio manager is compensated solely through a salary and bonus structure. CAM is not paid any sales, service or administrative fees for the sale of mutual funds or any other investment products.

## **Item 6. Performance-Based Fees**

CAM does not charge performance-based fees and therefore has no economic incentive to manage fund portfolios in any way other than what is in the funds' best interests.

## **Item 7. Types of Clients**

CAM provides discretionary asset management services to Chou America Mutual Funds, established as a Delaware Statutory Trust ("Trust"), and comprises the Chou Opportunity Fund and the Chou Income Fund. In addition, although CAM presently does not provide separately managed account services, it reserves the right to do so in the future. To the extent that CAM offers separately managed account services, it will do so for individuals, trusts, corporations and other legal entities.

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

CAM uses a variety of sources of data to conduct its economic, investment and market analysis, such as financial newspapers and magazines, economic and market research materials prepared by others, conference calls hosted by mutual funds, corporate rating services, annual reports, prospectuses, and company press releases. It is important to keep in mind that there is no specific approach to investing that guarantees success or positive returns; investing in securities involves risk of loss that clients should be prepared to bear.

CAM and its investment adviser representatives are responsible for identifying and implementing the methods of analysis used in formulating investment recommendations to clients. The methods of analysis may include quantitative methods for optimizing client portfolios, computer-based risk/return analysis, technical analysis, and statistical and/or computer models utilizing long-term economic criteria.

- Optimization involves the use of mathematical algorithms to determine the appropriate mix of assets given the firm's current capital market rate assessment and a particular client's risk tolerance.
- Quantitative methods include analysis of historical data such as price and volume statistics, performance data, standard deviation and related risk metrics, how the security performs relative to the overall stock market, earnings data, price to earnings ratios, and related data.
- Technical analysis involves charting price and volume data as reported by the exchange where the security is traded to look for price trends.
- Computer models may be used to attempt the future value of a security based on assumptions of various data categories such as earnings, cash flow, profit margins, sales, and a variety of other company specific metrics.

In addition, CAM reviews research material prepared by others, as well as corporate filings, corporate rating services, and a variety of financial publications. CAM may employ outside vendors or utilize third-party software to assist in formulating investment recommendations to clients.

### **A. Methods of Analysis**

#### **A.1. Opportunity Fund**

The investment objective of the Chou Opportunity Fund ("Opportunity Fund") is long-term growth of capital. The Opportunity Fund's investment objective may be changed by the Board of Trustees without a shareholder vote.

Under normal market conditions, the Opportunity Fund will invest primarily in equity and debt securities of companies located throughout the world that CAM believes are available at market prices less than their value, and financial instruments that provide exposure to these equity and debt securities. The Opportunity Fund will focus its investments in areas where it finds the most compelling opportunities at any given moment and on situations that, in CAM's opinion, have the potential for long-term growth of capital. Once an investment is made, the Opportunity Fund expects to be a patient, long-term investor. Portfolio holdings are typically concentrated in 25 to 35 companies without limits as to the size of an issuer, its earnings or the industry in which it operates. The Opportunity Fund may sell a security if CAM believes that (i) the market has recognized the security's full potential value, (ii) the security's fundamentals have deteriorated, or (iii) alternative investments have become more attractive.

CAM may decide to maintain a larger portion of the Opportunity Fund's assets in short-term fixed income securities during periods of high market valuations and volatility. This strategy permits CAM to protect capital while awaiting more favorable market conditions.

## **A.2. Income Fund**

The investment objective of the Chou Income Fund ("Income Fund") is to provide capital appreciation and income production, with capital preservation as a secondary consideration. The Income Fund's investment objective may be changed by the Board of Trustees without a shareholder vote.

The Income Fund seeks to achieve its investment objective by investing at least 80% of its net assets in fixed income securities and financial instruments that provide exposure to fixed income securities. The Income Fund's fixed income investments will principally include U.S. and Canadian government and municipal securities, distressed securities, corporate bonds (both investment grade and below-investment grade), preferred securities, income trusts, bank debt, mortgage- or asset-backed securities, and convertible securities. The Income Fund invests in fixed income securities in both developed markets and emerging markets.

The Income Fund may invest in distressed securities and corporate bonds that are rated below-investment grade. These are securities generally rated in the lower rating categories ("Ca" or lower by Moody's, or "CC" or lower by S&P) and rated at least "CCC" (or a comparable rating) by at least one nationally recognized statistical rating organization at the time of investment; or, if unrated, are determined to be of comparable quality by the portfolio manager.

## **B. Material Risks of Investment Instruments**

### **B.1. Opportunity Fund**

Under normal market conditions, the Opportunity Fund will invest primarily in equity and debt securities of companies located throughout the world that CAM believes are available at market prices less than their value, and financial instruments that provide exposure to these equity and debt securities. The Opportunity Fund will focus its investments in areas where it finds the most compelling opportunities at any given moment and on situations that, in CAM's opinion, have the potential for long-term growth of capital. Once an investment is made, the Opportunity Fund expects to be a patient, long-term investor. Portfolio holdings are typically concentrated in 25 to 35 companies without limits as to the size of an issuer, its earnings or the industry in which it operates. The Opportunity Fund may sell a security if CAM believes that (i) the market has recognized the security's full potential value, (ii) the security's fundamentals have deteriorated, or (iii) alternative investments have become more attractive.

The Opportunity Fund may use financial instruments, including derivatives, as direct investments or to

- limit or hedge against losses that may occur because of the Opportunity Fund's investment in a security or exposure to a currency or market
- obtain exposure to financial markets
- reduce transaction costs
- create liquidity
- increase the speed of portfolio transactions

These financial instruments include

- constant maturity swaps, total return swaps, interest rate swaps, and credit default swaps

- options, including covered call options
- forward foreign currency exchange contracts
- currency futures contracts, currency swaps, options on currencies, or options on currency futures

The Opportunity Fund may also use constant maturity swap caps, curve steepeners and other types of financial instruments as a hedge against inflation.

The Opportunity Fund may also invest in bank debt, lower-rated or defaulted debt securities, comparable unrated debt securities or other indebtedness (or participations in the indebtedness) of such companies. The debt securities that the Opportunity Fund may purchase may either be unrated, or rated in any rating category established by one or more independent rating organizations, such as Standard & Poor's Ratings Group ("S&P") or Moody's Investors Service ("Moody's"). The Opportunity Fund may invest in securities that are rated in the medium to lowest rating categories by S&P and Moody's, some of which may be so-called "junk bonds" or distressed debt. The Opportunity Fund may also enter into repurchase and reverse repurchase and securities lending agreements in order to earn additional income and manage its portfolio.

## **B.2. Income Fund**

The Income Fund may use financial instruments, including derivatives, as direct investments or to

- limit or hedge against losses that may occur because of the Income Fund's investment in a security or exposure to a currency or market
- obtain exposure to financial markets
- reduce transaction costs
- create liquidity
- increase the speed of portfolio transactions

These financial instruments include

- constant maturity swaps, total return swaps, interest rate swaps, and credit default swaps
- options, including covered call options
- forward foreign currency exchange contracts
- currency futures contracts, currency swaps, options on currencies, or options on currency futures

The Income Fund also may use constant maturity swap caps, curve steepeners and other types of financial instruments as a hedge against inflation.

## **B.3. Equity Securities**

### **B.3.a. Common and Preferred Stock**

The Funds may invest in common and preferred stock. Common stock represents an equity (ownership) interest in a company, and usually possesses voting rights and earns dividends. Dividends on common stock are not fixed but are declared at the discretion of the issuer. Common stock generally represents the riskiest investment in a company. In addition, common stock generally has the greatest appreciation and depreciation potential because increases and decreases in earnings are usually reflected in a company's stock price.

Preferred stock is a class of stock having a preference over common stock as to the payment of dividends and the recovery of investment should a company be liquidated, although preferred stock is

usually junior to the debt securities of the issuer. Preferred stock typically does not possess voting rights, and its market value may change based on changes in interest rates.

The fundamental risk of investing in common and preferred stock is the risk that the value of the stock might decrease. Stock values fluctuate in response to the activities of an individual company or in response to general market and/or economic conditions. Historically, common stocks have provided greater long-term returns and have entailed greater short-term risks than preferred stocks, fixed income and money market investments. The market value of all securities, including common and preferred stocks, is based upon the market's perception of value and not necessarily the book value of an issuer or other objective measure of a company's worth. To invest in the Fund, clients should be willing to accept the risks of the stock market and consider an investment in the Fund only as a part of their overall investment portfolio.

### **B.3.b. Trust-Preferred Securities**

The Funds may purchase trust-preferred securities, also known as "trust preferreds," which are preferred stocks issued by a special purpose trust subsidiary backed by subordinated debt of the corporate parent. An issuer creates trust-preferred securities by creating a trust and issuing debt to the trust; the trust in turn issues trust-preferred securities. Trust-preferred securities are hybrid securities with characteristics of both subordinated debt and preferred stock. Such characteristics include long maturities (typically 30 years or more), early redemption by the issuer, periodic fixed or variable interest payments, and maturities at face value. In addition, trust-preferred securities issued by a bank holding company may allow deferral of interest payments for up to five years. Holders of trust-preferred securities have limited voting rights to control the activities of the trust, and no voting rights with respect to the parent company.

### **B.3.c. Convertible Securities and Convertible Arbitrage**

The Funds may invest in convertible securities. Convertible securities include debt securities, preferred stock, or other securities that may be converted into or exchanged for a given amount of common stock of the same or a different issuer during a specified period and at a specified price in the future. A convertible security entitles the holder to receive interest on debt or the dividend on preferred stock until the convertible security matures or is redeemed, converted or exchanged.

Convertible securities rank senior to common stock in a company's capital structure but are usually subordinated to comparable nonconvertible securities. Convertible securities have unique investment characteristics in that they generally (i) have higher yields than common stocks, but lower yields than comparable non-convertible securities; (ii) are less subject to fluctuation in value than the underlying stocks since they have fixed income characteristics; and (iii) provide the potential for capital appreciation if the market price of the underlying common stock increases.

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security is called for redemption, a Fund will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party.

Moody's, S&P and other NRSROs are private services that provide ratings of the credit quality of debt obligations, including convertible securities. The Funds may use these ratings to determine whether to purchase, sell or hold a security. Ratings are general and are not absolute standards of quality. Securities with the same maturity, interest rate and rating may have different market prices. To the extent that the ratings given by an NRSRO may change as a result of changes in such organizations or their rating systems, CAM will attempt to substitute comparable ratings. Credit ratings attempt to evaluate the

safety of principal and interest payments and do not evaluate the risks of fluctuations in market value. Also, rating agencies may fail to make timely changes in credit ratings. An issuer's current financial condition may be better or worse than a rating indicates.

The Funds may engage in convertible arbitrage. Convertible arbitrage involves purchasing a portfolio of convertible securities, generally convertible bonds, and hedging a portion of the equity risk by selling short the underlying common stock. The Funds may also seek to use convertible arbitrage to hedge interest rate exposure under some circumstances or use certain other strategies to maintain a sector and market-neutral portfolio. The average grade of a bond in a convertible arbitrage portfolio is typically below investment grade with individual ratings ranging from AA to CCC; however, as the default risk of the company is hedged by shorting the underlying common stock, the risk is considerably better than the rating of the un-hedged bond indicates.

Investment in convertible securities generally entails less risk than an investment in the issuer's common stock. Convertible securities are typically issued by smaller capitalized companies whose stock price may be volatile. Therefore, the price of a convertible security may reflect variations in the price of the underlying common stock in a way that nonconvertible debt does not. The extent, to which such risk is reduced, however, depends in large measure upon the degree to which the convertible security sells above its value as a fixed income security. Convertible arbitrage is subject to special risks, including the risk of default in interest or principal payments, which could result in a loss of income to a Fund or a decline in the market value of the securities.

The Funds' investments in convertible and other debt securities are subject to the credit risk relating to the financial condition of the issuers of the securities that a Fund holds. The Funds may invest in high yield securities that provide poor protection for payment of principal and interest but that may have greater potential for capital appreciation than higher quality securities. These securities also have greater risk of default or price changes due to changes in the issuers' creditworthiness than do higher quality securities. The market for these securities may be thinner and less active than that for higher quality securities, which may affect the price at which the lower rated securities can be sold. In addition, the market prices of these securities may fluctuate more than the market prices of higher quality securities and may decline significantly in periods of general economic difficulty or rising interest rates. Under such conditions, the Funds may have to use subjective rather than objective criteria to value their high yield/high risk securities investments accurately, and may rely more heavily on the judgment of CAM to do so.

#### **B.3.d. Warrants and Rights**

The Funds may invest in warrants and rights. Warrants are securities, typically issued with preferred stock or bonds, that give the holder the right to purchase a given number of shares of common stock at a specified price and time. The price of the warrant usually represents a premium over the applicable market value of the common stock at the time of the warrant's issuance. Warrants have no voting rights with respect to the common stock, receive no dividends and have no rights with respect to the assets of the issuer.

Investments in warrants and rights involve certain risks, including the possible lack of a liquid market for the resale of the warrants and rights, potential price fluctuations due to adverse market conditions or other factors, and failure of the price of the common stock to rise. If the warrant is not exercised within the specified time period, it becomes worthless.

### **B.3.e. Depositary Receipts**

The Funds may invest in depositary receipts. A depositary receipt is a receipt for shares of a foreign-based company that entitles the holder to distributions on the underlying security. Depositary receipts include sponsored and unsponsored American Depositary Receipts ("ADRs"), European Depositary Receipts ("EDRs") and other similar global instruments. ADRs typically are issued by a U.S. bank or trust company, evidence ownership of underlying securities issued by a foreign company, and are designed for use in U.S. securities markets. EDRs (sometimes called Continental Depositary Receipts) are receipts issued by a European financial institution evidencing an arrangement similar to that of ADRs and are designed for use in European securities markets. The Funds invest in depositary receipts in order to obtain exposure to foreign securities markets.

Un-sponsored depositary receipts may be created without the participation of the foreign issuer. Holders of these receipts generally bear all the costs of the depositary receipt facility, whereas foreign issuers typically bear certain costs in a sponsored depositary receipt. The bank or trust company depositary of an unsponsored depositary receipt may be under no obligation to distribute shareholder communications received from the foreign issuer or to pass through voting rights. Accordingly, available information concerning the issuer may not be current, and the prices of unsponsored depositary receipts may be more volatile than the prices of sponsored depositary receipts.

