

**Nomura Asset Management U.S.A. Inc.****(“NAM-USA”)**

Worldwide Plaza  
309 West 49<sup>th</sup> Street  
New York, NY 10019  
212.667.1414  
[www.nomura.com/nam-usa](http://www.nomura.com/nam-usa)

**Part 2A of Form ADV: Firm Brochure****Annual Update****June 27, 2016**

This brochure provides information about the qualifications and business practices of Nomura Asset Management U.S.A. Inc. If you have any questions about the contents of this brochure, please contact us at 212-667-1414 or at [compliance@nomura-asset.com](mailto:compliance@nomura-asset.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority. Nomura Asset Management U.S.A. Inc. is a registered investment adviser with the SEC. Such registration does not imply any level of skill or training.

Additional information about Nomura Asset Management U.S.A. Inc. is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The searchable IARD/CRD number for Nomura Asset Management U.S.A. Inc. is 108222.

**ITEM 2: MATERIAL CHANGES**

The following is a summary of the material changes to this Brochure since the last annual update on June 25, 2015:

1. In Item 4 Section B, the SMA strategy was added.
2. In Item 8 Section A, disclosure regarding NAM-USA's investment process was updated. Additional risks were also added to Item 8 Section C.

NAM-USA will provide you with a new Brochure at any time upon request without charge. You may request a Brochure by contacting your client service representative or by calling the Compliance Department at (212) 667-1414 or via postal request addressed to:

Attention: Chief Compliance Officer  
Nomura Asset Management U.S.A. Inc.  
Worldwide Plaza  
309 West 49<sup>th</sup> Street  
New York, New York 10019

### ITEM 3: TABLE OF CONTENTS

Item 2: Material Changes .....	2
Item 3: Table of Contents.....	3
Item 4: Advisory Business.....	4
Item 5: Fees and Compensation.....	7
Item 6: Performance-Based Fees and Side-By-Side Management.....	11
Item 7: Types of Clients .....	12
Item 8: Methods of Analysis, Investment Strategies and Risk of Loss.....	13
Item 9: Disciplinary Information.....	30
Item 10: Other Financial Industry Activities and Affiliations.....	31
Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	34
Item 12: Brokerage Practices.....	39
Item 13: Review of Accounts.....	43
Item 14: Client Referrals and Other Compensation.....	44
Item 15: Custody.....	45
Item 16: Investment Discretion .....	46
Item 17: Voting Client Securities .....	47
Item 18: Financial Information .....	49

## **ITEM 4: ADVISORY BUSINESS**

### **A. Firm Description**

Nomura Asset Management U.S.A. Inc. (“NAM-USA”, “firm”, “we”, “us”, or “our”) provides investment advisory and investment management services. NAM-USA is a wholly owned subsidiary of Nomura Asset Management Co., Ltd. (“NAM-Tokyo”). NAM-Tokyo is one of the largest asset management firms in Japan. NAM-Tokyo is wholly owned by Nomura Holdings, Inc. (“NHI”) a Japanese public company. NAM-USA is organized as a New York corporation and, through a predecessor firm, has been registered as an investment adviser with the U.S. Securities and Exchange Commission (“SEC”) since 1976. NAM-USA is also registered as a Portfolio Manager in several Canadian provinces.

### **B. Description of Advisory Services**

NAM-USA offers discretionary and non-discretionary investment management services to institutional clients such as U.S. and non-U.S. corporate pension plans, U.S. registered investment companies (open-end and closed-end), and non-U.S. pooled investment vehicles. NAM-USA also provides investment management services to separately managed account programs (“SMA Programs”) sponsored by third party firms (“Sponsors”). We act as a sub-adviser to one or more affiliates and may appoint affiliates or non-affiliates to act as sub-advisers to client accounts and delegate investment discretion and trading authority to them.

#### **SMA Programs**

NAM-USA provides discretionary investment management services to SMA Programs by serving as sub-adviser to third party investment managers or Sponsors of the SMA Program participant accounts. Under such SMA Programs, one or more NAM-USA affiliates may provide NAM-USA on-going investment recommendations in the form of a model portfolio (“Model Portfolio Arrangements”), and periodically provide updates to the model. In most of these arrangements, NAM-USA retains the discretion as to the implementation of the recommendations, with NAM-USA initiating and executing the trades for the SMA Program portfolios.

With respect to certain SMA Programs, NAM-USA has entered into an arrangement with a third party service provider who performs certain administrative and operational functions, such as accounting, reconciliation, trade settlement, performance measurement, recordkeeping, billing and reporting. Typically these services are paid by NAM-USA, not the Sponsor or the SMA Program participant accounts.

The SMA Program Sponsor may provide various types of services, including evaluating the client’s suitability for the program, assisting the client in selecting one or more investment managers to implement specific investment strategies based on the client’s investment objectives, overseeing the services provided by each underlying manager, and providing custodial and client relationship services; depending on the particular facts and circumstances, NAM-USA may or may not have an advisory relationship with SMA Program participants. To the extent that this Form ADV Part 2A is delivered to SMA Program participants with whom NAM-USA has no advisory relationship, or under circumstances

where it is not legally required to be delivered, it is provided for informational purposes only. NAM-USA is not responsible for overseeing the provision of services by an SMA Program Sponsor and cannot assure the quality of its services.

Principal strategies include the following:

NAM-USA offers equity and fixed income investment strategies to support the diverse needs of our clients. Our advice is limited to equity, fixed income, and derivative asset classes. Below is a description of the major investment strategies and solutions we offer. Clients should understand that due to the volatile nature and risks involved when investing in these types of securities, the actual return and value of a client's account may fluctuate at any point in time and be worth more or less than the amount originally invested.

We also provide marketing services for our affiliated SEC-registered advisers.

Additionally, NAM-USA provides support services to certain affiliates such as risk monitoring, client services, accounting, operations, compliance, and technology.

#### Equity Mandates

NAM-USA offers long only U.S. and international equity strategies (including American Depositary Receipt ("ADR") strategies). Equity securities include (but are not limited to) common and preferred stock, warrants, rights, depository receipts, real estate investment trusts, limited partnership trusts, membership interests in limited liability companies, shares of fund vehicles, and equity related instruments and derivatives.

Equity strategies or components of a strategy that focus on North and South American equities or ADRs are generally managed on a team based approach with our affiliates and are executed by NAM-USA.

#### Fixed Income Mandates

NAM-USA provides absolute return fixed income strategies that combine relative value with tactical investment exposure to liquid fixed income instruments. We emphasize fundamental research, trade construction, and risk management. We use a fundamental approach to identify relevant investment themes and risk factors that quantify these themes in the financial markets over defined horizons. The investment team seeks to achieve absolute returns by utilizing its understanding of fixed income markets with rigorous risk management. Such alpha-oriented fixed income strategies invest in fixed income securities and a broad range of derivative instruments.

NAM-USA serves as investment adviser to the Nomura High Yield Fund, a series of The Advisors' Inner Circle Fund III. The fund is an SEC-registered investment company whose day-to-day high yield investment strategy is managed by an affiliated sub-adviser.

Fixed income securities include (but are not limited to): securities issued or guaranteed by the U.S. Government, its agencies or government-sponsored enterprises, obligations of non-U.S. governments or their subdivisions, agencies, authorities and other government-sponsored enterprises, obligations of

international agencies and supranational entities, debt securities issued by state or local governments and the agencies, authorities and other government-sponsored enterprises, mortgage-backed and other asset backed securities, corporate debt securities of U.S. and non-U.S. issuers, bank loans, Rule 144A securities, repurchase and reverse repurchase agreements, certificates of deposit, commercial paper, and master note purchase agreements, and forward commitment and delayed delivery transactions.

Derivative instruments are generally financial contracts whose value depends upon, or is derived from, the value of an underlying asset, reference rate or index, and may relate to stocks, bonds, interest rates, spreads between different interest rates, currencies or currency exchange rates, commodities, and related indexes. Derivative instruments used in the fixed income strategy may include (but are not limited to) futures, options, swaps, swaptions, caps, collars, floors, put and call options, short sales, and such other types of agreements or transactions pursuant to authorization from our clients.

#### **C. Availability of Customized Services to Individual Clients**

NAM-USA may tailor the advisory services for certain clients based on the client's particular needs, such as financial goals, risk tolerance, and other factors unique to the client's particular circumstances including regulatory restrictions. NAM-USA may also accept reasonable restrictions for managing client accounts which restrict or prohibit investment in certain securities or asset classes. These restrictions must be in writing. Clients should be aware, however, that certain restrictions may limit our ability to act and as a result an account's performance may differ from and may be less successful than other accounts within the same strategy that do not limit our discretion.

Where NAM-USA is the investment adviser to a pooled investment vehicle, the investment objectives, guidelines and any investment restrictions followed are those of the vehicle (as described in its prospectus or other relevant offering document) and are not tailored to the needs of individual investors in those vehicles.

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

NAM-USA does not provide portfolio management services in connection with any wrap fee programs.

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

As of March 31, 2016	USD Assets Under Management	USD Regulatory Assets Under Management
Assets Managed on a Discretionary Basis	\$839,228,234	\$845,663,535
Assets Managed on a Non-Discretionary Basis	\$0	\$0
Total Assets	\$839,228,234	\$845,663,535

## **ITEM 5: FEES AND COMPENSATION**

### **A. Advisory Fees and Compensation**

NAM-USA's investment management fees generally depend on the services provided and are typically expressed as a percentage of net assets under management. Fee arrangements are based on a number of different factors including (but not limited to) investment mandate, services performed, client relationship and account size. To the extent permitted by law, NAM-USA may also charge a performance fee.

### **B. Payment of Fees**

The specific manner in which NAM-USA charges fees is established in the client's written agreement with NAM-USA. NAM-USA generally bills its fees on a quarterly basis, although fees for various fund vehicles are often paid monthly. Clients may elect to be billed in advance or in arrears. We do not directly debit fees from client accounts.

#### **Institutional Separate Accounts**

We receive asset-based management fees from our clients. All management fees are subject to negotiation. Fee structures may be modified where a new account is expected to grow rapidly, where a relationship already exists with a current client or where the client retains NAM-USA to provide services with respect to multiple investment mandates.

The differing levels of basic fees across investment types take into account such factors as the degree of investment management activity and supervision required, the nature of the discretionary or non-discretionary service provided and the types of investment guidelines and restrictions imposed upon the management of the accounts. In addition, there may be specialized investment strategies with individualized fee arrangements in place as well as historical fee schedules with long-standing clients that may differ from those applicable to new client relationships. We may, in our sole discretion, reduce and/or waive management fees for a client at any time.

Management fees shall be prorated for each capital contribution and withdrawal made during the applicable billing period (with the exception of de minimis contributions and withdrawals). Accounts initiated or terminated during a billing period may be charged a prorated fee. Our services may be terminated pursuant to the provisions of each advisory contract. The termination provisions of any particular contract are subject to negotiation. If a client pays fees in advance, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable. The client has the right to terminate an agreement without penalty within five business days after entering into the agreement.

NAM-USA may also manage accounts that provide for additional compensation on the basis of a share of the capital gains upon, or the capital appreciation of, the client's assets (a "Performance Fee."). Performance Fees may be billed quarterly, semi-annually or annually. Please see Item 6 below for further discussion on Performance Fees.

### SMA Programs

NAM-USA participates as an investment manager in SMA Programs offered by third party Sponsors (which may include acting as sub-adviser to clients who authorize their investment adviser to retain NAM-USA to act as a discretionary investment manager). Information on minimum account size and fees payable to the Sponsor and participating investment managers, such as NAM-USA, are generally contained in the Sponsor's Program Brochure. As a result, NAM-USA's minimum account size and fees may vary from program to program or within a single program. Clients should contact their SMA Program Sponsor for more information on the fees payable to NAM-USA in connection with such SMA Programs.

### Pooled Investment Vehicle Fees

NAM-USA acts as investment adviser or sub-adviser to pooled private investment funds and offshore collective investment vehicles. Our fees for such services are based on each investment vehicle's particular circumstances. NAM-USA generally receives a management fee and a performance fee for management of private funds. The amount of the management fee and performance fee varies from vehicle to vehicle and is set forth in the prospectus or other relevant offering document for each fund. In certain cases, investors may receive fee reductions of all or a portion of the management fees and/or performance fees attributable to an investor's interest in the pooled investment vehicle. Each fund also ordinarily bears additional expenses, including organizational and operating expenses.

If you invest in a pooled investment vehicle that we manage under a direct or a sub-advisory arrangement, please refer to the fund's prospectus, offering memorandum, subscription agreement and other offering documents for additional/supplementary information on the fund, including its fees and expenses.

### U.S. Registered Funds

NAM-USA receives management fees from its SEC-registered investment company clients as described in the relevant fund's prospectus, statement of additional information or other organizational documents.

### **C. Additional Fees and Expenses**

Our fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which are incurred by the client. Clients may incur certain charges imposed by custodians, brokers, and other third parties, such as custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes. SEC registered investment companies and other collective investment vehicles also charge internal operational fees, which are disclosed in a fund's prospectus or shareholder report.

Item 12 describes the factors that NAM-USA considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

### **D. Prepayment of Fees**

Clients may pre-pay fees pursuant to their investment management agreement.



## **E. Additional Compensation and Conflicts of Interest**

### **Underlying Fund Fees**

NAM-USA may invest client assets in money market funds, exchange traded funds or other types of pooled investment vehicles managed by our affiliates or by a third party. In addition to NAM-USA's management fee and any performance fee paid, clients will also incur, relative to investments in fund vehicles, normal expenses and advisory fees imposed by the funds held in the account as well as other fees charged by the vehicle, if any.

Compensation received by NAM-USA and our affiliates related to various services to pooled investment vehicles generally will be retained by NAM-USA and its affiliates. Except to the extent required by applicable law, we are not required to offset such compensation against fees and expenses the client may otherwise owe to NAM-USA or its affiliates.

### **Private Funds and U.S. Mutual Funds**

Several of our employees are registered securities representatives of Nomura Securities International, Inc. ("Nomura Securities"), an affiliated broker-dealer registered with the SEC and the Financial Industry Regulatory Authority ("FINRA").

Certain sales persons may receive sales commissions or some other form of cash compensation for the sale of private funds and U.S. mutual funds to investors. This compensation is separate from the management fees that the funds pay the investment adviser, and is paid by Nomura Securities or NAM-USA, not by the fund investor.

This practice presents a conflict of interest and could give the sales person an incentive to recommend investment products based on the compensation they receive, rather than on the clients' needs. To ensure that a fund is suitable for the client, the sales person must obtain approval from his or her supervisor before the sales person can market the fund to the client. Anytime a sales person receives such compensation, the sales person will disclose the conflict to the client. The disclosure may be orally or in writing to the client.