### **B.3.f. Real Estate Investment Trusts ("REITs")**

The Funds may purchase REITs. A REIT is a company that pools investor funds to invest primarily in income producing real estate or real estate related loans or interests. A REIT is not taxed on income distributed to shareholders if, among other things, it distributes to shareholders substantially all of its taxable income (other than net capital gains) for each taxable year. Because REITs have ongoing operating fees and expenses, which may include management, operating and administration expenses, REIT shareholders including a Fund will bear a proportionate share of those expenses in addition to the expenses of the Fund.

## **B.4. Fixed Income Securities**

### **B.4.a. U.S. and Foreign Government Securities**

The Funds may invest in U.S. government securities. U.S. government securities include securities issued by the U.S. Treasury and by U.S. government agencies and instrumentalities. U.S. government securities may be supported by the full faith and credit of the United States (such as the mortgage-related securities and certificates of the Government National Mortgage Association and securities of the Small Business Administration); by the right of the issuer to borrow from the U.S. Treasury (such as Federal Home Loan Bank securities); by the discretionary authority of the U.S. Treasury to lend to the issuer (such as Fannie Mae [formerly the Federal National Mortgage Association] securities); or solely by the creditworthiness of the issuer (such as the Federal Home Loan Mortgage Corporation securities).

The Funds may also invest in securities issued or guaranteed by a foreign government, province, instrumentality, political subdivision or similar unit thereof.

Holders of U.S. government and foreign securities not backed by the full faith and credit of the U.S. or foreign government must look principally to the agency or instrumentality issuing the obligation for repayment and may not be able to assert a claim against the United States or foreign government in the event that the agency or instrumentality does not meet its commitment. No assurance can be given that the U.S. government or foreign government would provide support if it were not obligated to do

so by law. Neither the U.S. government, foreign government nor any of its agencies or instrumentalities guarantees the market value of the securities they issue.

#### **B.4.b. Government and Agency Mortgage-Backed Securities**

The principal issuers or guarantors of mortgage-backed securities are the Government National Mortgage Association ("GNMA"), Fannie Mae ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC"). GNMA, a wholly owned U.S. government corporation within the Department of Housing and Urban Development ("HUD"), creates pass-through securities from pools of government-guaranteed (Farmers' Home Administration, Federal Housing Authority or Veterans Administration) mortgages. The principal and interest on GNMA pass-through securities are backed by the full faith and credit of the U.S. government.

FNMA, which is a U.S. government-sponsored corporation owned entirely by private stockholders that is subject to regulation by the Secretary of HUD, and FHLMC, which is a corporate instrumentality of the U.S. government, issue pass-through securities from pools of conventional and federally insured and/or guaranteed residential mortgages. FNMA guarantees full and timely payment of all interest and principal, and FHLMC guarantees timely payment of interest and ultimate collection of principal of its pass-through securities. Mortgage-backed securities from FNMA and FHLMC are *not* backed by the full faith and credit of the U.S. Government.

#### **B.4.c. Corporate Debt Obligations**

The Funds may invest in corporate debt obligations. Corporate debt obligations include corporate bonds, debentures, notes, commercial paper and other similar corporate debt instruments. Companies use these instruments to borrow money from investors. The issuer pays the investor a fixed or variable rate of interest and must repay the amount borrowed at maturity. Commercial paper (short-term unsecured promissory notes) is issued by companies to finance their current obligations and normally has a maturity of less than nine months. In addition, the Funds may also invest in corporate debt securities registered and sold in the United States by foreign issuers (Yankee bonds) and those sold outside the U.S. by foreign or U.S. issuers (Eurobonds).

#### **B.4.d. Treasury Inflation Protected Securities**

The Funds may invest in treasury inflation protected securities ("TIPS"). TIPS are income-generating instruments whose interest and principal payments are adjusted for inflation—a sustained increase in prices that erodes the purchasing power of money. The inflation adjustment, which is typically applied monthly to the bond's principal, follows a designated inflation index, such as the consumer price index (CPI). A fixed coupon rate is applied to the inflation-adjusted principal so that as inflation rises, both the principal value and the interest payments increase. This adjustment can provide investors with a hedge against inflation, as it helps preserve the purchasing power of their investments. Because of this inflation adjustment feature, inflation-protected bonds typically have lower yields than conventional fixed-rate bonds. TIPS are subject to certain risks, including interest rate risk and deflation risk.

#### **B.4.e. Mortgage-Backed Securities**

The Funds may invest in mortgage-backed securities, including pass-through securities and collateralized obligations. Mortgage-backed securities represent interests in a pool of mortgage loans originated by lenders such as commercial banks, savings associations and mortgage bankers and brokers. Mortgage-backed securities may be issued by governmental or government-related entities or by non-governmental entities such as special purpose trusts created by commercial lenders.

Pools of mortgages consist of whole mortgage loans or participations in mortgage loans. The majority of these loans are made to purchasers of between one and four family homes. The terms and characteristics of the mortgage instruments are generally uniform within a pool but may vary among pools. For example, in addition to fixed-rate, fixed-term mortgages, the Funds may purchase pools of adjustable-rate mortgages, growing equity mortgages, graduated payment mortgages and other types. Mortgage poolers apply qualification standards to lending institutions, which originate mortgages for the pools as well as credit standards and underwriting criteria for individual mortgages included in the pools. In addition, many mortgages included in pools are insured through private mortgage insurance companies.

Mortgage-backed securities differ from other forms of fixed income securities, which normally provide for periodic payment of interest in fixed amounts, with principal payments at maturity or on specified call dates. Most mortgage-backed securities, however, are pass-through securities, which means that investors receive payments consisting of a pro rata share of both principal and interest (less servicing and other fees), as well as unscheduled pre-payments, as loans in the underlying mortgage pool are paid off by the borrowers. Additional pre-payments to holders of these securities are caused by pre-payments resulting from the sale or foreclosure of the underlying property or refinancing of the underlying loans. As pre-payment rates of individual pools of mortgage loans vary widely, it is not possible to predict accurately the average life of a particular mortgage-backed security. Although mortgage-backed securities are issued with stated maturities of up to 40 years, unscheduled or early payments of principal and interest on the mortgages may shorten considerably the securities' effective maturities.

#### **B.4.f. Privately Issued Mortgage-Backed Securities**

The Funds may invest in privately issued mortgage-backed securities. Mortgage-backed securities offered by private issuers include pass-through securities consisting of pools of conventional residential mortgage loans; mortgage-backed bonds, which are considered to be debt obligations of the institution issuing the bonds and are collateralized by mortgage loans; and bonds and collateralized mortgage obligations that are collateralized by mortgage-backed securities issued by GNMA, FNMA or FHLMC or by pools of conventional mortgages of multi-family or of commercial mortgage loans.

Privately issued mortgage-backed securities generally offer a higher rate of interest (but greater credit and interest rate risk) than securities issued by U.S. government issuers because there are no direct or indirect governmental guarantees of payment. Many non-governmental issuers or servicers of mortgage-backed securities guarantee or provide insurance for timely payment of interest and principal on the securities. The market for privately issued mortgage-backed securities is smaller and less liquid than the market for mortgage-backed securities issued by U.S. government issuers.

#### **B.4.g. Stripped Mortgage-Backed Securities**

The Funds may invest in stripped mortgage-backed securities. Stripped mortgage-backed securities are multi-class mortgage-backed securities that are created by separating the securities into their principal and interest components and selling each piece separately. Stripped mortgage-backed securities are usually structured with two classes that receive different proportions of the interest and principal distributions in a pool of mortgage assets.

#### **B.4.h. Collateralized Obligations**

The Funds may invest in collateralized mortgage obligations ("CMOs") that are collateralized by mortgage-backed securities issued by GNMA, FHLMC or FNMA ("mortgage assets"). CMOs are multiple-

class debt obligations. Payments of principal and interest on the mortgage assets are passed through to the holders of the CMOs as they are received, although certain classes (often referred to as “tranches”) of CMOs have priority over other classes with respect to the receipt of mortgage prepayments. Each tranche is issued at a specific or floating coupon rate and has a stated maturity or final distribution date. Interest is paid or accrues in all tranches on a monthly, quarterly or semi-annual basis. Payments of principal and interest on mortgage assets are commonly applied to the tranches in the order of their respective maturities or final distribution dates, so that generally no payment of principal will be made on any tranche until all other tranches with earlier stated maturity or distribution dates have been paid in full.

The Funds may also invest in collateralized debt obligations (“CDOs”), which include collateralized bond obligations (“CBOs”), collateralized loan obligations (“CLOs”) and other similarly structured securities. CBOs and CLOs are types of asset-backed securities. A CBO is a trust that is backed by a diversified pool of high-risk, below-investment-grade fixed income securities. A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans.

For both CBOs and CLOs, the cash flows from the trust are split into two or more portions, called tranches, varying in risk and yield. The riskiest portion is the “equity” tranche, which bears the bulk of defaults from the bonds or loans in the trust and serves to protect the other, more senior tranches from default in all but the most severe circumstances. Since it is partially protected from defaults, a senior tranche from a CBO trust or CLO trust typically has higher ratings and lower yields than the underlying securities, and can be rated investment grade. Despite the protection from the equity tranche, CBO or CLO tranches can experience substantial losses due to actual defaults, increased sensitivity to defaults due to collateral default and disappearance of protecting tranches, market anticipation of defaults, as well as aversion to CBO or CLO securities as a class.

The risks of an investment in a CDO depend largely on the type of the collateral securities and the class of the CDO in which a fund invests. Normally, CBOs, CLOs and other CDOs are privately offered and sold, and thus are not registered under the securities laws. As a result, investments in CDOs may be characterized by a fund as illiquid securities; however, an active dealer market may exist for CDOs, allowing a CDO to qualify for Rule 144A transactions. In addition to the normal risks associated with fixed income securities discussed elsewhere in the Statement of Additional Information (“SAI”) and the Prospectus (e.g., interest rate risk and default risk), CDOs carry additional risks including, but not limited to, the 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.
- The Funds may invest in CDOs that are subordinate to other classes.
- The complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer or unexpected investment results.

#### **B.4.i. Asset-Backed Securities**

The Funds may invest in asset-backed securities, including asset-backed commercial paper. Asset-backed securities have structural characteristics similar to mortgage-backed securities, but have underlying assets that are not mortgage loans or interests in mortgage loans. Asset-backed securities represent fractional interests in, or are secured by and payable from, pools of assets such as motor vehicle installment sales contracts, installment loan contracts, leases of various types of real and

personal property, and receivables from revolving credit (e.g., credit card) agreements. Assets are securitized through the use of trusts and special purpose corporations that issue securities that are often backed by a pool of assets representing the obligations of a number of different parties. Repayments relating to the assets underlying the asset-backed securities depend largely on the cash flows generated by such assets. The credit quality of most asset-backed securities depends primarily on the credit quality of the assets underlying such securities, how well the entity issuing the security is insulated from the credit risk of the originator or any other affiliated entities, and the amount and quality of any credit enhancements associated with the securities. Payments or distributions of principal and interest on asset-backed securities may be supported by credit enhancements including letters of credit, an insurance guarantee, reserve funds and over-collateralization. Asset-backed securities have structures and characteristics similar to those of mortgage-backed securities; accordingly, they are subject to many of the same risks, though often to a greater extent.

#### **B.4.j. Distressed Assets**

The Funds may invest in “below-investment-grade” securities and obligations of U.S. and non-U.S. issuers in weak financial condition that are experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings including subprime loan collateral and mezzanine home equity loan structures. These securities are likely to be particularly risky investments, although they may also offer the potential for correspondingly high returns. Investment in the debt of financially distressed companies domiciled outside the U.S. may involve risks in addition to those of foreign investing discussed elsewhere in the SAI. To the extent a Fund invests significantly in securities involving subprime residential mortgage loans (i.e., loans to borrowers with lower credit scores), it may be subject to certain risks associated with defaults on such loans and any impact to servicers of such loans. Recently, a number of originators and servicers of subprime residential mortgage loans (RMBS) have experienced serious financial difficulties and in some cases have entered bankruptcy proceedings. The inability of the originator to repurchase such mortgage loans in the event of early payment defaults and other loan representation breaches may also affect the performance of residential mortgage-backed securities backed by those subprime mortgage loans and subprime RMBS. In addition, interest rate spreads for subprime RMBS have widened and are more volatile when compared to the recent past due to these adverse changes in market conditions. If interest rate spreads for RMBS securities continue to be volatile, and to the extent a Fund invests in RMBS securities, the assets of the Fund may be negatively affected by such volatility and the Fund may experience difficulty in the management and reinvestment of its investments. Any additional deterioration in the market performance of both RMBS securities backed by subprime residential mortgage portfolios and CDO securities with significant exposure to such RMBS securities would likely increase the chances that the Funds may incur losses on such investments.

#### **B.4.k. Variable Amount Master Demand Notes**

Variable amount master demand notes are unsecured demand notes that permit investment of fluctuating amounts of money at variable rates of interest pursuant to arrangements with issuers that meet certain quality criteria. All variable amount master demand notes acquired by the Funds will be payable within a prescribed notice period not to exceed seven days.

#### **B.4.l. Municipal Securities**

The Funds may invest in municipal securities. Municipal securities are issued by the states, territories and possessions of the U.S. or foreign governments, their political subdivisions (such as cities, counties

and towns) and various authorities (such as public housing or redevelopment authorities), instrumentalities, public corporations and special districts (such as water, sewer or sanitary districts) of the states, territories, and possessions of the U.S. or their political subdivisions. In addition, municipal securities include securities issued by or on behalf of public authorities to finance various privately operated facilities, such as industrial development bonds, that are backed only by the assets and revenues of the non-governmental user (such as hospitals and airports).

Municipal securities are issued to obtain funds for a variety of public purposes, including general financing for state and local governments or financing for specific projects or public facilities. Municipal securities are classified as general obligation or revenue bonds or notes. General obligation securities are secured by the issuer's pledge of its full faith, credit and taxing power for the payment of principal and interest. Revenue securities are payable from revenue derived from a particular facility, class of facilities, or the proceeds of a special excise tax or other specific revenue source, but not from the issuer's general taxing power. Private activity bonds and industrial revenue bonds do not carry the pledge of the credit of the issuing municipality, but generally are guaranteed by the corporate entity on whose behalf they are issued.