Private funds are only available through Nomura Securities. They are not available through any other non-affiliated entity.

NAM-USA does not charge commissions or mark-ups.

### **Other Fee Information**

Personnel of Nomura Global Alpha LLC ("NGA"), an affiliated adviser, are also employees of NAM-USA. These individuals are responsible for managing NAM-USA's absolute return fixed income mandates. Fees generated from such mandates, including Performance Fees (described in Item 6) may be shared with NGA.

### Investment Management by Sub-Advisers

For our international equity mandates, we generally appoint one or more of our affiliated investment managers as sub-advisers to manage (either on a discretionary or non-discretionary basis) all or a portion of a client's account.

In some cases, the sub-advisers have investment and trading authority over the assets we direct to them, in other cases the sub-adviser provides recommendations to NAM-USA and NAM-USA executes the trades.

NAM-USA conducts due diligence on its sub-advisers. Among other things, we review the sub-adviser's corporate management team, portfolio strategies and historic performance track record to help ensure that the sub-adviser's style of management is aligned with the client's overall investment objectives and long-term goals. Clients are encouraged to review the sub-adviser's Form ADV Part 2A for important information relating to the sub-adviser's professionals, services and associated advisory fees.

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

All of our discretionary client accounts pay a management fee. As discussed in Item 5 above, certain accounts also pay performance fees. These arrangements are only with “qualified clients” as defined under Rule 205-3(d) under the Investment Advisers Act of 1940, as amended. For private funds, such fees are set forth in the offering materials. For separate account clients, such fees are subject to individualized negotiation with each such client. In measuring clients’ assets for the calculation of performance-based fees, we include realized and unrealized capital gains and losses

In addition to reserving the right to negotiate and charge different management fees for accounts based on client specific needs and goals, as noted in Item 5, NAM-USA also reserves the right, in its sole discretion, subject to applicable law, to negotiate and charge performance-based fees or include a performance based component to any of its fee structures.

Side-by-side management by NAM-USA of registered investment companies and non-U.S. mutual funds, managed accounts and private investment funds may raise potential conflicts of interests, including conflicts associated with the differences in fee structures of such products. Performance-based fee arrangements may create an incentive for NAM-USA to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. These fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities.

Portfolio managers at NAM-USA manage multiple portfolios for multiple clients. The portfolios managed by portfolio managers may have investment objectives, strategies and risk profiles that differ from each other. Portfolio managers make investment decisions for each portfolio based on the investment objectives, policies, practices and other relevant investment considerations applicable to that portfolio. Consequently, the portfolio managers may purchase securities for one portfolio and not another portfolio. Securities purchased in one portfolio may perform differently than the securities purchased for another portfolio.

NAM-USA’s goal is to provide high quality investment services to all of its clients, while meeting our fiduciary obligation to treat all clients fairly, and NAM-USA has adopted and implemented policies and procedures, including brokerage and trade allocation policies and procedures, that it believes address the conflicts associated with managing multiple accounts for multiple clients. Moreover, NAM-USA monitors a variety of areas, including compliance with applicable laws and regulations, investment guidelines, the allocation of securities, and compliance with NAM-USA’s Code of Ethics. See Item 11 “Code of Ethics, Participation or Interest in Client Transactions and Personal Trading” and Item 12 “Brokerage Practices.”

## **ITEM 7: TYPES OF CLIENTS**

NAM-USA generally provides investment management services to corporate and public pension plans, U.S. registered investment companies, private investment funds, foreign funds such as Japanese investment trusts and Canadian mutual funds, and other U.S. and international institutions. NAM-USA also provides investment management services to SMA Programs offered by third party Sponsors.

For its equity mandates, NAM-USA has a minimum initial account size of \$10 million for institutional separate accounts. For fixed income mandates, the minimum initial institutional separate account size is \$50 million. NAM-USA may waive these minimums at its discretion. Fund vehicles managed by NAM-USA impose their own minimums regarding investment size and subscription amounts.

For SMA Programs, NAM-USA generally requires a minimum investment of at least \$100,000 for equity investment strategies. Higher minimums may be required for certain programs and/or investment strategies.

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

### A. Methods of Analysis and Investment Strategies

#### Equity Investment Strategies

NAM-USA offers several foreign and U.S. equity strategies to its clients and in doing so may invest, without limitation, in the following equity or equity-related securities or instruments: common stock, preferred stock, real estate investment trusts ("REITs"), depository receipts, warrants, rights, restricted shares, exchange-traded funds, investment company securities, structured notes, futures contracts, derivatives, and private placements. Investments will be exchange-traded or traded over-the-counter. Certain investments may be in the securities of smaller and less seasoned issuers.

Affiliated sub-advisers that manage (either on a discretionary or non-discretionary basis) international equity portfolios for our clients utilize an investment approach that combines a top-down and bottom-up analysis, with a bias towards bottom-up stock selection. All such sub-advisers use a team approach with a focus on country and/or sector analysis.

A broad range of equity strategies, are offered including "core", "growth" and "small cap". The investment approach of the "core" strategy combines a "bottom-up", relative value approach with rigorous fundamental research on individual stocks and a "top-down" overlay. The investment process is designed to add value in all market conditions over a medium-to long-term time horizon.

The "growth" strategy focuses on return-on-equity ("ROE") level and its sustainability ~~and~~ with fundamental strength. The growth fund management team identifies companies which have the ability to achieve and sustain higher level of ROE than the market average over the long term, as well as to maintain effective business strategies, management capabilities and competitive advantages relative to their peers.

We also offer strategies focusing on specific capitalization ranges (i.e., small cap) based on a bottom up stock selection approach.

In some cases, our international equity strategies invest solely in ADRs. ADRs are receipts issued by a U.S. bank or trust company that evidence ownership of non-U.S. securities and are traded on a U.S. exchange or in the over-the-counter market. Clients will bear a proportionate share of any fees and expenses associated with ADRs, if applicable, in which account assets are invested, and any fees and expenses associated with converting non-U.S. securities into ADRs, if applicable.

In addition, our affiliated sub-advisers sometimes utilize quantitative database and screening systems to complement their portfolio construction and stock selection process. The implementation of certain strategies for certain client accounts may involve frequent trading of securities. Although bottom-up factors are emphasized in their investment approach, portfolios of some strategies are constructed within guidelines defined by top-down analysis. In this way, the affiliated sub-advisers are able to combine both top-down and bottom-up views in their decision making process.

We perform on-going due diligence in monitoring our sub-advisers. This oversight process includes monitoring ongoing compliance with investment guidelines and other legal requirements.

The table illustrates the current equity strategies offered to our existing North American client base:

Asia	Asia Pacific excluding Japan; Asia Pacific including Japan
International	EAFE
Japan	Core; Small Capitalization; ADR-only
Korea	Core

#### *Security Analysis*

Our security analysis methods include: charting, fundamental analysis, technical analysis, quantitative analysis and qualitative analysis methods including cyclical analysis.

#### *Sources of Information*

In conducting security analysis, we utilize a broad spectrum of information, including financial publications, third-party research materials, annual reports, prospectuses, regulatory filings, company press releases, corporate rating services, inspections of corporate activities and meetings with management of various companies.