Municipal leases are entered into by state, territory and local governments and authorities to acquire equipment and facilities such as fire and sanitation vehicles, telecommunications equipment and other assets. Municipal leases (which normally provide for title to the leased assets to pass eventually to the government issuer) have evolved as a means for governmental issuers to acquire property and equipment without meeting the constitutional and statutory requirements for the issuance of debt. The debt-issuance limitations of many state constitutions and statutes are deemed to be inapplicable because of the inclusion in many leases or contracts of "non-appropriation" clauses that provide that the governmental issuer has no obligation to make future payments under the lease or contract unless money is appropriated for such purpose by the appropriate legislative body on a yearly or other periodic basis.

#### **B.4.m. Variable and Floating Rate Securities**

The Funds may invest in variable and floating rate securities, including perpetual floaters. Fixed income securities that have variable or floating rates of interest may, under certain limited circumstances, have varying principal amounts. These securities pay interest at rates that are adjusted periodically according to a specified formula, usually with reference to one or more interest rate indices or market interest rates (the "underlying index"). The interest paid on these securities is a function primarily of the underlying index upon which the interest rate adjustments are based. These adjustments minimize changes in the market value of the obligation. A perpetual floater is a floating rate security with no stated maturity date. Similar to fixed rate debt instruments, variable and floating rate instruments are subject to changes in value based on changes in market interest rates or changes in the issuer's creditworthiness. The rate of interest on securities may be tied to U.S. government securities or indices on those securities as well as any other rate of interest or index.

Variable and floating rate demand notes of corporations are redeemable upon a specified period of notice. These obligations include master demand notes that permit investment of fluctuating amounts at varying interest rates under direct arrangements with the issuer of the instrument. The issuer of these obligations often has the right, after a given period, to prepay the outstanding principal amount of the obligations upon a specified number of days' notice.

Certain securities may have an initial principal amount that varies over time based on an interest rate index and, accordingly, the Funds might be entitled to less than the initial principal amount of the security upon the security's maturity. The Funds intend to purchase these securities only when CAM

believes the interest income from the instrument justifies any principal risks associated with the instrument. CAM may attempt to limit any potential loss of principal by purchasing similar instruments that are intended to provide an offsetting increase in principal. There can be no assurance that CAM will be able to limit the effects of principal fluctuations and, accordingly, the Funds may incur losses on those securities even if held to maturity without issuer default.

The Funds also may invest in inverse floating rate debt instruments ("inverse floaters"). The interest rate on an inverse floater resets in the opposite direction from the market rate of interest to which the inverse floater is indexed. An inverse floater may have greater volatility in market value in that, during periods of rising interest rates, the market values of inverse floaters will tend to decrease more rapidly than those of fixed rate securities.

There may not be an active secondary market for any particular floating or variable rate instruments, which could make it difficult for the Funds to dispose of the instrument during periods that the Funds are not entitled to exercise any demand rights they may have. The Funds could, for this or other reasons, suffer a loss with respect to those instruments. CAM monitors the liquidity of the Funds' investment in variable and floating rate instruments, but there can be no guarantee that an active secondary market will exist.

#### **B.4.n. Structured Notes**

The Funds may invest in structured notes. Structured notes include, but are not limited to, reverse convertible notes, interest rate-linked notes, credit-linked notes, commodity-linked notes and dual currency notes. Structured notes are debt obligations where the interest rate and/or principal amount payable upon maturity or redemption of the note is determined by the performance of an underlying reference instrument, such as an asset, market or interest rate. Structured notes may be positively or negatively indexed; that is, an increase in the value of the reference instrument may produce an increase or decrease in the interest rate or principal. Further, the rate of return on a structured note may be determined by the application of a multiplier to the percentage change (positive or negative) in value of the reference instrument. Structured notes may be issued by governmental agencies, broker-dealers or investment banks at various levels of coupon payments and maturities, and may also be privately negotiated to meet an individual investor's requirements. Many types of structured notes may also be "replicated" through a combination of holdings in equity and fixed-income securities and derivative instruments such as call or put options.

#### **B.4.o. Zero-Coupon Securities**

The Funds may invest in zero-coupon securities. Zero-coupon securities are debt obligations that are issued or sold at a significant discount from their face value and do not pay current interest to holders prior to maturity, a specified redemption date or cash payment date. The discount approximates the total interest the securities will accrue and compound over the period to maturity or the first interest payment date at a rate of interest reflecting the market rate of interest at the time of issuance. The original issue discount on the zero-coupon securities must be included ratably in the income of a Fund (and thus an investor's) as the income accrues, even though payment has not been received. The Funds distribute all of their net investment income and may have to sell portfolio securities to distribute imputed income, which may occur at a time when CAM would not have chosen to sell such securities and which may result in a taxable gain or loss. Because interest on zero-coupon securities is not paid on a current basis but is in effect compounded, the value of these securities is subject to greater fluctuations in response to changing interest rates and may involve greater credit risks than the value of debt obligations that distribute income regularly.

Zero-coupon securities may be securities that have been stripped of their unmatured interest stream. Zero-coupon securities may be custodial receipts or certificates, underwritten by securities dealers or banks, that evidence ownership of future interest payments, principal payments or both on certain U.S. government securities. The underwriters of these certificates or receipts generally purchase a U.S. government security and deposit the security in an irrevocable trust or custodial account with a custodian bank, which then issues receipts or certificates that evidence ownership of the purchased unmatured coupon payments and the final principal payment of the U.S. government security. These certificates or receipts have the same general attributes as zero-coupon stripped U.S. Treasury securities, but are not supported by the issuer of the U.S. government security. The risks associated with stripped securities are similar to those of other zero-coupon securities, although stripped securities may be more volatile, and the value of certain types of stripped securities may move in the same direction as interest rates.

#### **B.4.p. Financial Institution Obligations**

The Funds may invest in financial institution obligations. Obligations of financial institutions include, among other things, negotiable certificates of deposit and bankers' acceptances. The Funds may invest in negotiable certificates of deposit and bankers' acceptances issued by commercial banks doing business in the United States. Certificates of deposit represent an institution's obligation to repay funds deposited with it that earn a specified interest rate over a given period. Bankers' acceptances are negotiable obligations of a bank to pay a draft that has been drawn by a customer and are usually backed by goods in international trade. Time deposits are non-negotiable deposits with a banking institution that earn a specified interest rate over a given period. Certificates of deposit and fixed time deposits, which are payable at the stated maturity date and bear a fixed rate of interest, generally may be withdrawn on demand by a Fund but may be subject to early withdrawal penalties, which could reduce a Fund's performance. Although fixed time deposits do not in all cases have a secondary market, there are no contractual restrictions on a Fund's right to transfer a beneficial interest in the deposits to third parties.

The Funds may invest in Eurodollar certificates of deposit, which are issued by offices of foreign and domestic banks located outside the United States; Yankee certificates of deposit, which are issued by a U.S. branch of a foreign bank and held in the United States; Eurodollar time deposits, which are deposits in a foreign branch of a U.S. bank or a foreign bank; and Canadian time deposits, which are issued by Canadian offices of major Canadian banks. Each of these instruments is U.S. dollar denominated.

#### **B.5. Risks of Fixed Income Securities**

The market value of the interest-bearing debt securities held by the Funds will be affected by changes in interest rates. There is normally an inverse relationship between the market value of securities sensitive to prevailing interest rates and actual changes in interest rates. The longer the remaining maturity (and duration) of a security, the more sensitive the security is to changes in interest rates. All fixed income securities, including U.S. government securities, can change in value when there is a change in interest rates. Changes in the ability of an issuer to make payments of interest and principal and in the markets' perception of an issuer's creditworthiness will also affect the market value of that issuer's fixed income securities. As a result, an investment in a Fund is subject to risk even if all fixed income securities in the Fund's investment portfolio are paid in full at maturity. In addition, certain fixed income securities may be subject to extension risk, which refers to the change in total return on a security resulting from an extension or abbreviation of the security's maturity.

Yields on fixed income securities, including municipal securities, are dependent on a variety of factors, including the general conditions of the fixed income securities markets, the size of a particular offering,

the maturity of the obligation and the rating of the issue. Under normal conditions, fixed income securities with longer maturities tend to offer higher yields and are generally subject to greater price movements than obligations with shorter maturities.

The issuers of debt securities are subject to the provisions of bankruptcy, insolvency and other laws affecting the rights and remedies of creditors that may restrict the ability of the issuer to pay, when due, the principal of and interest on its debt securities. The possibility therefore exists that, as a result of bankruptcy, litigation or other conditions, the ability of an issuer to pay, when due, the principal of and interest on its debt securities may become impaired.

#### **B.5.a. Interest Rates**

The market value of the interest-bearing fixed income securities held by the Funds will be affected by changes in interest rates. There is normally an inverse relationship between the market value of securities sensitive to prevailing interest rates and actual changes in interest rates. The longer the remaining maturity (and duration) of a security, the more sensitive the security is to changes in interest rates. All fixed income securities, including U.S. government securities, can change in value when there is a change in interest rates. Changes in the ability of an issuer to make payments of interest and principal and in the markets' perception of an issuer's creditworthiness will also affect the market value of that issuer's debt securities. As a result, an investment in a Fund is subject to risk even if all fixed income securities in the Fund's investment portfolio are paid in full at maturity. In addition, certain fixed income securities may be subject to extension risk, which refers to the change in total return on a security resulting from an extension or abbreviation of the security's maturity.

#### **B.5.b. Credit**

The Funds' investments in fixed income securities are subject to credit risk relating to the financial condition of the issuers of the securities that the Funds hold. The Funds may invest in high yield securities that provide poor protection for payment of principal and interest but may have greater potential for capital appreciation than do higher quality securities. These securities also have greater risk of default or price changes due to changes in the issuers' creditworthiness than do higher quality securities. The market for these securities may be thinner and less active than that for higher quality securities, which may affect the price at which the lower-rated securities can be sold. In addition, the market prices of these securities may fluctuate more than the market prices of higher quality securities, and may decline significantly in periods of general economic difficulty or rising interest rates. Under such conditions, the Funds may have to use subjective rather than objective criteria to value its high yield/high risk securities investments accurately, and may rely more heavily on the judgment of CAM to do so.

Moody's, S&P and other NRSROs are private services that provide ratings of the credit quality of debt obligations, including convertible securities. A description of the range of ratings assigned to various types of bonds and other securities by several NRSROs is included in Appendix A to the SAI. CAM may use these ratings to determine whether to purchase, sell or hold a security. Ratings are general and are not absolute standards of quality. Securities with the same maturity, interest rate and rating may have different market prices. If an issue of securities ceases to be rated or if its rating is reduced after it is purchased by the Funds, CAM will determine whether the Funds should continue to hold the obligation. Credit ratings attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value. Also, rating agencies may fail to make timely changes in credit ratings. An issuer's current financial condition may be better or worse than a rating indicates.

### **B.5.c. Mortgage-Backed Securities**

The value of mortgage-backed securities may be significantly affected by changes in interest rates, the market's perception of issuers, the structure of the securities and the creditworthiness of the parties involved. The ability of a Fund to successfully utilize mortgage-backed securities depends in part upon the ability of CAM to forecast interest rates and other economic factors correctly. Some mortgage-backed securities have structures that make their reaction to interest rate changes and other factors difficult to predict.

Prepayments of principal of mortgage-backed securities by mortgagors or mortgage foreclosures affect the average life of the mortgage-backed securities. The occurrence of mortgage prepayments is affected by various factors, including the level of interest rates, general economic conditions, the location and age of the mortgages, and other social and demographic conditions. In periods of rising interest rates, the prepayment rate tends to decrease, lengthening the average life of a pool of mortgage-backed securities. In periods of falling interest rates, the prepayment rate tends to increase, shortening the average life of a pool. The volume of prepayments of principal on the mortgages underlying a particular mortgage-backed security will influence the yield of that security, affecting a Fund's yield. Because prepayments of principal generally occur when interest rates are declining, it is likely that the Funds, to the extent they retain the same percentage of fixed income securities, may have to reinvest the proceeds of prepayments at lower interest rates than those of their previous investments. If this occurs, a Fund's yield will correspondingly decline. Thus, mortgage-backed securities may have less potential for capital appreciation in periods of falling interest rates (when prepayment of principal is more likely) than other fixed income securities of comparable duration, although they may have a comparable risk of decline in market value in periods of rising interest rates. A decrease in the rate of prepayments may extend the effective maturities of mortgage-backed securities, reducing their sensitivity to changes in market interest rates. To the extent that the Funds purchase mortgage-backed securities at a premium, unscheduled prepayments, which are made at par, result in a loss equal to an unamortized premium.

To lessen the effect of the failures by obligors on mortgage assets to make payments, CMOs and other mortgage-backed securities may contain elements of credit enhancement consisting of either (i) liquidity protection, or (ii) protection against losses resulting after default by an obligor on the underlying assets and allocation of all amounts recoverable directly from the obligor and through liquidation of the collateral. This protection may be provided through guarantees, insurance policies or letters of credit obtained by the issuer or sponsor from third parties, various means of structuring the transaction, or a combination of these. The Funds will not pay any additional fees for credit enhancements for mortgage-backed securities, although the credit enhancement may increase the costs of the mortgage-backed securities.

### **B.5.d. Asset-Backed Securities**

Like mortgages-backed securities, the collateral underlying asset-backed securities is subject to prepayment, which may reduce the overall return to holders of asset-backed securities. Asset-backed securities present certain additional and unique risks. Primarily, these securities do not always have the benefit of a security interest in collateral comparable to the security interests associated with mortgage-backed securities. Credit card receivables are in general unsecured. Debtors are entitled to the protection of a number of state and federal consumer credit laws, many of which give such debtors the right to set-off certain amounts owed on the credit cards, thereby reducing the balance due. Generally, automobile receivables are secured by automobiles. Most issuers of automobile receivables permit the loan servicers to retain possession of the underlying obligations. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that

of the holders of the asset-backed securities. In addition, because of the large number of vehicles involved in a typical issuance and the technical requirements under state laws, the trustee for the holders of the automobile receivables may not have a proper security interest in the underlying automobiles. As a result, the risk that recovery on repossessed collateral might be unavailable or inadequate to support payments on asset-backed securities is greater for asset-backed securities than for mortgage-backed securities. In addition, because asset-backed securities are relatively new, the market experience in these securities is limited and the market's ability to sustain liquidity through all phases of an interest rate or economic cycle has not been tested.

#### **B.5.e. Non-U.S. Dollar Denominated Securities**

The Funds may invest in non-U.S. dollar denominated securities, including debt obligations denominated in foreign or composite currencies (such as the European Currency Unit) issued by

- foreign national, provincial, state or municipal governments or their political subdivisions
- international organizations designated or supported by governmental entities (e.g., the World Bank and the European Community)
- non-dollar securities issued by the U.S. government
- foreign corporations

#### **B.5.f. Foreign Securities**

The Funds may invest in foreign securities. Investments in the securities of foreign issuers may involve risks in addition to those normally associated with investments in the securities of U.S. issuers. All foreign investments are subject to risks of

- foreign political and economic instability
- diverse movements in foreign exchange rates
- the imposition or tightening of exchange controls or other limitations on repatriation of foreign capital
- changes in foreign governmental attitudes toward private investment, including potential nationalization, increased taxation or confiscation of the Funds' assets

In addition, dividends payable on foreign securities may be subject to foreign withholding taxes, thereby reducing the income available for distribution to the client. Some foreign brokerage commissions and custody fees are higher than those in the U.S. Foreign accounting, auditing and financial reporting standards differ from those in the U.S., and therefore less information may be available about foreign companies than is available about issuers of comparable U.S. companies. Foreign securities also may trade less frequently and with lower volume and may exhibit greater price volatility than U.S. securities.

Changes in foreign exchange rates will affect the U.S. dollar value of all foreign currency-denominated securities held by the Funds. Exchange rates are generally influenced by the forces of supply and demand in the foreign currency markets and by numerous other political and economic events occurring outside the U.S., many of which may be difficult, if not impossible, to predict.

Income from foreign securities will be received and realized in foreign currencies, and the Funds are required to compute and distribute income in U.S. dollars. Accordingly, a decline in the value of a particular foreign currency against the U.S. dollar after a Fund's income has been earned and computed in U.S. dollars may require the Fund to liquidate portfolio securities to acquire sufficient U.S. dollars to

make a distribution. Similarly, if the exchange rate declines between the time a Fund incurs expenses in U.S. dollars and the time such expenses are paid, the Fund may be required to liquidate additional foreign securities to purchase the U.S. dollars required to meet such expenses.

#### **B.5.g. Emerging Markets**

If the Funds invest in emerging markets—markets that can have more risk than investing in developed foreign markets—an investment in the Funds may have the following additional risks:

- Information about the companies in these countries is not always readily available.
- Stocks of companies traded in these countries may be less liquid and the prices of these stocks may be more volatile than the prices of the stocks in more established markets.
- Greater political and economic uncertainties exist in emerging markets than in developed foreign markets.
- The securities markets and legal systems in emerging markets may not be well developed and may not provide the protections and advantages of the markets and systems available in more developed countries.
- Very high inflation rates may exist in emerging markets and could negatively impact a country's economy and securities markets.
- Emerging markets may impose restrictions on a Fund's ability to repatriate investment income or capital and thus may adversely affect the operations of the Fund.
- Certain emerging markets impose constraints on currency exchange, and some currencies in emerging may have been devalued significantly against the U.S. dollar.
- Governments of some emerging markets exercise substantial influence over the private sector and may own or control many companies. As such, governmental actions could have a significant effect on economic conditions in emerging markets, which in turn could affect the value of a Fund's investments.
- Emerging markets may be subject to less government supervision and regulation of business and industry practices, stock exchanges, brokers and listed companies.

For these and other reasons, the prices of securities in emerging markets can fluctuate more significantly than the prices of securities of companies in developed countries. The less developed the country, the greater effect these risks may have on the client's investment in the Funds. As a result, an investment in the Funds may exhibit a higher degree of volatility than either the general domestic securities market or the securities markets of developed foreign countries.

#### **B.5.h. Foreign Currencies Transactions**

Investments in foreign companies will usually involve currencies of foreign countries. The Funds may temporarily hold funds in bank deposits in foreign currencies during the completion of investment programs. The Funds may conduct foreign currency exchange transactions either on a spot (cash) basis at the spot rate prevailing in the foreign exchange market, or by entering into a forward foreign currency contract ("forward contract"). A forward contract involves an obligation to purchase or sell a specific amount of a specific currency at a future date, which may be any fixed number of days (usually less than one year) from the date of the contract agreed upon by the parties, at a price set at the time of the contract. Forward contracts are considered "derivatives"—financial instruments whose performance is derived, at least in part, from the performance of another asset (such as a security, currency or an index of securities). The Funds enter into forward contracts in order to "lock in" the exchange rate between the currency they will deliver and the currency they will receive for the duration

of the contract. In addition, the Funds may enter into forward contracts to hedge against risks arising from securities the Funds own or anticipate purchasing, or the U.S. dollar value of interest and dividends paid on those securities. The Funds do not intend to enter into forward contracts on a regular or continuing basis, and the Funds will not enter these contracts for speculative purposes.

At or before settlement of a forward currency contract, the Funds may either deliver the currency or terminate the contractual obligation to deliver the currency by purchasing an offsetting contract. If the Funds make delivery of the foreign currency at or before the settlement of a forward contract, they may be required to obtain the currency through the conversion of assets of the Funds into the currency. The Funds may close out a forward contract obligating them to purchase currency by selling an offsetting contract, in which case they will realize a gain or a loss.

Foreign currency transactions involve certain costs and risks. The Funds incur foreign exchange expenses in converting assets from one currency to another. Forward contracts involve a risk of loss if CAM is inaccurate in its prediction of currency movements. The projection of short-term currency market movements is extremely difficult, and the successful execution of a short-term hedging strategy is highly uncertain. The precise matching of forward contract amounts and the value of the securities involved is generally not possible. Accordingly, it may be necessary for the Funds to purchase additional foreign currency if the market value of the security is less than the amount of the foreign currency the Funds are obligated to deliver under the forward contract and the decision is made to sell the security and make delivery of the foreign currency. The use of forward contracts as a hedging technique does not eliminate fluctuations in the prices of the underlying securities the Funds own or intend to acquire, but it does fix a rate of exchange in advance. Although forward contracts can reduce the risk of loss due to a decline in the value of the hedged currencies, they also limit any potential gain that might result from an increase in the value of the currencies. There is also the risk that the other party to the transaction may fail to deliver currency when due, which may result in a loss to the Funds.

#### **B.6. Options and Futures**

The Funds may purchase or write put and call options, futures and options on futures to (i) enhance a Fund's performance, or (ii) seek to hedge against either a decline in the value of securities the Funds own or an increase in the price of securities that they plan to purchase, or in order to offset the effects of general stock market movements.

Specifically, the Funds may purchase or write options on securities in which they may invest on market indices based in whole or in part on such securities or on commodities. Options purchased or written by the Funds must be traded on an exchange or over-the-counter. The Funds may invest in futures contracts on securities in which they may invest, market indices based in whole or in part on securities in which they may invest, and on commodities. The Funds may also purchase or write put and call options on these futures contracts.

Options and futures contracts are considered to be derivatives. Use of these instruments is subject to regulation by the SEC, the options and futures exchanges on which futures and options are traded, or by the CFTC. No assurance can be given that any hedging or income strategy will achieve its intended result.

If the Funds will be financially exposed to another party due to its investments in options or futures, the Funds may, if required, maintain either (i) offsetting ("covered") positions, or (ii) cash, receivables and liquid debt or equity securities equal to the value of the positions less any proceeds and/or margin on deposit. Offsetting covered positions may include holding the underlying securities or holding other offsetting liquid securities believed likely to substantially replicate the movement of the future or option investment. Offsetting covered positions may also include an offsetting option or futures contract. The Funds will comply with SEC guidelines with respect to coverage of certain strategies and, if the guidelines

require, set aside cash, liquid securities and other permissible assets ("segregated assets"). Segregated assets cannot be sold or closed out while the strategy is outstanding unless the segregated assets are replaced with similar assets. As a result, there is a possibility that the use of cover or segregation involving a large percentage of the Funds' assets could impede portfolio management or the Funds' ability to meet redemption requests or other current obligations.

The Funds have filed a notice with the National Futures Association claiming exclusion from the definition of the term "commodity pool operator" under the Commodity Exchange Act (the "Act"), and therefore the Funds are not subject to registration or regulation as a pool operator under the Act.

#### **B.6.a. Options on Securities**

A call option is a contract under which the purchaser of the call option, in return for a premium paid, has the right to buy the security (or index) underlying the option at a specified price at any time during the term of the option. The writer of the call option, who receives the premium, has the obligation upon exercise of the option to deliver the underlying security against payment of the exercise price. A put option gives its purchaser, in return for a premium, the right to sell the underlying security at a specified price during the term of the option. The writer of the put, who receives the premium, has the obligation to buy, upon exercise of the option, the underlying security (or a cash amount equal to the value of the index) at the exercise price. The amount of a premium received or paid for an option is based upon certain factors, including the market price of the underlying security, the relationship of the exercise price to the market price, the historical price volatility of the underlying security, the option period and interest rates.

#### **B.6.b. Options on Indices**

An index assigns relative values to the securities included in the index, and the index fluctuates with changes in the market values of the securities included in the index. Index cash options operate in the same way as the more traditional options on securities, except that index options are settled exclusively in cash and do not involve delivery of securities. Thus, upon exercise of index options, the purchaser will realize and the writer will pay an amount based on the differences between the exercise price and the closing price of the index.

#### **B.6.c. Options on Foreign Currency**

Options on foreign currency operate in the same way as more traditional options on securities, except that currency options are settled exclusively in the currency subject to the option. The value of a currency option is dependent upon the value of the currency relative to the U.S. dollar and has no relationship to the investment merits of a foreign security. Because foreign currency transactions occurring in the interbank market involve substantially larger amounts than those that may be involved in the use of foreign currency options, the Funds may be disadvantaged by having to deal in an odd-lot market (generally consisting in transactions of less than \$1 million) for the underlying currencies at prices that are less favorable than round lots. To the extent that the U.S. options markets are closed while the market for the underlying currencies are open, significant price and rate movements may take place in the underlying markets that cannot be reflected in the options markets.

#### **B.6.d. Options on Futures**

Options on futures contracts are similar to options on securities, except that an option on a futures contract gives the purchaser the right, in return for the premium paid, to assume a position in a futures contract rather than to purchase or sell a security at a specified exercise price at any time during the

period of the option. Upon exercise of the option, the delivery of the futures position to the holder of the option will be accompanied by transfer to the holder of an accumulated balance representing the amount by which the market price of the futures contract exceeds in the case of a call, or is less than in the case of a put, the exercise price of the option on the future.

#### **B.6.e. Futures Contracts and Index Futures Contracts**

A futures contract is a bilateral agreement where one party agrees to accept, and the other party agrees to make, delivery of cash or an underlying debt security as called for in the contract at a specified date and at an agreed upon price. An index futures contract involves the delivery of an amount of cash equal to a specified dollar amount times the difference between the index value at the close of trading of the contract and the price at which the futures contract is originally struck. No physical delivery of the securities comprising the index is made. Generally, these futures contracts are closed out prior to the expiration date of the contracts.

#### **B.6.f. Risks of Options and Futures Transactions**

Options and futures contracts are considered “derivatives”—financial instruments whose performance is derived, at least in part, from the performance of another asset (such as a security or an index of securities). There are certain investment risks associated with options and futures transactions. These risks include the following:

- Dependence on CAM’s ability to predict movements in the prices of individual securities and fluctuations in the general securities markets
- Imperfect correlations between movements in the prices of options and movements in the price of the securities (or indices) hedged or used for cover, which may cause a given hedge not to achieve its objective
- The fact that the skills and techniques needed to trade these instruments are different from those needed to select the securities in which the Funds invest
- Lack of assurance that a liquid secondary market will exist for any particular instrument at any particular time, which, among other things, may hinder the Funds’ ability to limit exposures by closing their positions
- The inability of the Funds, as the writer of covered call options, to benefit from any appreciation of the underlying securities above the exercise price
- The possible loss of the entire premium paid for options purchased by the Funds
- The fact that there is no assurance that a counterparty in an over-the-counter option transaction will be able to perform its obligations

The risk of loss in trading futures contracts and in writing options on futures contracts can be substantial due to the low margin deposits required, the extremely high degree of leverage involved in futures and options pricing, and the potential high volatility of the futures markets. Futures prices are affected by and may respond rapidly to a variety of factors including (but not limited to) market reports, news reports, interest rates, national and international political and economic events, weather, domestic or foreign trades, and monetary or fiscal policies and programs. Such rapid response might include an opening price on an affected futures contract sharply higher or lower than the previous day’s close. In the event of adverse price movements, the Funds would continue to be required to make daily cash payments to maintain their required margin. In such situations, if the Funds have insufficient cash, they may have to sell portfolio securities to meet daily margin requirements (and segregation requirements, if applicable) at a time when it may be disadvantageous to do so, thus causing the Funds to incur a loss.

In addition, on the settlement date, the Funds may be required to make delivery of the instruments underlying the futures positions they hold.

The Funds could suffer losses if they are unable to close out a futures contract or options on futures contract because of an illiquid secondary market. Futures contracts and options on futures contracts may be closed out only on an exchange, which provides a secondary market for such products. However, there can be no assurance that a liquid secondary market will exist for any particular futures product at any specific time; thus, it may not be possible to close a futures or option position. Moreover, most futures exchanges limit the amount of fluctuation permitted in futures contract prices during a single trading day. The daily limit establishes the maximum amount that the price of a futures contract may vary either up or down from the previous day's settlement price at the end of a trading session. Once the daily limit has been reached in a particular type of contract, no trades may be made on that day at a price beyond that limit. The daily limit governs only price movement during a particular trading day and therefore does not limit potential losses, because the limit may prevent the liquidation of unfavorable positions. Futures contract prices have occasionally moved to the daily limit for several consecutive trading days with little or no trading, thereby preventing prompt liquidation of future positions and subjecting some futures traders to substantial losses. The inability to close futures and options positions could also have an adverse impact on the ability to hedge a portfolio investment or to establish a substitute for a portfolio investment.