#### Absolute Return Fixed Income Strategies

We emphasize comprehensive fundamental research, trade construction and prudent risk management in order to generate absolute returns through alpha-oriented fixed income products. NAM-USA invests in liquid fixed income securities and related derivatives.

NAM-USA uses a fundamental approach to identify relevant investment themes and risk factors that quantify these themes in the financial markets over defined time horizons. We begin our investment process by identifying the primary top-down investment themes over a defined period. Based on these themes, we define factors that drive valuations in the fixed income markets. We next choose investments that provide the greatest relevance per unit of exposure to that factor. Finally, we may include securities in our portfolio that provide tail protection.

Ideas come from the portfolio managers; when we have an idea, we research it rigorously. In weekly meetings, we evaluate both the macro factors that have material impact on valuations as well as the relative valuations of securities given these factors. The macro factors range from monetary policies, credit and inflation trends to the strategic flow of funds. The preferred set of securities (or opportunity set) is created by combining the top-down outlook on the macro environment with the bottom-up valuation.

Portfolio construction reflects a careful optimization process combining the opportunity set with the mandate's constraints and targets. The risk management team is deeply involved in this process. The portfolio managers are security specialists, so their expertise is leveraged in the portfolio construction dialogue with the Chief Investment Officer.

The investment team works to maximize alpha by finding trades which combine several intrinsically attractive components. Qualitative analysis helps determine the risk allocation of the strategy. Several strategies may be implemented in a single portfolio, with each strategy monitored with value at risk ("VaR") and scenario analysis. Both a soft stop loss and hard stop limit will be assigned to a strategy in order to limit downside risk of individual strategies. Ex-post analysis of risk and return attribution is conducted in an attempt to achieve a high information ratio. The macro environment and the strategic biases remain in place typically over a quarter but are examined on a weekly basis. The weekly portfolio analysis serves as the anchor for portfolio decisions made during the week.

#### *Security Analysis and Sources of Information*

In evaluating securities, we take into account a number of factors, including (but not limited to) fundamental, technical, quantitative and qualitative (including cyclical).

NAM-USA uses a variety sources to make investment decisions regarding clients' market positions. In addition to its own proprietary models, it uses, from time to time, information derived from financial newspapers and magazines, research prepared by Nomura credit analysts, and other timing signals through licensing, subscriptions, and other arrangements.

#### High Yield Investment Strategies

The high yield investment strategy is managed by Nomura Corporate Research and Asset Management Inc. ("NCRAM"), an affiliated sub-adviser. NCRAM believes that a total return approach driven by credit research and a team effort is the best way to generate alpha in the high yield market. The core of this approach is the firm's "Strong Horse" investment philosophy. Strong Horse companies can carry their debt loads through the economic cycles. They generate strong, sustainable cash flow that enables them to de-lever their balance sheets and improve their ratings. This generally leads to capital appreciation for bondholders. NCRAM believes these companies are less likely to default on payments of principal or interest to bondholders. The approach is a collaborative effort with ideas generated by the whole team. Analysts are organized on a sector basis and trained to focus on the return being offered for the risk being taken. Bonds included in portfolios usually receive endorsement from the portfolio manager and the analyst, which encourages a sense of ownership across the whole team. In seeking total return through Strong Horse companies, NCRAM focuses on avoidance of credit loss and a deep understanding of relative value and the catalysts that drive bond price appreciation

NCRAM's investment process for high yield is as follows: 1) creative ideas are generated in its open environment; 2) experienced analysts perform thorough research; and 3) disciplined portfolio construction allows NCRAM to create portfolios with the best risk and reward opportunities. NCRAM characterizes this as primarily bottom up, though top-down perspectives are incorporated. NCRAM also characterizes this as a fundamental, as opposed to a quantitative, approach.

Ideas can come from the analysts, the portfolio managers, or the Chief Investment Officer (“CIO”), and when NCRAM has an idea, they research it thoroughly. NCRAM’s research process is founded on a diligent, fundamental credit analysis. NCRAM’s process seeks to analyze a) business risk, b) financial risk, and c) covenants. In analyzing business risk, they study the company’s cash flows and its industry dynamics. NCRAM frequently communicate with issuers and visits them. In analyzing financial risk, they examine the leverage applied to the cash flows, as well as financing needs. Financial models are created for potential investments. NCRAM also studies the covenants to protect its rights as bondholders. Their dedicated high yield analysts perform the vast majority of all the research utilized in the management of high yield portfolios. In conducting security analysis, they utilize a broad spectrum of information, including financial publications, sell-side research, third-party experts, annual reports, prospectuses, regulatory filings, company press releases, corporate rating agencies, and meetings with management.

After rigorous research, analysts recommend potentially favorable credits from within their sectors for inclusion in the portfolio. These recommendations are discussed in meetings with the portfolio managers and they seek to build a consensus before a position is taken. Portfolio managers use these recommendations to build portfolios while adhering to the overall investment strategy based on client risk/return objectives. The portfolio manager has latitude to determine investment strategy position weightings and sector weightings.

While this process is primarily bottom up, there are important top-down inputs. NCRAM frequently assesses economic conditions and forecasts via meetings with the Nomura Securities economist or others. They also assess financial market and liquidity conditions. In addition, NCRAM reviews and manages its sector exposures. The top-down perspectives can contribute to its bottom up views while also contributing to the risk posture and sector weightings of the portfolios.

After a portfolio is created, it is actively managed. NCRAM closely follows company, industry, and market developments, and they will re-review an investment if an important portion of our investment thesis has changed. They have frequent interaction between research analysts and portfolio managers in an open environment. Market or issuer developments are shared quickly among members of the investment team. NCRAM may sell an investment once it appreciates above fair value, if its fundamentals deteriorate, or if an opportunity with a superior ratio between risk and reward is presented. Both credit analysts and the portfolio manager are involved in sell decisions. Existing positions are continuously monitored by the research analyst and also are formally reviewed during periodic portfolio reviews among the CIO, portfolio manager, and credit analyst.

**Please Note: Investing in securities involves risk of loss that clients should be prepared to bear.** Clients should understand that due to the volatile nature and risks involved when investing in these types of securities, the actual return and value of a client’s account may fluctuate and at any point in time be worth more or less than the amount originally invested. Past performance is not indicative of future results. There is a risk of loss.



## **B. Material, Significant or Unusual Risks Relating to Investment Strategies**

The following is a summary of some of the material risks associated with the investment strategies and variety of investments employed by NAM-USA. This summary does not attempt to describe all of the risks associated with any investment.

Although no summary can fully describe all of the associated risks, the prospectus and statement of additional information for a U.S. registered investment company or the confidential offering memorandum for a private investment fund managed by NAM-USA contains a more complete description of the risks associated with an investment in the particular vehicle. If you invest in a fund vehicle that we manage, please refer to the fund's offering memorandum, subscription agreement and other offering documents for additional risk information.

Private investment fund confidential offering memorandum are available only to current investors or prospective investors who are eligible to invest in such entities, and to advisory clients, as determined at the sole discretion of NAM-USA.

The value of portfolios that NAM-USA manages may fall as well as rise, and the investor may not receive the full amount originally invested. The investment risks vary between different types of investments. In the case of a higher volatility portfolio the loss on realization or cancellation may be very high (including total loss of investment) as the value of such an investment may fall suddenly and substantially.

Past performance is not indicative of future results. There is a risk of loss.

### **Risks Generally Associated with all Investment Strategies**

#### *Counterparty Risk*

A client account may be exposed to the credit risk of counterparties with whom it trades and may also bear the risk of settlement default involving custodians or prime brokers.

#### *Cyber Security Risk*

With the increased use of technologies such as the Internet to conduct business, a portfolio is susceptible to operational, information security and related risks. In general, cyber incidents can result from deliberate attacks or unintentional events and are not limited to, gaining unauthorized access to digital systems, and misappropriating assets or sensitive information, corrupting data, or causing operational disruption, including the denial-of-service attacks on websites. Cyber security failures or breaches by a third party service provider and the issuers of securities in which the portfolio invests, have the ability to cause disruptions and impact business operations, potentially resulting in financial losses, the inability to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, including the cost to prevent cyber incidents.

#### *Key Personnel Risk*

The success of a client account may rely on certain key personnel of NAM-USA or its affiliates, including NAM-USA's investment team. The departure of any of such key personnel or their inability to fulfill certain duties

may adversely affect the ability of NAM-USA to effectively implement the investment programs of client accounts.

#### *Liquidity Risk*

Liquidity risk exists when particular investments are difficult to purchase or sell. A client's account may, at any given time, include securities and other financial instruments or obligations which are very thinly traded or for which no market exists or which are restricted as to their transferability under applicable securities laws. The sale of any such investments may be possible only at substantial discounts, and such investments may be extremely difficult to value with any degree of certainty. Further, due to potential limitations on investments in illiquid securities and the difficulty in purchasing and selling such securities or instruments, an account may be unable to achieve its desired level of exposure to a certain sector.

#### *Market Risk*

The profitability of a significant portion of a client's account depends to a great extent upon correctly assessing the future course of the price movements of securities and other investments. There can be no assurance that we will be able to predict accurately these price movements. Although NAM-USA may attempt to mitigate market risk through the use of long and short positions or other methods, there is always some, and occasionally a significant, degree of market risk.

#### *Model Risk*

When executing an investment strategy using various proprietary or investment models, securities or other financial instruments selected may perform differently than expected, or from the market as a whole, as a result of a model's component factors, the weight placed on each factor, changes from the factors' historical trends, and technical issues in the construction, implementation and maintenance of the models (e.g., data problems, software issues, etc.). There can be no assurance that a model will achieve its objective.

#### *Portfolio Turnover/Frequent Trading Risk*

Portfolio turnover is a change in the securities held by an account. Higher portfolio turnover is a result of frequent trading and involves corresponding greater expenses to an account, including brokerage commissions or dealer markups and other transaction costs on the sale and reinvestment of securities. In addition, frequent trading is likely to result in short-term capital gains tax treatment. As a result, the trading costs and the tax risk associated with portfolio turnover may adversely affect an account's performance.

#### *Settlement Risk*

Settlement risk is the risk that a counterparty does not deliver the security (or its value) in accordance with the agreed terms after the other counterparty has already fulfilled its part of the agreement to so deliver. Settlement risk increases where different legs of the transaction settle in different time zones or in different settlement systems where netting is not possible. This risk is particularly acute in foreign exchange transactions and currency swap transactions.

### Risks Generally Associated with Equity Investments

#### *Equity Securities Risk*

The value of a company's equity securities may fall as a result of factors directly relating to that company, such as decisions made by its management or lower demand for the company's products or services. The

value of an equity security may also fall because of factors affecting not just the company, but also companies in the same industry or in a number of different industries, such as increases in production costs. The value of a company's equity securities may also be affected by changes in financial markets that are relatively unrelated to the company or its industry, such as changes in interest rates or currency exchange rates or adverse circumstances involving the credit markets. In addition, because a company's equity securities rank junior in priority to the interests of bond holders and other creditors, a company's equity securities will usually react more strongly than its bonds and other debt to actual or perceived changes in the company's financial condition or prospects. To the extent a client account invests in equity related instruments it will also be subject to these risks.

#### *Growth and Value Investing Risk*

NAM-USA and/or its sub-advisers will invest in equity securities of companies that their portfolio managers believe will experience relatively rapid earnings growth (growth securities) or that portfolio managers believe are selling at a price lower than their true value (value securities). Growth securities typically trade at higher multiples of current earnings than other securities. Therefore, the value of growth securities may be more sensitive to changes in current or expected earnings than the value of other securities. Companies that issue value securities may have experienced adverse business developments or may be subject to special risks that have caused their securities to be out of favor. If a portfolio manager's assessment of a company's prospects is wrong, or if the market does not recognize the value of the company, the price of its securities may decline or may not approach the value that the portfolio manager anticipates.

#### *Smaller Companies Risk*

The general risks associated with investing in equity securities are particularly pronounced for securities of companies with smaller market capitalizations (and, to a greater extent, less seasoned companies). These companies may have limited product lines, markets or financial resources or they may depend on a few key employees. Securities of smaller companies may trade less frequently and in lesser volume than more widely held securities, and their values may fluctuate more sharply than other securities. They may also trade in the over-the-counter market or on a regional exchange, or may otherwise have limited liquidity. Companies with medium-sized market capitalizations also have substantial exposure to these risks.

#### *Warrants Risk*

Warrants are instruments that entitle the holder to buy an equity security at a specific price for a specific period of time. Changes in the value of a warrant do not necessarily correspond to changes in the value of its underlying security. The price of a warrant may be more volatile than the price of its underlying security, and a warrant may offer greater potential for capital appreciation as well as capital loss. Warrants do not entitle a holder to dividends or voting rights with respect to the underlying security and do not represent any rights in the assets of the issuing company. A warrant ceases to have value if it is not exercised prior to its expiration date. These factors can make warrants more speculative than other types of investments.

### Risks Generally Associated with Foreign Investments

#### *Currency Risk*

An account that invests in instruments that are denominated in a non-U.S. currency, or that purchases or sells foreign currencies on a spot basis or through forward contracts and derivative instruments, is subject to currency risk. Currency risk is the risk that the value of a particular currency will change in relation to one or

more other currencies or 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 may fluctuate significantly over short periods of time for a number of reasons, including but not limited to changes in interest rates, intervention (or the failure to intervene) by U.S. or non-U.S. 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 client's exposure to foreign currencies, including investments in foreign currency-denominated securities, may reduce the returns of the client account.

#### *American Depositary Receipts ("ADRs")*

ADRs are certificates evidencing ownership of shares in a foreign issuer. These certificates are issued by depositary banks and generally trade on an established market in the United States or elsewhere. ADRs are alternatives to directly purchasing the underlying foreign securities in their national markets and currencies. ADRs may be sponsored or unsponsored. While similar, unsponsored depositary receipts are issued without the participation of the underlying issuer, and may have diminished shareholder rights, as discussed below in Item 17 Voting Client Securities.

Client accounts invested in sponsored or unsponsored depositary receipts are subject to many of the same risks associated with the purchase and sale of foreign securities. In addition, other factors, such as issuer corporate actions or foreign country actions can result in displacements that cause such instruments to trade at enhanced premiums or discounts to the underlying foreign ordinary security. Depositary receipt holders do not always receive all the rights and benefits of the holders of the ordinary shares and they may have a limited ability to participate in corporate actions and vote proxies. Holders of unsponsored depositary receipts often bear the costs of such facilities and the depositary of unsponsored interests is frequently under no obligation to distribute shareholder communications or to pass through voting rights to the holders of these interests. Certain of NAM-USA's investment strategies may be offered in a depositary receipt format only, which may present certain limitations with respect to the possible investments and issuers when compared to other domestic or international equity strategies.