The Funds bear the risk that CAM will incorrectly predict future market trends. If CAM's attempt to use a futures contract or an option on a futures contract as a hedge against, or as a substitute for, a portfolio investment, the Funds will be exposed to the risk that the futures position will have or will develop imperfect or no correlation with the portfolio investment. This could cause substantial losses for the Funds. While hedging strategies involving futures products can reduce the risk of loss, they can also reduce the opportunity for gain or even result in losses by offsetting favorable price movements in other Fund investments.

The Funds may use various futures contracts that are relatively new instruments without a significant trading history. As a result, there can be no assurance that an active secondary market in those contracts will develop or continue to exist. The Funds' activities in the futures and options markets may result in higher portfolio turnover rates and additional brokerage costs, which could reduce the Funds' yields.

#### **B.6.g. Curve Steepener Trades**

A curve steepener trade is an investment strategy that uses derivatives to benefit from increases in the yield curve between two Treasury bonds of different maturities. This investment strategy can be effective when the price of the longer-term Treasury bond falls, causing its yield to increase. The greater the yield difference between the two Treasury bonds, the more profitable the investment strategy becomes. On the other hand, if the yield difference between the two Treasury bonds becomes smaller, the investment strategy will result in losses.

#### **B.6.h. Derivatives Risk**

Derivatives are financial instruments that have a value that depends upon or is derived from the value of something else, such as one or more underlying securities, pools of securities, options, futures, indices or currencies. Gains or losses involving derivative instruments may be substantial, because a relatively small price movement in the underlying securities, instrument, currency or index may result in a substantial gain or loss for the Funds.

**B.6.i. Risks of Hedging Strategies**

The Funds may engage in hedging activities. In connection with hedging strategies, CAM may cause the Funds to utilize a variety of financial instruments, including index futures contracts and options on futures contracts. Hedging is generally used to mitigate the risk of particular price movements in one or more securities that the Fund owns or intends to acquire. Hedging instruments on stock indices are generally used to hedge against price movements in broad equity market sectors in which the Funds have invested or expect to invest. Hedging strategies if successful can reduce the risk of loss by wholly or partially offsetting the negative effect of unfavorable price movements in the investments being hedged. However, hedging strategies can reduce the opportunity for gain by offsetting the positive effect of favorable price movements in the hedged investments. Further, hedging with an index that does not 100 percent mirror a portfolio introduces the risk of losing money on the hedge as well as on the underlying position. A hedging position taken at the wrong time could have an adverse impact on a Fund's performance. The Funds' ability to use hedging instruments may be limited by tax considerations. The use of hedging instruments is subject to regulations of the SEC, the several options and futures exchanges upon which they are traded, the CFTC and various state regulatory authorities.

**B.6.j Leverage Transactions**

The Funds' use of derivatives may create leverage. The Funds may also use leverage to increase potential returns. Leverage involves special risks and may involve speculative investment techniques. Leverage exists when cash made available to the Funds through an investment technique is used to make additional Fund investments. Leverage transactions include borrowing for other than temporary or emergency purposes, purchasing securities on margin (borrowing money from a bank to purchase securities), selling securities short (selling securities that are now owned), lending portfolio securities, entering into repurchase agreements, dollar rolls, and purchasing securities on a when-issued delayed delivery or forward commitment basis. The Funds use these investment techniques only when CAM believes that the leveraging and the returns available to the Funds from investing the cash will provide investors with a potentially higher return.

**B.6.k. Borrowing**

The Funds may borrow money from a bank in amounts up to 33 1/3% of total assets at the time of borrowing to, among other things, finance the purchase of securities for its portfolio. Entering into reverse repurchase agreements and purchasing securities on a when-issued delayed delivery or forward delivery basis are not subject to this limitation. A reverse repurchase agreement is a transaction in which the Funds sell securities to a bank or securities dealer and simultaneously commit to repurchase the securities from the bank or dealer at an agreed-upon date and at a price reflecting a market rate of interest unrelated to the sold securities. An investment of a Fund's assets in reverse repurchase agreements will increase the volatility of that Fund's NAV. A counterparty to a reverse repurchase agreement must be a primary dealer that reports to the Federal Reserve Bank of New York or one of the largest 100 commercial banks in the United States.

**B.6.l. Short Sales**

To sell short, a Fund will borrow the security from a broker, sell it and maintain the proceeds of the transaction in its brokerage account. The broker will charge the Fund interest during the period it borrows the security. The Fund may close the short sale by purchasing the security in the open market at the market price. If the proceeds received from the short sale (less the interest charges) exceed the amount paid for the security, the Fund will incur a gain on the transaction. If the proceeds received from the short sale (less the interest charges) are less than the amount paid for the security, the Fund will

incur a loss on the transaction. Employing a long/short strategy is speculative and involves a high degree of risk, particularly when used for non-hedging purposes.

#### **B.6.m. Securities Lending and Repurchase Agreements**

The Funds may lend portfolio securities in an amount up to 33 1/3% of total assets to brokers, dealers and other financial institutions. In a portfolio securities lending transaction, a Fund receives from the borrower an amount equal to the interest paid or the dividends declared on the loaned securities during the term of the loan as well as the interest on the collateral securities, less any fees (such as finders or administrative fees) the Fund pays in arranging the loan. The Fund may share the interest it receives on the collateral securities with the borrower. The terms of the Fund's loans permit the Fund to reacquire loaned securities on five business days' notice or in time to vote on any important matter. Loans are subject to termination at the option of the Fund or the borrower at any time, and the borrowed securities must be returned when the loan is terminated. The Funds may pay fees to arrange for securities loans.

The Funds may enter into repurchase agreements that are transactions in which the Funds purchase a security and simultaneously agree to resell that security to the seller at an agreed-upon price on an agreed-upon future date, normally one to seven days later. If the Funds enter into a repurchase agreement, they will maintain possession of the purchased securities and any underlying collateral.

Securities loans and repurchase agreements must be continuously collateralized and the collateral must have market value at least equal to the value of the Funds' loaned securities plus accrued interest or, in the case of repurchase agreements, equal to the repurchase price of the securities plus accrued interest.

#### **B.6.n. When-Issued Securities and Forward Commitments**

The Funds may purchase securities offered on a "when-issued" and "forward commitment" basis (including a "delayed delivery" basis). Securities purchased on a when-issued or forward commitment basis are securities not available for immediate delivery despite the fact that a market exists for those securities. A purchase is made on a delayed delivery basis when the transaction is structured to occur sometime in the future.

When these transactions are negotiated, the price, which is generally expressed in yield terms, is fixed at the time the commitment is made, but delivery and payment for the securities take place at a later date. Normally, the settlement date occurs within two months after the transaction, but delayed settlements beyond two months may be negotiated. During the period between a commitment and settlement, no payment is made for the securities purchased by the purchaser and thus no interest accrues to the purchaser from the transaction. At the time a Fund makes the commitment to purchase securities on a when-issued basis, the Fund will record the transaction as a purchase and thereafter reflect the value each day of such securities in determining its NAV.

#### **B.6.o. Dollar Roll Transactions**

Dollar roll transactions are transactions in which a Fund sells securities to a bank or securities dealer and makes a commitment to purchase similar, but not identical, securities at a later date from the same party. During the period between the commitment and settlement, no payment is made for the securities purchased and no interest or principal payments on the securities accrue to the purchaser, but the Fund assumes the risk of ownership. The Fund is compensated for entering into dollar roll transactions by the difference between the current sales price and the forward price for the future purchase, as well as by the interest earned on the cash proceeds of the initial sale. The Funds will engage in dollar roll transactions for the purpose of acquiring securities for their investment portfolios.

### **B.6.p. Swaps**

The Funds may engage in swaps, including, but not limited to, interest rate, currency and equity swaps, constant maturity swaps, and the purchase or sale of related caps, floors, collars and other derivative instruments. The Funds expect to enter into these transactions to preserve a return or spread on a particular investment or portion of the portfolio's duration, to protect against any increase in the price of securities the Funds anticipate purchasing at a later date, or to gain exposure to certain markets in the most economical way possible.

Interest rate swaps involve the exchange by a Fund with another party of their respective commitments to receive or pay interest (e.g., an exchange of fixed rate payments for floating rate payments) with respect to a notional amount of principal. Currency swaps involve the exchange of cash flows on a notional amount based on changes in the values of referenced currencies.

Constant maturity swaps are a variation of the regular interest rate swap. In a constant maturity swap, the floating interest rate is reset periodically according to the fixed maturity market rate of a product, with a duration extending beyond that of the swap's reset period. Constant maturity swaps are exposed to changes in long-term interest rate movements.

The purchase of a cap on a swap entitles the purchaser to receive payments on a notional principal amount from the party selling the cap to the extent that a specified index exceeds a predetermined interest rate or amount. The purchase of a floor entitles the purchaser to receive payments on a notional principal amount from the party selling the floor to the extent that a specified index falls below a predetermined interest rate or amount. A collar is a combination of a cap and a floor that preserves a certain return with a predetermined range of interest rates or values.

The use of swaps involves investment techniques and risks different from those associated with ordinary portfolio security transactions. If CAM is incorrect in its forecast of market values, interest rates and other applicable factors, the investment performance of the Funds will be less favorable than would have been if this investment technique was never used. Swaps do not involve the delivery of securities or other underlying assets or principal and are subject to counterparty risk. If the other party to a swap defaults and fails to consummate the transaction, the Funds' risk of loss consists of the net amount of interest payments that a Fund is contractually entitled to receive. Under Internal Revenue Service rules, any lump sum payment received or due under the notional principal contract must be amortized over the life of the contract using the appropriate methodology prescribed by the Internal Revenue Service.

Equity swaps or other swaps relating to securities or other instruments are based on changes in the value of the underlying securities or instruments. For example, an equity swap might involve an exchange of the value of a particular security or securities index in a certain notional amount for the value of another security or index or for the value of interest on that notional amount at a specified fixed or variable rate. The Funds will only enter into an equity swap contract on a net basis, i.e., the two parties' obligations are netted out, with the Funds paying or receiving, as the case may be, only the net amount of the payments. Payments under an equity swap contract may be made at the conclusion of the contract or periodically during its term.

If there is a default by the counterparty to a swap contract, the Funds will be limited to contractual remedies pursuant to the agreements related to the transaction. There is no assurance that a swap contract counterparty will be able to meet its obligations pursuant to the swap contract or that, in the event of a default, the Funds will succeed in pursuing contractual remedies. The Funds thus assume the risk that they may be delayed in or prevented from obtaining payments owed to them pursuant to a swap contract. However, the amount at risk is only the net unrealized gain, if any, on the swap, not the

entire notional amount. CAM will closely monitor, subject to the oversight of the Board, the creditworthiness of swap counterparties in order to minimize the risk of swaps.

The net amount of the excess, if any, of the Funds' obligations over their entitlements with respect to each swap contract will be accrued on a daily basis, and an amount of segregated assets having an aggregate market value at least equal to the accrued excess will be segregated in accordance with SEC positions. To the extent that a Fund cannot dispose of a swap in the ordinary course of business within seven days at approximately the value at which the Fund has valued the swap, the Fund will treat the swap as illiquid and subject to its overall limit on illiquid investments of 15% of the Fund's net assets.

#### **B.6.q. Credit Default Swaps**

The Funds may invest in credit default swaps ("CDS"). A CDS gives one party (the buyer) the right to recoup the economic value of a decline in the value of debt securities of the reference issuer if the credit event (a downgrade or default) occurs. This value is obtained by delivering a debt security of the reference issuer to the party in return for a previously agreed-upon payment from the other party (frequently, the par value of the debt security). A CDS includes, but is not limited to, a credit default swap, which is a contract on individual securities, and a CDX, which is a contract on baskets or indices of securities. A CDS may require initial premium (discount) payments, as well as periodic payments (receipts) related to the interest leg of the swap or to the default of a reference obligation.

If a Fund is a seller of a CDS contract, the Fund would be required to pay the par (or other agreed-upon) value of a referenced debt obligation to the counterparty in the event of a default or other credit event by the reference issuer, such as a U.S. or foreign corporate issuer, with respect to such debt obligations. In return, the Fund would receive from the counterparty a periodic stream of payments over the term of the contract, provided that no event of default has occurred. If no default occur has occurred, the Fund would keep the stream of payments and would have no payment obligations. As the seller, the Fund would be subject to investment exposure on the notional amount of the swap.

If a Fund is the buyer of a CDS contract, the Fund would have the right to deliver a referenced debt obligation and receive the par (or other agreed-upon) value of such debt obligation from the counterparty in the event of a default or other credit event (such as a credit downgrade) by the reference issuer, such as a U.S. or foreign corporation, with respect to its debt obligations. In return, the Fund would pay the counterparty a periodic stream of payments over the term of the contract, provided that no event of default has occurred. If no default has occurred, the counterparty would keep the stream of payments and would have no further obligations to the Fund.

The use of a CDS, like all swap agreements, is subject to certain risks. If a counterparty's creditworthiness declines, the value of the swap would likely decline. Moreover, there is no guarantee that the Funds could eliminate their exposure under an outstanding swap agreement by entering into an offsetting swap agreement with the same or another party.

Leverage creates the risk of magnified capital losses. Leverage may involve the creation of a liability that requires the Funds to pay interest (for instance, reverse repurchase agreements) or the creation of a liability that does not entail any interest costs (for instance, forward commitment costs).

The risks of leverage include a higher volatility of the NAV of a Fund's securities, which may be magnified by favorable or adverse market movements or changes in the cost of cash obtained by leveraging and the yield from invested cash. So long as the Funds are able to realize a net return on their investment portfolios that are higher than interest expense incurred, if any, leverage will result in higher current net investment income for the Funds than if the Funds were not leveraged. Changes in interest rates and related economic factors could cause the relationship between the cost of leveraging

and the yield to change so that rates involved in the leveraging arrangement may substantially increase relative to the yield on the obligations in which the proceeds of the leveraging have been invested. To the extent that the interest expense involved in leveraging approaches the net return on the Funds' investment portfolios, the benefit of leveraging will be reduced and, if the interest expense incurred as a result of leveraging on borrowings were to exceed the net return to investors, the Funds' use of leverage would result in a lower rate of return than if the Funds were not leveraged. In an extreme case, if the Funds' current investment incomes were not sufficient to meet the interest expense of leveraging, it could be necessary for a Fund to liquidate certain of its investments at an inappropriate time.