#### *Emerging Markets Risk*

Foreign Investment Risk as discussed below may be particularly high to the extent that a client invests in emerging market securities, that is, securities of issuers tied economically to countries with developing economies. Investing in emerging market debt or equity involves certain risks and special considerations not typically associated with investing in other more established economies or securities markets. Such risks may include (i) the risk of nationalization or expropriation of assets or confiscatory taxation; (ii) social, economic and political uncertainty including war; (iii) dependence on exports and the corresponding importance of international trade; (iv) price fluctuations, less liquidity and smaller capitalization of securities markets; (v) currency exchange rate fluctuations; (vi) rates of inflation (including hyperinflation); (vii) controls on foreign investment and limitations on repatriation of invested capital and on a client's ability to exchange local currencies for U.S. dollars; (viii) governmental involvement in and control over the economies; (ix) governmental decisions to discontinue support of economic reform programs generally and to impose centrally planned economies; (x) differences in auditing and financial reporting standards which may result in the unavailability of material information about issuers; (xi) less extensive regulation of the securities markets; (xii) longer settlement periods for securities transactions in emerging markets; (xiii) less developed

corporate laws regarding fiduciary duties of officers and directors and the protection of investors; and (xiv) certain considerations regarding the maintenance of clients' portfolio securities and cash with non-U.S. sub-custodians and securities depositories.

#### *Foreign Investment Risk*

A client account that invests in foreign (non-U.S.) securities may experience more rapid and extreme changes in value than accounts that invest exclusively in securities of U.S. issuers or securities that trade exclusively in U.S. markets. The securities markets of many non-U.S. countries are relatively small, with a limited number of companies representing a small number of industries. Additionally, issuers of non-U.S. securities are often not subject to the same degree of regulation as U.S. issuers. Reporting, accounting and auditing standards of non-U.S. countries differ, in some cases significantly, from U.S. standards. Also, nationalization, expropriation or confiscatory taxation, currency blockage, market disruption, political changes, security suspensions or diplomatic developments could adversely affect a client's investments in a non-U.S. country. In the event of nationalization, expropriation or other confiscation, a client could lose its entire investment in non-U.S. securities. To the extent that a client invests a significant portion of its assets in a particular currency or geographic area, the client will generally have more exposure to regional economic risks, including weather emergencies and natural disasters, associated with non-U.S. investments. For example, because certain of our client accounts may invest more than 25% of their assets in particular countries, these accounts may be subject to increased risks due to political, economic, social or regulatory events in those countries. Adverse developments in certain regions can also adversely affect securities of other countries whose economies appear to be unrelated. In addition, a client's investments in non-U.S. securities may be subject to withholding and other taxes imposed by countries outside the U.S., which could reduce the return on the investment. These risks are relevant to investments in both foreign ordinary securities as well as the depositary receipts of foreign issuers, including ADRs.

#### *Issuer Concentration, Geographic Concentration and Country Risk*

Because certain client accounts may invest a higher percentage of their assets in a relatively small number of issuers, the accounts may be more susceptible to any singular event affecting those issuers than a more broadly diversified account.

A small number of companies and industries may represent a large portion of the market in a particular country or region, and these companies and industries can be sensitive to adverse social, political, economic or regulatory developments in that country or region. Because certain client accounts concentrate their investments in individual countries or regions, their performance is expected to be closely tied to economic and political conditions in those countries and/or regions. In addition, natural disasters might have substantial economic impacts on affected regions, at least temporarily.

#### *Market Exchange*

Foreign markets may differ widely in trading and execution capabilities, liquidity and expenses, including brokerage and transaction costs.

## Risks Generally Associated with Fixed Income Investments

### *Credit Risk*

Credit risk is the risk of an issuer's inability to meet principal and interest payments on the obligation. Any such failure or refusal whether due to insolvency, bankruptcy or other causes, could subject a client to substantial losses. Securities rated below investment grade (also referred to as "high yield" or "junk" bonds) are subject to heightened credit risk, which can result in a portfolio being more sensitive to adverse developments in the U.S. and abroad. Lower rated securities generally involve greater risk of default or price changes due to changes in the issuer's creditworthiness than higher rated debt securities. The market prices of these securities may fluctuate more than higher quality securities and may decline significantly in periods of general economic difficulty.

### *Distressed Securities Risk*

We may invest in "distressed" securities, claims and obligations of entities which are experiencing significant financial or business difficulties. Investments may include, but not limited to, loans, commercial paper, loan participations, trade claims held by trade or other creditors, stocks, partnership interests and similar financial instruments, executory contracts and options or participations therein not publicly traded.

Distressed securities may result in significant returns to a client, but also involve a substantial degree of risk. A client may lose a substantial portion or all of its investment in a distressed environment or may be required to accept cash or securities with a value less than the client's investment. Among the risks inherent in investments in entities experiencing significant financial or business difficulties is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments also may be adversely affected by state and federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims. The market prices of such instruments are also subject to abrupt and erratic market movements and above average price volatility and the spread between the bid and asked prices of such instruments may be greater than normally expected. In trading distressed securities, litigation is sometimes required. Such litigation can be time-consuming and expensive, and can frequently lead to unpredicted delays or losses. The market for distressed securities and instruments is generally thinner and less active than other markets, which can adversely affect the prices at which distressed securities can be sold.

### *High Yield Risk*

We generally invest in high yield bonds which are rated in the lower rating categories by the various credit rating agencies (or in comparable non-rated securities). Securities in the lower rating categories are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered to be predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. They are also generally considered to be subject to greater risk than securities with higher ratings in the case of deterioration of general economic conditions. In a recessionary environment it is likely to be significantly more challenging for "high yield" issuers than for "investment grade issuers." Recessionary pressures are likely to reduce cash flow and make it more difficult for a highly leveraged issuer to meet its obligations under indentures and other credit agreements. Because investors generally perceive that there are greater risks associated with the lower-rated securities, the yields and prices of such securities may tend to fluctuate more than those for higher-rated securities. The market for lower-rated securities is thinner and less active than



that for higher-rated securities, which can adversely affect the prices at which these securities can be sold. In addition, adverse publicity and investor perceptions about lower-rated securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of such lower-rated securities.

Lower rated and unrated securities in which NAM-USA may invest on behalf of client accounts may have large uncertainties or major risk exposure to adverse economic conditions and are considered predominantly speculative. Generally, such securities offer a higher return potential than higher rated securities but involve greater volatility of price and greater risk of loss of income and principal, including the possibility of default or bankruptcy of the issuers of such securities. The market values of these securities also tend to be more sensitive to changes in economic conditions than higher rated securities. Credit ratings reflect a rating agency's evaluation of the safety of the principal and interest payments of a particular security, not the market value risk of lower-rated securities. Rating agencies may fail to make timely changes to credit ratings to reflect an event occurring since a security was rated, so that outstanding ratings may not reflect the issuer's current credit standing.

#### *High Risk Investments*

NAM-USA may invest in debt and equity securities, accounts and notes payable, loans, private claims and other financial instruments and obligations of troubled companies which may result in significant returns to a client account, but which involve a substantial degree of risk. A client account may lose its entire investment in a troubled company, may be required to accept cash or securities with a value less than the account's investment, and may be prohibited from exercising certain rights with respect to such investment. Troubled company investments may not show any returns for a considerable period of time. Funding a plan of reorganization involves additional risks, including risks associated with equity ownership in the reorganized entity. Troubled company investments may be adversely affected by state and federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability, and the U.S. Bankruptcy Court's discretionary power to disallow, subordinate or disenfranchise particular claims. Investments in securities and private claims of troubled companies made in connection with an attempt to influence a restructuring proposal or plan of reorganization in a bankruptcy case may also involve substantial litigation.

A client account may have significant investments in companies involved in (or the target of) acquisition attempts or tender offers or companies involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions. In any investment opportunity involving any such type of business enterprise, there exists the risk that the transaction in which such business enterprise is involved either will be unsuccessful, take considerable time or result in a distribution of cash or a new security, the value of which will be less than the purchase price to the client of the security, or other financial instrument in respect of which such distribution is received. Similarly, if an anticipated transaction does not in fact occur, NAM-USA may be required to sell a client's investment at a loss. Because there is substantial uncertainty concerning the outcome of transactions involving financially troubled companies in which a client may invest, there is a potential risk of loss by the client of its entire investment in such companies.

#### *Interest Rate Risk*

Interest rate risk is the risk that fixed income instruments will decline in value because of changes in interest rates. During periods of declining interest rates, the market price of fixed income instruments generally rises. Conversely, during periods of rising interest rates, the market price of such securities generally declines. The

magnitude of these fluctuations in the market price of fixed income instruments is generally greater for securities with longer durations. The values of equity and other non-fixed income securities may also decline due to fluctuations in interest rates.

#### *Small Companies Risk*

At any given time, a client account may have significant investments in smaller-to-medium sized companies of a less seasoned nature whose securities are traded in the over-the-counter market. These "secondary" securities often involve significantly greater risks than the securities of larger, better-known companies. These companies may have limited product lines, markets or financial resources or they may depend on a few key employees. Securities of smaller companies may trade less frequently and in lesser volume than more widely held securities, and their values may fluctuate more sharply than other securities. They may also trade in the over-the-counter market or on a regional exchange, or may otherwise have limited liquidity. Companies with medium-sized market capitalizations also have substantial exposure to these risks.

#### Risks Generally Associated with Alternative Investment Funds

##### *Applicable Law and Regulatory Developments*

Each alternative investment fund must comply with various legal requirements, including requirements that may be imposed by U.S. federal securities laws and tax laws, and regulations of the jurisdiction of the relevant fund and jurisdictions in which the fund invests. Should any of those laws or regulations change, the legal requirements to which the fund and its investors may be subject could differ materially from current requirements. The regulatory environment for alternative investment funds is evolving, and changes in the regulation of such funds and their investments may adversely affect the value of investments held by the funds and their ability to pursue their investment strategy.

##### *Delegation of Control*

All decisions with respect to the investment and trading activities of each fund will be made by its investment manager or general partner. Investors will not take any part in the management or control of any fund.

##### *Different Terms Offered*

Certain investors may be permitted to invest on different terms than other investors, including with respect to liquidity, transparency, subscriptions and fees.

##### *Information Transparency*

Alternative investments are typically less transparent in terms of information and pricing than registered funds.

##### *Lack of Regulation*

Alternative investment funds are not registered under the Investment Company Act of 1940, as amended. Accordingly, the funds will not be subject to certain regulations applicable to registered funds.

##### *Liquidity and Volatility*

Investments in our alternative investment funds are considered illiquid, long-term commitments, as well as being speculative and involving a high degree of risk. There are significant restrictions on transferability and withdrawals of shares/interests in our funds. Investments in our alternative investment funds can be highly



volatile and can result in significant risk of loss. Investors should be able to bear the financial risks and limited liquidity of these investments.

#### *Prime Broker Risk*

Bankruptcy, inadequate controls or fraud at an alternative investment fund's prime broker, which may hold the majority of that fund's assets, could impair the operational capabilities or the capital position of that fund. In addition, as an alternative investment fund may borrow money or securities or utilize operational leverage with respect to its assets, that alternative investment fund will post certain of its assets as collateral securing the obligations or leverage ("Margin Securities"). Some or all of the Margin Securities may be available to creditors of that fund's prime broker in the event of its insolvency. In addition, there may be substantial delays in the repayment of that fund's assets in the event that the prime broker was to become insolvent, as well as a risk of total loss of such assets.

#### *Risk Management*

We have established risk management processes to identify, measure and monitor risks associated with the investment activities undertaken by our alternative investment funds. The risk management processes are intended to assist in our investment decision making process, and to identify risk exposures that we may choose to hedge or otherwise mitigate. However, the risk management processes may fail to identify or anticipate a wide variety of risks that may adversely affect the funds, potentially exposing the funds to material unanticipated losses.

#### *Substantial Fees and Expenses Payable Regardless of Profits*

Each fund will incur obligations to pay its expenses (which may include, without limitation, management fees, performance fees or allocations, transaction costs, operating, accounting, auditing, research and due diligence expenses), which are payable regardless of whether any profits are realized.

### **C. Risks Associated with Particular Activities or Types of Securities**

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

Holders of asset-backed and mortgage-backed securities bear various risks, including credit risks, liquidity risks, interest rate risks, market risks, operations risks, structural risks and legal risks. Credit risk is an important issue in such securities because of the significant credit risks inherent in the underlying collateral and because issuers may be private entities. All of these factors increase the risk involved with commercial real estate lending and commercial real estate mortgage-backed securities.

#### *Bank Loans*

NCRAM may invest client assets in bank loans through participations or assignments. In connection with purchasing participations, the client assets generally will have no right to enforce compliance by the borrower with the terms of the loan agreement relating to the loan, nor any rights of set-off against the borrower, and the client assets may not benefit directly from any collateral supporting the loan in which they have purchased the participation. As a result, the client assets will assume the credit risk of both the borrower and the lender that is selling the participation. When NCRAM on behalf of its clients purchases assignments from lenders, the client assets will acquire direct rights against the borrower on the loan.

### *Below Investment Grade and Unrated Securities*

Client assets may be invested in fixed income securities that are rated below investment grade by one or more rating agencies or are unrated. The low rating or lack of a rating of such fixed income securities reflects the possibility that adverse changes in the financial condition of the issuer or in general economic conditions, or both, may significantly decrease the value of such securities or impair the ability of the issuer to make payments of principal or interest. Such securities may be subject to significant financial and business risks and have historically experienced greater rates of default. Lower or unrated securities are more likely to react to developments affecting market and credit risk than are more highly rated securities, and therefore the market value of securities in lower-rated or unrated categories is generally more volatile than that of higher quality securities. In addition, NAM-USA may have difficulty disposing of certain such fixed income securities because there may be a thin trading market for such securities.

Issuers of below investment grade or unrated fixed income securities may be highly leveraged and may not have more traditional methods of financing available to them. During an economic downturn or a sustained period of rising interest rates, issuers of such securities may be more likely to experience financial stress, especially if such issuers are highly leveraged. During such periods, timely service of debt obligations may also be adversely affected by specific issuer developments, or the issuer's inability to meet specific projected business forecasts or the unavailability of additional financing. The risk of loss due to default by the issuer is generally significantly greater for the holders of below investment grade or unrated fixed income securities because such securities may be unsecured and may be subordinated to obligations owed to other creditors of the issuer.