#### **B.6.r. Segregated Assets**

The Funds will comply with SEC guidelines with respect to coverage of certain strategies and, if the guidelines require, will set aside on their books and records cash, liquid securities and other permissible assets ("segregated assets") in a segregated account with the Funds' custodian in the prescribed amount. The asset's value, which is marked to market daily, will be at least equal to the Funds' commitments under these transactions less any proceeds or margin on deposit.

#### **B.7. Illiquid and Restricted Securities**

The Funds may invest in illiquid and restricted securities. The term "illiquid securities" means securities that cannot be disposed of within seven days in the ordinary course of business at approximately the amount at which the Funds have valued the securities. Illiquid securities include:

- Repurchase agreements not entitling the holder to payment of principal within seven days
- Purchased over-the-counter options
- Securities that are not readily marketable
- Securities subject to contractual or legal restrictions on resale because they have not been registered under Rule 144A of the 1933 Act ("restricted securities")

Rule 144A securities, which are restricted securities, may be less liquid investments than registered securities because such securities may not be readily marketable in broad public markets. A Rule 144A restricted security carries the risk that the Funds may not be able to sell the security when the portfolio manager considers it desirable to do so, or that the Funds may have to sell the security at a lower price than what would be available if the security were more liquid. In addition, transaction costs may be higher for 144A securities than for more liquid securities. Although there is a substantial institutional market for Rule 144A securities, it is not possible to predict exactly how the market for Rule 144A securities will develop. A restricted security that was liquid in the institutional markets when purchased may subsequently become illiquid.

Limitations on resale may have an adverse effect on the marketability of a security, and the Funds might also have to register a restricted security in order to dispose of it, resulting in expense and delay. The Funds might not be able to dispose of restricted or illiquid securities promptly or at reasonable prices and might thereby experience difficulty satisfying redemption requests. There can be no assurance that a liquid market will exist for any security at any particular time. Any security, including securities determined by CAM to be liquid, can become illiquid.

#### **B.7.a. Determination of Liquidity**

The Board has the ultimate responsibility for determining whether specific securities are liquid or illiquid and has delegated the function of making determinations of liquidity to CAM, pursuant to guidelines approved by the Board. CAM determines and monitors the liquidity of Fund assets under management

and reports periodically on its decisions to the Board. CAM takes into account a number of factors in reaching liquidity decisions, including but not limited to the following:

- The frequency of trades and quotations for the security
- The number of dealers willing to purchase or sell the security and the number of other potential buyers
- The willingness of dealers to undertake to make a market in the security
- The nature of the marketplace trades, including the time needed to dispose of the security, the method of soliciting offers and the mechanics of the transfer

An institutional market has developed for certain restricted securities. Accordingly, contractual or legal restrictions on the resale of a security may not be indicative of the liquidity of the security. If such securities are eligible for purchase by institutional buyers in accordance with Rule 144A under the 1933 Act or other exemptions, CAM may determine that the securities are not illiquid.

## **B.8 Investment Company Securities, Exchange Traded Funds and Exchange Traded Notes**

### **B.8.a. Open-End and Closed-End Investment Companies and Exchange-Traded Funds (“ETFs”)**

The Funds may invest in shares of open-end and closed-end investment companies, including those managed by CAM or its affiliates. In addition, the Funds may invest in ETFs (which may, in turn, invest in equities, bonds and other financial vehicles). ETFs are investment companies whose shares are bought and sold on a securities exchange. An ETF holds a portfolio of securities designed to track a particular market segment or index. Some examples of ETFs are SPDRs<sup>®</sup>, streetTRACKS<sup>®</sup>, DIAMONDS<sup>SM</sup>, NASDAQ 100 Index Tracking Stock<sup>SM</sup> (“QQQs<sup>SM</sup>”), iShares<sup>®</sup> and VIPERs<sup>®</sup>. The Funds could purchase an ETF to gain exposure to a portion of the U.S. or foreign market.

The Funds, as a shareholder of another investment company, will bear their pro rata portion of the other investment company’s advisory fee and other expenses in addition to their own expenses.

As a shareholder, a Fund must rely on the Investment Company or ETF to achieve its investment objective. If the investment company or ETF fails to achieve its investment objective, the value of the Fund’s investment will decline, adversely affecting the Fund’s performance. The risks of owning an ETF generally reflect the risks of owning the underlying securities they are designed to track, although lack of liquidity in an ETF could result in it being more volatile than the underlying portfolio of securities, and ETFs have management fees that increase their costs versus the costs of owning the underlying securities directly. In addition, because ETFs are listed on national stock exchanges and are traded like stocks listed on an exchange, ETF shares may potentially trade at a discount or a premium. Investments in ETFs are also subject to brokerage and other trading costs, which could result in greater expenses to a Fund. Finally, because the value of ETF shares depends on the demand in the market, CAM may not be able to liquidate a Fund’s holdings at the most optimal time, thus adversely affecting that Fund’s performance. To the extent that the Funds invest in open-end or closed-end investment companies that invest primarily in the securities of companies located outside the U.S., see the risks related to foreign securities as set forth above.

### **B.8.b. Exchange Traded Notes (“ETNs”)**

The Funds may invest in ETNs, which are structured debt securities. ETNs’ liabilities are unsecured general obligations of the issuer. Most ETNs are designed to track a particular market segment or index. ETNs have expenses associated with their operation. When a Fund invests in an ETN, in addition to directly bearing expenses associated with its own operations, it will bear its pro rata portion of the ETN’s

expenses. The risks of owning an ETN generally reflect the risks of owning the underlying securities the ETN is designed to track, although lack of liquidity in an ETN could result in it being more volatile than the underlying portfolio of securities. In addition, because of ETN expenses, compared to owning the underlying securities directly it may be more costly to own an ETN. The value of an ETN security should also be expected to fluctuate with the credit rating of the issuer.

#### **B.8.c. Bank Loans**

The Funds may invest in bank loans. By purchasing a loan, the Funds acquire some or all of the interest of a bank or other lending institution in a loan to a particular borrower. The Funds may act as part of a lending syndicate and as such would be purchasing a "participation" in the loan. The Funds may also purchase loans by assignment from another lender. Many loans are secured by the assets of the borrower, and most impose restrictive covenants that must be met by the borrower. These loans are typically made by a syndicate of banks and are represented by an agent bank that has negotiated and structured the loan and is generally responsible for collecting interest, principal and other amounts from the borrower on its own behalf and on behalf of the other lending institutions in the syndicate, and for enforcing its and their other rights against the borrower. Each of the lending institutions, including the agent bank, lends to the borrower a portion of the total amount of the loan and retains the corresponding interest in the loan.

A Fund's ability to receive payments of principal and interest and other amounts in connection with loan participations held by it will depend primarily on the financial condition of the borrower (and, in some cases, the lending institution from which it purchases the loan). The value of collateral, if any, securing a loan can decline or may be insufficient to meet the borrower's obligations or difficult to liquidate. In addition, a Fund's access to collateral may be limited by bankruptcy or other insolvency laws. The failure by a Fund to receive scheduled interest or principal payments on a loan would adversely affect the income of that Fund and would likely reduce the value of its assets, which would be reflected in a reduction in the Fund's net asset value. Banks and other lending institutions generally perform a credit analysis of the borrower before originating a loan or participating in a lending syndicate. In selecting the loans in which a Fund will invest, however, CAM will not rely solely on that credit analysis, but will perform its own investment analysis of the borrowers.

Because loans in which the Funds may invest may not be rated by independent credit rating agencies, a decision by a Fund to invest in a particular loan will depend almost exclusively on CAM and the original lending institution's credit analysis of the borrower. Investments in loans may be of any quality, including "distressed" loans, and will be subject to the Funds' credit quality policy.

#### **B.9. Temporary Defensive Position and Cash Investments**

The Funds may assume a temporary defensive position and may invest without limit in money market instruments that are of prime quality. Prime quality money market instruments are those instruments that are rated in one of the two short-term highest rating categories by an NRSRO or, if not rated, determined by CAM to be of comparable quality. The Funds may also invest in prime quality money market instruments pending investment of cash balances.

Money market instruments usually have maturities of one year or less and fixed rates of return. The money market instruments in which the Funds may invest include U.S. government securities, commercial paper, time deposits, bankers acceptances and certificates of deposit issued by domestic banks, corporate notes and short-term bonds, and money market mutual funds. The Funds may only invest in money market mutual funds to the extent permitted by the 1940 Act.

The money market instruments in which the Funds may invest may have variable or floating rates of interest. These obligations include master demand notes that permit investment of fluctuating amounts at varying rates of interest pursuant to direct arrangement with the issuer of the instrument. The issuer of these obligations often has the right, after a given period, to prepay the outstanding principal amount of the obligations upon a specified number of days' notice. These obligations generally are not traded, nor is there generally an established secondary market for these obligations. To the extent a demand note does not have a seven-day or shorter demand feature and there is no readily available market for the obligation, it is treated as an illiquid security.

## C. Investment Strategy and Method of Analysis Material Risks

### C.1. Detailed Information on Risk Factors

The greatest risk of investing in a mutual fund is that its returns will fluctuate and the client could lose money. Turbulence in financial markets and reduced liquidity in equity, credit and fixed income markets may negatively affect many issuers worldwide, which could have an adviser effect on the Funds. The following information describes each Fund's principal and non-principal risk factors in light of the Fund's investment strategies:

Principal Risk Factors	Opportunity Fund	Income Fund
General Market Risk	X	X
Market Events Risk	X	X
Below-Investment Grade Securities Risk	X	X
Covered Call Option Risk	X	X
Counterparty Risk	X	X
Credit Risk	X	X
Currency Risk	X	X
Derivatives Risk	X	X
Distressed Securities Risk	X	X
Equity Security Risk	X	X
Foreign Security Risk	X	X
Hedging Risk	X	X
Interest Rate Risk	X	X

### C.2. General Market Risk

Each Fund's NAV and investment return will fluctuate based upon changes in the value of its portfolio securities. The market value of securities in which the Funds invest is based upon the market's perception of value and is not necessarily an objective measure of the securities' value. There is no assurance that the Funds will achieve their investment objectives, and an investment in a Fund is not by itself a complete or balanced investment program. Clients could lose money on their investment in a Fund, or the Funds could underperform other investments. Additionally, investment strategies that have historically been non-correlated or have demonstrated low correlations to one another or to major world financial market indices may become correlated at certain times and, as a result, hedging strategies may cease to function as anticipated. Also, CAM may be incorrect in assessing the value or growth capability of particular securities or asset classes contained in the Funds' portfolios.

### **C.3. Market Events Risk**

Global securities markets have experienced significant volatility since 2008. The fixed income markets have experienced substantially lower valuations, reduced liquidity, price volatility, credit downgrades, increased likelihood of default and valuation difficulties. Concerns have spread to domestic and international equity markets. In some cases, the prices of securities of individual companies have been negatively impacted, even though there may have been little or no apparent degradation in the financial conditions or prospects of those companies. Market volatility may have adverse effects on the performance of the Funds.

### **C.4. Below-Investment-Grade Securities Risk**

Investments in securities rated below investment grade, or "junk bonds," generally involve significantly greater risks of loss of clients' money than an investment in investment-grade bonds. Issuers of high-yield securities are not as strong financially as those with higher credit ratings, so the securities are usually considered speculative investments. These issuers are more vulnerable to financial difficulties and weak economic periods than more creditworthy issuers, which may impair their ability to make interest and principal payments. Rising interest rates may compound these difficulties and reduce an issuer's ability to repay principal and interest obligations. Issuers of lower-rated securities also have a greater risk of default or bankruptcy. Additionally, due to the greater number of considerations involved in the selection of a Fund's securities, the achievement of the Fund's objective depends more on the skills of the portfolio manager than investing only in higher-rated securities. Therefore, a client's investment may experience greater volatility in price and yield. High-yield securities may be less liquid than higher-quality investments. A security whose credit rating has been lowered may be particularly difficult to sell.

### **C.5. Counterparty Risk**

The Funds may invest in financial instruments involving counterparties for the purpose of attempting to gain exposure to a particular group of securities or asset class without actually purchasing those securities or investments, or to hedge a position. These financial instruments may include swap agreements and structured notes. The use of swap agreements involves risks that are different from those associated with ordinary portfolio securities transactions. For example, a Fund bears the risk of loss of the amount expected to be received under a swap agreement in the event of the default or bankruptcy of a swap agreement counterparty. Swap agreements also may be considered to be illiquid. In addition, a Fund may enter into swap agreements that involve a limited number of counterparties, which may increase the Fund's exposure to counterparty credit risk.

### **C.6. Covered Call Option Risk**

The purchaser of a call option has the right to any appreciation in the value of the security over the exercise price on the expiration date. Because the exercise of options is settled in cash, sellers of call options, such as the Funds, cannot provide in advance for their potential settlement obligations by acquiring and holding the underlying securities. The premium the Funds receive is the maximum profit the Funds can realize from the option. The loss potential from writing an uncovered option is generally unlimited. The value of options written by the Funds, which will be priced daily, will be affected by changes in the value and dividend rates of the underlying security on which an option is written, changes in the actual or perceived volatility of the stock market, and the remaining time to the options. The value of options also may be adversely affected if the market for the options becomes less liquid or smaller.

### **C.7. Credit Risk**

The financial condition of an issuer of a debt security may cause it to default or become unable to pay interest or principal due on the security. If an issuer defaults, the affected security could lose all of its value, be renegotiated at a lower interest rate or principal amount, or become illiquid. Higher-yielding debt securities of lower credit quality have greater credit risk than lower-yielding securities with higher credit quality. The Funds may invest in debt securities that are issued by U.S. government-sponsored entities such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Association and the Federal Home Loan Banks. Investments in these securities involve credit risk, as they are not backed by the full faith and credit of the U.S. government. The Funds may invest in Collateralized/Guaranteed Mortgage Obligations ("CMOs"). CMOs are divided into classes (often referred to as "tranches"), and certain tranches of CMOs have priority over other classes. No payment of principal will be made on any tranche until all other tranches with earlier stated maturity or distribution dates have been paid in full.

### **C.8. Currency Risk**

Because the Funds invest directly in foreign (non-U.S.) currencies, or in securities that trade in and receive revenues in foreign currencies, or in derivatives that provide exposure to foreign currencies, the Funds will be subject to the risk that those currencies will decline in value relative to the U.S. dollar or, in the case of hedging positions, that the U.S. dollar will decline in value relative to the currency being hedged. Currency rates in foreign countries may fluctuate significantly over short periods of time for a number of reasons, including changes in interest rates, intervention (or the failure to intervene) by U.S. or foreign governments, central banks or supranational entities such as the International Monetary Fund, or by the imposition of currency controls or other political developments in the United States or abroad. As a result, a Fund's investments in foreign currency-denominated securities may reduce the returns of the Fund.

### **C.9. Derivatives Risk**

Derivatives are financial instruments that have a value which depends upon, or is derived from, a reference asset, such as one or more underlying securities, pools of securities, options, futures, indices or currencies. Derivatives may result in investment exposures that are greater than their cost would suggest—in other words, a small investment in a derivative may have a large impact on the Funds' performance. The successful use of derivatives generally depends on the manager's ability to predict market movements.

The Funds may use derivatives as a substitute for taking a position in the reference asset; under such circumstances, the derivatives may have economic characteristics similar to those of the reference asset, and the Funds' investments in the derivatives may be applied toward meeting a requirement to invest in instruments with such characteristics. The Funds may use derivatives to hedge (or reduce) their exposure to a portfolio asset or risk. The Funds may also use derivatives to manage cash.

Derivatives are subject to a number of risks described elsewhere in this section, such as liquidity risk, interest rate risk, credit risk, leverage risk and general market risks. The Funds' use of derivatives may entail risks greater than, or possibly different from, such risks and other principal risks to which the Funds are exposed, as described below.

#### **C.9.a. Correlation Risk**

Correlation Risk is the risk that derivative instruments may be mispriced or improperly valued and that changes in the value of the derivatives may not correlate perfectly with the underlying asset or security.

#### **C.9.b. Credit Derivative Risk**

Credit derivative risk is the risk associated with the use of credit derivatives, a highly specialized activity that involves strategies and risks different from those with ordinary portfolio security transactions. If CAM is incorrect in its forecast of default risks, market spreads or other applicable factors, the Funds' investment performance would diminish compared with what it would have been if these techniques were not used. Moreover, even if CAM is correct in its forecast, there is a risk that a credit derivative position may correlate imperfectly with the price of the asset or liability being hedged. The Funds' risk of loss in a credit derivative transaction varies with the form of the transaction.

#### **C.9.c. Leverage Risk**

Leverage risk is created when an investment exposes a Fund to a level of risk that exceeds the amount invested. Changes in the value of such an investment magnify the Fund's risk of loss and potential for gain.

#### **C.9.d. Segregation Risk**

Segregation risk is the risk associated with any requirement that may be imposed on the Funds to segregate assets or enter into offsetting positions in connection with investments in derivatives. Such segregation will not limit the Funds' exposure to loss, and the Funds may incur investment risk with respect to the segregated assets to the extent that (except for the applicable segregation requirement) the Funds would sell the segregated assets.

#### **C.9.e. Swap Risk**

Swap risk is the risk that arises because the use of interest rate, mortgage, credit, total return and currency swaps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio securities transactions. The use of a swap requires an understanding not only of the referenced asset, reference rate or index but also of the swap itself, without the benefit of observing the performance of the swap under all possible market conditions. If CAM is incorrect in its forecasts of market values, credit quality, interest rates and currency exchange rates, the investment performance of a Fund will be less favorable than if these investment instruments were not used.

#### **C.9.f. Volatility Risk**

Volatility risk is the risk that, because the Funds may use some derivatives that involve economic leverage, this economic leverage will increase the volatility of the derivative instruments, as they may increase or decrease in value more quickly than the underlying currency, security, interest rate or other economic variable.

#### **C.10. Distressed Securities Risk**

Distressed securities frequently do not produce income while they are outstanding. A Fund may be required to incur certain extraordinary expenses in order to protect and recover its investment. Therefore, to the extent that a Fund seeks capital appreciation through investment in distressed securities, the Fund's ability to achieve current income may be diminished. A Fund will also be subject to significant uncertainty as to when, in what manner and for what value the obligations evidenced by the distressed securities will eventually be satisfied (e.g., through a liquidation of the obligor's assets, an exchange offer or plan of reorganization involving the distressed securities, or a payment of some amount in satisfaction of the obligation). In addition, even if an exchange offer is made or a plan of reorganization is adopted with

respect to the distressed securities held by a Fund, there can be no assurance that the securities or other assets received by the Fund in connection with such exchange offer or plan of reorganization will not have a lower value or income potential than may have been anticipated when the investment was made. Moreover, any securities received by the Fund upon completion of an exchange offer or plan of reorganization may be restricted as to resale. As a result of a Fund's participation in negotiations with respect to any exchange offer or plan of reorganization with respect to an issuer of distressed securities, the Fund may be restricted from disposing of such securities.

### **C.11. Emerging Markets Risk**

The Funds may invest in foreign securities of issuers in countries with emerging securities markets. Investments in such emerging securities markets present greater risks than investing in foreign issuers in general. The risk of political or social upheaval is greater in emerging securities markets. Inflation and rapid fluctuations in inflation rates have had and may continue to have negative effects on the economies and securities markets of certain emerging market countries. Moreover, many of the emerging securities markets are relatively small, have low trading volumes, suffer periods of relative illiquidity and are characterized by significant price volatility and high transaction costs.

### **C.12. Equity Security Risk**

The Funds' investments in equity securities may be affected by specific company developments, stock market conditions, and general economic and financial conditions in those countries where the investments are listed for trading. Equity securities tend to be more volatile than fixed income securities, and the value of an equity fund's shares may vary more widely than the shares of fixed income funds.

### **C.13. Foreign Security Risk**

The value of foreign investments may be affected by the imposition of new or amended government regulations; changes in diplomatic relations between the United States and another country; political and economic instability; the imposition or tightening of exchange controls or other limitations on repatriation of foreign capital; or nationalization, increased taxation or confiscation of investors' assets. Changes in the exchange rate between U.S. dollars and a foreign currency may reduce the value of an investment made in a security denominated in that foreign currency. Also, foreign securities are subject to the risk that an issuer's securities may not reflect the issuer's condition because there is not sufficient publicly available information about the issuer. This risk may be greater for investments in issuers in emerging or developing markets.

### **C.14. Hedging Risk**

Hedging risk is the risk that derivative instruments used to hedge against an opposite position may offset losses, but they may also offset gains. There is no guarantee that a hedging strategy will eliminate the risk that the hedging strategy is intended to offset, which may lead to losses within the Fund.

### **C.15. Interest Rate Risk**

Investments in investment-grade and noninvestment-grade fixed income securities are subject to interest rate risk. The value of a Fund's investments typically will fall when interest rates rise. A Fund is particularly sensitive to changes in interest rates because it may invest in debt securities with intermediate and long terms to maturity. Debt securities with longer durations tend to be more sensitive to changes in interest rates, usually making them more volatile than debt securities with shorter durations. Yields of debt securities will fluctuate over time. In addition, spreads on certain fixed income investments can widen

suddenly and sharply, negatively impacting the value of the underlying security. This can occur in both investment-grade and noninvestment-grade securities.

#### **C.16. Issuer Risk**

The value of a security may decline for a number of reasons that directly relate to the issuer, such as management performance, financial leverage and reduced demand for the issuer's goods or services.

#### **C.17. Legal and Regulatory Risk**

The Funds are subject to the risk that they may incur additional costs related to complying with the laws and regulations of governmental authorities or legal actions.

#### **C.18. Liquidity Risk**

Limitations on resale may have an adverse effect on the marketability of a security, and the Funds may also have to register a restricted security in order to dispose of it, resulting in expense and delay. The Funds may not be able to dispose of restricted or illiquid securities promptly or at reasonable prices and may thereby experience difficulty satisfying redemption requests. The Funds may not purchase a security if such purchase would cause more than 15% of its total assets in securities to be not readily marketable.

#### **C.19. Manager Risk**

The strategies used by the Fund's portfolio manager may fail to produce the intended result. The portfolio manager's assessment of companies or the securities that are purchased for a Fund may prove incorrect, resulting in losses or poor relative performance even in rising markets.

#### **C.20. Market Timing Risk**

Due to specific securities the Funds may invest in, the Funds could be subject to the risk of market timing activities by fund shareholders. Examples of these types of securities include high-yield, small-cap and foreign securities. Foreign securities typically offer the greatest opportunity for these market timing activities. The Funds generally price these foreign securities using their closing prices from the foreign markets in which they trade, typically prior to the Funds' calculation of their NAV. These prices may be affected by events that occur after the close of a foreign market but before the Funds price their shares; in such instances, the Funds may fair value foreign securities. Some investors, however, may engage in frequent short-term trading in the Funds to take advantage of any price differentials that may be reflected in the NAV of the Funds' shares. There is no assurance that fair valuation of securities can reduce or eliminate market timing. While CAM monitors trading in the Funds, there is no guarantee that it can detect all market timing activities.

#### **C.21. Mortgage-Related and Other Asset-Backed Securities Risk**

The Funds may invest in a variety of mortgage-related and other asset-backed securities, which are subject to certain additional risks. Generally, rising interest rates tend to extend the duration of fixed rate mortgage-related securities, making them more sensitive to changes in interest rates. As a result, in a period of rising interest rates, a Fund that holds mortgage-related securities may exhibit additional volatility; this is known as extension risk. In addition, adjustable and fixed rate mortgage-related securities are subject to prepayment risk. When interest rates decline, borrowers may pay off their mortgages sooner than expected. This can reduce the returns of a Fund because the Fund may have to reinvest that money at the lower prevailing interest rates. A Fund's investments in other asset-backed securities are

subject to risks similar to those associated with mortgage-related securities, as well as additional risks associated with the nature of the assets and the servicing of those assets.

#### **C.22. Non-Diversification Risk**

The Funds are non-diversified and may focus their investments in the securities of a comparatively small number of issuers and of issuers in the same or similar industries. Concentration in securities of a limited number of issuers and industries exposes each Fund to greater market risk and potential monetary losses than if its assets were diversified among the securities of a greater number of issuers and industries.

#### **C.23. Pooled Investment Vehicle Risk**

The Opportunity Fund may invest in pooled investment vehicles, including private equity and hedge funds, and will bear its ratable share of these vehicles' expenses, including their management and performance fees. The fees the Fund pays to invest in a pooled investment vehicle may be higher than if the manager of the pooled investment vehicle, including a sub-advisor, managed the Fund's assets directly. The incentive fees charged by the investment vehicles may create an incentive for the manager of the investment vehicle to make investments that are riskier or more speculative than those it might have made in the absence of an incentive fee.

#### **C.24. Political Risk**

Each Fund is subject to the risk that a change in U.S. law and related regulations will impact the way the Funds operate, increase the particular costs of a Fund's operations and/or change the competitive landscape. In particular, there is no guarantee that the Funds will be permitted to continue to engage in short sales, which are designed to earn the Fund a profit from the decline of the price of a security.

#### **C.25. Prepayment Risk**

Issuers may experience an acceleration in prepayments of mortgage loans or other receivables backing the issuers' securities when interest rates decline, which can shorten the maturity of the security and reduce the Funds' return. Issuers may also prepay their obligations on fixed-rate debt securities when interest rates fall, forcing the Funds to invest in securities with lower interest rates.

#### **C.26. Refinancing Risk**

Each Fund is subject to the risk that a company will not be able to refinance its existing debt prior to the maturity date of that debt. Principal reasons this would occur include significant deterioration in the fundamentals of the issuer, as well as economic and financial shocks that impact the ability of the capital markets to function properly.

#### **C.27. Repurchase and Reverse Repurchase Transactions Risk**

The Funds may enter into repurchase and reverse repurchase transactions agreements. The risks associated with these types of transactions arise if the other party to the agreement defaults or goes bankrupt and the Funds experience losses or delays in recovering their investments. In a repurchase transaction, the Funds could incur a loss if the value of the securities sold has increased relative to the value of the cash or collateral held by the Funds. In the case of a reverse repurchase agreement, the Funds could incur a loss if the value of the securities purchased by the Funds has decreased relative to the value of the collateral held by the Funds.

### **C.28. Securities Lending Risk**

Borrowers of a Fund's securities typically provide collateral in the form of cash that is reinvested in securities. The securities in which the collateral is invested may not perform sufficiently to cover the return collateral payments owed to borrowers. In addition, delays may occur in the recovery of securities from borrowers, which could interfere with the Fund's ability to vote proxies or to settle transactions.

### **C.29. Short Selling Risk**

Short selling is accomplished by borrowing a security and then selling it. If the Funds buy back the security at a price lower than the price at which they sold the security plus accrued interest, the Funds will profit on the difference. If the current market price is greater when the time comes to buy back the security plus accrued interest, the Funds will incur a loss on the transaction. The Funds' use of short sales may involve additional transactions costs and other expenses; as a result, the cost of maintaining a short position may exceed the return on the position, which may cause the Funds to lose money. Under certain market conditions, short sales can increase the volatility and decrease the liquidity of certain securities or positions and may lower the Funds' returns or result in a loss. In addition, there is no guarantee that the Funds will be permitted to continue to engage in short sales, which are designed to earn the Funds a profit from the decline of the price of a security.

### **C.30. Value Stock Risk**

Value securities purchased by the Opportunity Fund may not increase in price as anticipated by CAM and may even decline further in value if other investors fail to recognize the company's value or favor investing in faster-growing companies, or if the events or factors that CAM believes will increase a security's market value do not occur. The Fund may purchase securities that are not widely followed by other investors. These securities may include companies reporting poor earnings, companies whose share prices have declined sharply, turnarounds, cyclical companies or companies emerging from bankruptcy, all of which may have a higher risk of being ignored or rejected and therefore continually undervalued by the market.

## **Item 9. Disciplinary Information**

### **A. Criminal or Civil Actions**

There is nothing to report on this item.

### **B. Administrative Enforcement Proceedings**

There is nothing to report on this item.

### **C. Self-Regulatory Organization Enforcement Proceedings**

There is nothing to report on this item.

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

### **A. Broker-Dealer or Representative Registration**

CAM does not have an affiliate broker-dealer. However, CAM's affiliate funds have a contractual relationship with a broker-dealer to distribute shares of the Opportunity and Income Funds. Transactions for portfolio securities of each Fund is not effected through such broker-dealer.

### **B. Futures or Commodity Registration**

Neither CAM nor its affiliates are registered as a commodity firm, futures commission merchant, commodity pool operator or commodity trading advisor and do not have an application to register pending.

### **C. Material Relationships Maintained by this Advisory Business and Conflicts of Interest**

Francis S. M. Chou, Chief Executive Officer ("CEO") of CAM, is the Portfolio Manager of each Fund and is responsible for the day-to-day management of the Funds. Mr. Chou also serves as CEO of Chou Associates Management, Inc. ("Chou Associates"), an investment adviser based in Toronto, Canada, which manages the Chou family of Canadian Mutual Funds ("Chou Funds"). Mr. Chou has been the CEO of Chou Associates and the Portfolio Manager of the Chou Funds since 1986. In addition, Mr. Chou served as a Senior Vice President for Fairfax Financial Holdings from 1996-2007.

### **D. Recommendation or Selection of Other Investment Advisors and Conflicts of Interest**

CAM does not receive any remuneration from advisers, investment managers or other service providers that it recommends to clients.

## Item 11. Code of Ethics

### A. Code of Ethics Description

In accordance with the Advisers Act, CAM has adopted policies and procedures designed to detect and prevent insider trading. In addition, CAM has adopted a Code of Ethics (the "Code"). Among other things, the Code includes written procedures governing the conduct of CAM's advisory and access persons. The Code also imposes certain reporting obligations on persons subject to the Code. The Code and applicable securities transactions are monitored by the Chief Compliance Officer of CAM. CAM, upon written request from the client, will send to the client a copy of its code of ethics.

CAM has policies and procedures in place to ensure that the interests of its clients are given preference over those of CAM, its affiliates and its employees. For example, there are (i) policies in place to prevent the misappropriation of material non-public information, and (ii) such other policies and procedures reasonably designed to comply with federal and state securities laws.

### B. Investment Recommendations Involving a Material Financial Interest and Conflicts of Interest

CAM does not engage in principal trading (i.e., the practice of selling stock to advisory clients from a firm's inventory or buying stocks from advisory clients into a firm's inventory).

### C. Advisory Firm Purchase of Same Securities Recommended to Clients and Conflicts of Interest

CAM, its affiliates, employees and their families, trusts, estates, charitable organizations and retirement plans established by it may purchase the same securities as are purchased for clients in accordance with its Code of Ethics policies and procedures. The personal securities transactions by advisory representatives and employees may raise potential conflicts of interest when they trade in a security that is:

- owned by the client, or
- considered for purchase or sale for the client.

Such conflict generally refers to the practice of front-running (trading ahead of the client), which CAM specifically prohibits. CAM has adopted policies and procedures that are intended to address these conflicts of interest. These policies and procedures:

- require our advisory representatives and employees to act in the client's best interest
- prohibit fraudulent conduct in connection with the trading of securities in a client account
- prohibit employees from personally benefitting by causing a client to act, or fail to act in making investment decisions
- prohibit the firm or its employees from profiting or causing others to profit on knowledge of completed or contemplated client transactions
- allocate investment opportunities in a fair and equitable manner
- provide for the review of transactions to discover and correct any trades that result in an advisory representative or employee benefitting at the expense of a client.

Advisory representatives and employees must follow CAM's procedures when purchasing or selling the same securities purchased or sold for the client.

## **D. Client Securities Recommendations or Trades and Concurrent Advisory Firm Securities Transactions and Conflicts of Interest**

CAM, its affiliates, employees and their families, trusts, estates, charitable organizations and retirement plans established by it may effect securities transactions for their own accounts that differ from those recommended or effected for other CAM-advised Funds or clients. CAM will make a reasonable attempt to trade securities in client accounts prior to trading the securities in its affiliate, corporate, employee or employee-related accounts. It is the policy of CAM to place the Funds' and clients' interests above those of CAM and its employees.

## Item 12. Brokerage Practices

### A. Trust Administration & Fund Distributor

#### A.1. Trust Administration

Atlantic Fund Administration, LLC ("Atlantic"), provides certain administration, compliance, portfolio accounting and transfer agency services to the Funds. Atlantic provides the Funds with a Principal Financial Officer ("PFO"), a Chief Compliance Officer ("CEO") and an Anti-Money Laundering Compliance Officer ("AMLCO"), as well as additional compliance support functions.

#### A.2. Fund Distributor

Rafferty Capital Markets, LLC, the Trust's principal underwriter (the "Distributor"), serves as the Trust's Distributor in connection with the offering of the Funds' shares. The Distributor may enter into arrangements with banks, broker-dealers and other financial institutions through which investors may purchase or redeem shares.

#### A.3. Soft Dollar Arrangements

CAM does not utilize soft dollar arrangements. CAM does not direct brokerage transactions to executing brokers for research and brokerage services.

#### A.4. Brokerage for Client Referrals

CAM does not engage in the practice of directing brokerage commissions in exchange for the referral of advisory clients.

### B. Trading Practices

#### B.1. Best Execution

##### B.1.a. Chou America Mutual Funds

CAM seeks "best execution" for all portfolio transactions. This means that CAM seeks the most favorable price and execution available. The Funds may not always pay the lowest commission or spread available; rather, in determining the amount of commissions (including certain dealer spreads) paid in connection with securities transactions, CAM takes into account factors such as size of the order, difficulty of execution, efficiency of the executing broker's facilities (including the research services described below) and any risk assumed by the executing broker. CAM may also utilize a broker and pay a slightly higher commission if, for example, the broker has specific expertise in a particular type of transaction (due to factors such as size or difficulty) or is efficient in trade execution.

CAM may also give consideration to brokerage and research services furnished by brokers to CAM and may cause the Funds to pay these brokers a higher amount of commission than may be charged by other brokers. Research is designed to augment CAM's own internal research and investment strategy capabilities. This research may include reports that are common in the industry, such as industry research reports and periodicals, quotation systems, software for portfolio management and formal databases. Typically, the research will be used to service all of CAM's accounts, although a particular client may not benefit from all the research received on each occasion. CAM's fees are not reduced by

reason of CAM's receipt of research services. Since most of CAM's brokerage commissions for research are for economic research on specific companies or industries, and since CAM follows a limited number of securities, most of the commission dollars spent for industry and stock research directly benefit CAM's clients and the Funds' investors.

CAM recognizes that the analysis of execution quality involves a number of factors, both qualitative and quantitative. CAM will follow a process in an attempt to ensure that it is seeking to obtain the most favorable execution under the prevailing circumstances when placing client orders. These factors include but are not limited to

- the financial strength, reputation and stability of the broker
- the efficiency with which the transaction is effected
- the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any)
- the availability of the broker to stand ready to effect transactions of varying degrees of difficulty in the future
- the efficiency of error resolution, clearance and settlement
- block trading and positioning capabilities
- performance measurement
- online access to computerized data regarding customer accounts
- availability, comprehensiveness, and frequency of brokerage and research services
- commission rates
- the economic benefit to the client
- related matters involved in the receipt of brokerage services

CAM places orders for the purchase and sale of securities with broker-dealers selected by and in the discretion of CAM. The Funds do not have any obligation to deal with a specific broker or dealer in the execution of portfolio transactions. Allocations of transactions to brokers and dealers and the frequency of transactions are determined by CAM in its best judgment and in a manner deemed to be in the best interest of the Funds rather than by any formula.

CAM seeks "best execution" for all portfolio transactions. This means that CAM seeks the most favorable price and execution available. CAM's primary consideration in executing transactions for the Funds is prompt execution of orders in an effective manner and at the most favorable price available.

#### **B.1.b. Security Allocation**

Since CAM may be managing Funds with similar investment objectives, CAM may aggregate orders for securities for such accounts. In such event, allocation of the securities so purchased or sold, as well as expenses incurred in the transaction, is made by CAM in the manner it considers to be the most equitable and consistent with its fiduciary obligations to the Funds.

CAM's allocation procedures seek to allocate investment opportunities among the Funds in the fairest possible way, taking into account the Funds' best interests. CAM will follow procedures to ensure that allocations do not involve a practice of favoring or discriminating against any Fund or group of Funds. Fund performance is never a factor in trade allocations.

CAM's advice to certain Funds and clients and entities, and the action of CAM for those and other Funds or clients, are frequently premised not only on the merits of a particular investment but also on the suitability of that investment for the particular Fund in light of its applicable investment objective,

guidelines and circumstances. Thus, any action of CAM with respect to a particular investment may, for a particular client, differ or be opposed to the recommendation, advice or actions of CAM to or on behalf of other Funds or clients.

Investment decisions for the Funds are made independently from those for any other account or investment company that is advised or may in the future become advised by CAM or its affiliates. Investment decisions are the product of many factors, including basic suitability for the particular Fund or client involved. Likewise, a particular security may be bought or sold for certain Funds or clients even though it could have been bought or sold for other Funds or clients at the same time. Likewise, a particular security may be bought for one or more Funds or clients when one or more Funds or clients are selling the security. In some instances, with required consents, one Fund or client may sell a particular security to another Fund or client. There may be circumstances when purchases or sales of a portfolio security for one Fund or client could have an adverse effect on another client that has a position in that security. In addition, when purchases or sales of the same security for the Funds and other client accounts managed by CAM occurs contemporaneously, the purchase or sale orders may be aggregated in order to obtain any price advantages available to large-denomination purchases or sales.

#### **B.1.c. Order Aggregation**

Orders for the same security entered on behalf of more than one Fund or client will generally be aggregated (i.e., blocked or bunched) subject to the aggregation being in the best interests of all participating clients. Subsequent orders for the same security entered during the same trading day may be aggregated with any previously unfilled orders. Subsequent orders may also be aggregated with filled orders if the market price for the security has not materially changed and the aggregation does not cause any unintended duration exposure. All Funds or clients participating in each aggregated order shall receive the average price and, subject to minimum ticket charges and possible step outs, pay a pro rata portion of commissions.

To minimize performance dispersion, "strategy" trades should be aggregated and average-priced. However, when a trade is to be executed for an individual Fund account and the trade is not in the best interests of other Funds or accounts, then the trade will only be performed for that account. This is true even if CAM believes that a larger size block trade would lead to best overall price for the security being transacted. Presently, CAM does not provide separately managed account services, but reserves the right to do so in the future.

#### **B.1.d. Allocation of Trades**

All allocations will be made prior to the close of business on trade date. In the event an order is "partially filled," the allocation will be made in the best interests of all the Funds or clients in the order, taking into account all relevant factors including, but not limited to, the size of each Fund's or client's allocation, clients' liquidity needs and previous allocations. In most cases, accounts will get a pro forma allocation based on the initial allocation. This policy also applies if an order is "over-filled."

CAM acts in accordance with its duty to seek best price and execution and will not continue any arrangements if CAM determines that such arrangements are no longer in the best interests of clients.

## **Item 13. Review of Accounts**

### **A. Schedule for Periodic Review of Client Accounts or Financial Plans and Advisory Persons Involved**

CAM's President reviews securities activity for each of the Funds daily to ensure that investments are made in conformity with the Funds' investment objectives and investment strategies, and that all activity is in compliance with the Funds' prospectuses and requirements promulgated under the Investment Company Act of 1940 as well as the Investment Advisers Act of 1940.

### **B. Review of Client Accounts on Non-Periodic Basis**

CAM may perform ad hoc reviews on an as-needed basis if there have been material changes in the Funds' investment objectives or investment strategies or in the event of unstable markets.

### **C. Content of Client-Provided Reports and Frequency**

CAM provides reports to the Trust and Directors of each Fund on a quarterly basis. Such reports include investment performance of each fund, and information on operational and compliance related matters.

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

### **A. Economic Benefits Provided to the Advisory Firm from External Sources and Conflicts of Interest**

CAM does not receive economic benefits for referring clients to third-party service providers.

### **B. Advisory Firm Payments for Client Referrals**

CAM does not make payment for client referrals.

## Item 15. Custody

Fund Assets are maintained at Union Bank, N.A.

## **Item 16. Investment Discretion**

Each fund grants a limited power of attorney to CAM with respect to trading activity in fund accounts pursuant to an investment advisory agreement between CAM and the Trust. CAM will exercise full discretion as to the nature and type of securities to be purchased and sold, the amount of securities for such transactions, the amount of commissions to be paid, and the executing broker to be used. Investment limitations may be designated by the Trust as outlined in the investment advisory agreement.

## Item 17. Voting Client Securities

CAM, as a Securities and Exchange Commission registered investment advisor, often has voting power with respect to securities in client accounts. When it has proxy voting power with respect to securities in a client's account, CAM owes certain fiduciary duties with respect to the voting of proxies. These fiduciary duties include (i) the duty of care that is required to monitor corporate events and to vote the proxies; and (ii) the duty of loyalty that is required to vote proxies in a manner consistent with the best interests of the client and to put the client's interests before CAM's own interests. In keeping with its fiduciary duties, CAM has adopted a Proxy Voting Policy, which sets forth CAM's policies and procedures designed to ensure that it votes each client's securities in the best interests of the client.

CAM will be authorized to take action and render any advice with respect to the voting of proxies for securities held in the client's account. CAM will make an independent valuation for each applicable company held in the client's account in accordance with its fiduciary obligations as detailed in this policy. Clients may contact CAM Managing Member for information about how CAM voted with respect to any of the securities held in their accounts.

Except as required by applicable law, CAM will not be obligated to render advice or take any action on behalf of clients with respect to assets presently or formerly held in their accounts that become the subject of any legal proceedings, including bankruptcies.

As a general rule, CAM will vote all proxies relating to a particular proposal the same way for all client accounts holding the security in accordance with CAM's Proxy Policy, unless a client specifically instructs in writing to vote such client's securities otherwise. When making proxy voting decisions, CAM may seek advice or assistance from third-party consultants, such as proxy voting services or legal counsel.

A copy of CAM's Proxy Voting Policy will be provided upon receipt of a written request.

## **Item 18. Financial Disclosures**

### **A. Balance Sheet**

CAM does not require the prepayment of fees of \$1200 or more, six months or more in advance, and as such is not required to file a balance sheet.

### **B. Financial Conditions Reasonably Likely to Impair Advisory Firm's Ability to Meet Commitments to Clients**

CAM does not have any financial issues that would impair its ability to provide services to clients.

### **C. Bankruptcy Petitions During the Past Ten Years**

There is nothing to report on this item.