### *Credit Derivatives*

Certain clients purchase and sell credit derivatives. Credit derivatives trading is subject not only to the credit risk of the issuer of the underlying obligations to which such derivatives are referenced, but also to the credit risk of the counterparty to the credit derivative transaction itself. In certain cases, the credit derivatives market is significantly less liquid than the market in the underlying debt obligations, particularly if the derivative is highly customized and individually negotiated.

### *Credit Default Swaps*

We use credit default swaps in certain trading strategies. Credit default swaps involve different risks from investing in the reference obligation directly. In addition to general market risks, credit default swaps are subject to liquidity risk and counterparty credit risk. The volume of trading in credit default swaps has grown rapidly in recent years, and the size of the market may expose a client to large and unexpected risks. Given the increases in volume of credit default swaps in the market over recent years, and the fact that credit default swap contracts are bilaterally settled rather than centrally cleared, settlement of such contracts may also be delayed beyond the time frame originally anticipated by counterparties, and disputes may be more likely to arise as settlement is delayed. Such delays may adversely affect a client's ability to otherwise productively deploy any capital that is committed with respect to such contracts.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") includes provisions that comprehensively regulate the OTC derivatives markets, including the credit default swap market, for the first time. While the Dodd-Frank Act is intended in part to reduce certain of the risks described above with respect to credit default swaps and other OTC derivatives, its success in this respect may not be evident for some time after the Dodd-Frank Act is fully implemented, a process that may take several years.

### *Default Risk*

There is a risk that NCRAM may invest in, or hold, a security of an issuer that is in default with respect to principal or interest payments. In general, the default risk of emerging market bonds in which NCRAM invests is higher due to the risk that litigation, legislation or other political events, local business or economic conditions, or the bankruptcy of the issuer could have a significant effect on the issuer's ability to make payments of principal and/or interest. If the issuer of a security is in default, a client may lose its entire investment.

### *Derivatives Risk*

NAM-USA makes extensive use of derivatives in certain trading strategies. Derivative instruments are securities or contracts that provide for payments based on or "derived" from the performance of an underlying asset, index or other economic benchmark. Essentially, a derivative instrument is a financial arrangement or a contract between two parties (and not like a stock or a bond). Transactions in derivative instruments can be riskier than investments in conventional stocks, bonds and money market instruments. Derivative contracts include options, futures contracts, forward contracts, forward commitment and when-issued securities transactions, forward foreign currency exchange contracts and interest rate, mortgage and swaps.

A variety of derivatives may be available to an account, depending on the type of the account and the account's investment guidelines. Derivatives are subject to a number of risks described elsewhere in this section, including market risk, leverage risk, credit risk, counterparty risk, and liquidity risk.

### *Futures Contracts and Options on Futures Contracts*

We may purchase and sell futures and options on futures contracts for certain investment strategies. Futures contracts are traded on a futures exchange and call for the future delivery of a specified "commodity" at a specified time and place. Futures prices are highly volatile. The profitability of purchases and sales of futures contracts by a client depends on our ability to analyze price movements in those markets. Because low margin deposits are normally required, an extremely high degree of leverage is obtainable in futures and options trading. A relatively small price movement in a futures contract, consequently, may result in large losses. Thus, like other highly leveraged investments, any purchase or sale of a futures contract may result in losses which exceed the amount invested.

### *Leverage Risk*

If an account utilizes leverage, the account will be subject to heightened risk. Leverage may take the form of borrowing funds, trading on margin, derivative instruments that are inherently leveraged, and investment transactions that give rise to leveraging such as the use of when-issued, forward settlement or delayed delivery transactions. Leveraging may cause an account to set aside or liquidate portfolio assets to satisfy its obligations. Further, leveraging may cause an account to be more volatile than if the account had not been leveraged. This is because leveraging tends to exaggerate the effect of any increase or decrease in the value of an account's portfolio securities and may lead to a loss in the account in excess of the capital commitment.

### *Option Transactions*

Certain client accounts may engage from time to time in various types of options transactions. An option gives the purchaser the right, but not the obligation, upon exercise of the option, either (i) to buy or sell a specific amount of the underlying security at a specific price (the "strike" price or "exercise" price), or (ii) in the case

of a stock index option, to receive a specified cash settlement. To purchase an option, the purchaser must pay a “premium,” which consists of a single, nonrefundable payment. Unless the price of the instrument underlying the option changes and it becomes profitable to exercise or offset the option before it expires, the client account may lose the entire amount of the premium. The purchaser of an option runs the risk of losing the entire investment. Thus, a client may incur significant losses in a relatively short period of time.

#### *Residential Mortgage-Backed Securities*

Residential mortgage backed securities are subject to particular risks because they have yield and maturity characteristics corresponding to their underlying assets. Unlike traditional debt securities, which may pay a fixed rate of interest until maturity when the entire principal amount comes due, payments on certain of such securities include both interest and a partial payment of principal.

#### *Restricted Securities*

Restricted securities are securities that may not be sold freely to the public absent registration under the Securities Act of 1933, as amended (the “1933 Act”) or an exemption from registration. This generally includes securities that are unregistered that can be sold to qualified institutional buyers in accordance with Rule 144A under the 1933 Act or securities that are exempt from registration under the 1933 Act, such as commercial paper. Institutional markets for restricted securities have developed as a result of the promulgation of Rule 144A under the 1933 Act, which provides a “safe harbor” from 1933 Act registration requirements for qualifying sales to institutional investors. When Rule 144A restricted securities present an attractive investment opportunity and meet other selection criteria, NCRAM may make such investments whether or not such securities are “illiquid” depending on the market that exists for the particular security.

#### *Short Sale Risk*

NAM-USA may engage in short selling for certain accounts. A short sale involves the sale by an account of a security that it does not own with the hope of purchasing the same security at a later date at a lower price. An account may also enter into a short position through a swap agreement or other derivative instrument. If the price of the security or derivative has increased during this time, then the account will incur a loss equal to the increase in price from the time that the short sale was entered into plus any premiums and interest paid to the third party. Therefore, short sales involve the risk that losses may be exaggerated, potentially losing more money than the actual cost of the investment. Also, there is the risk that the third party to the short sale may fail to honor its contract terms, causing a loss to the account.

#### *Sovereign Debt Risk*

Sovereign debt securities are debt securities issued by U.S. and foreign governments. Sovereign debt securities are subject to the risk that a government may delay or refuse to pay interest or repay principal on its sovereign debt due, for example, to cash flow problems, insufficient foreign currency reserves, political considerations, the relative size of the government’s debt position in relation to the economy or the failure to put in place economic reforms required by the International Monetary Fund or other multilateral agencies. If a government defaults, it may ask for more time in which to pay or for further loans. There is no legal process for collecting sovereign debt that a government does not pay nor are there bankruptcy proceedings through which all or part of the sovereign debt that a government has not repaid may be collected. Countries in which NAM-USA may invest have historically experienced and may continue to experience high rates of inflation, high interest rates, exchange rate fluctuations, trade difficulties and extreme poverty and unemployment.

#### *Supranational Debt Obligations*

Supranational entities are entities constituted by the national governments of several countries to promote economic development, such as the World Bank, the International Monetary Fund, the European Investment Bank and the Asian Development Bank. Obligations of these entities are supported by appropriated but unpaid commitments of their member countries, and there can be no assurances that these commitments will be undertaken or met in the future.

#### *Use of When-Issued and Forward Commitment Securities*

NAM-USA may purchase securities on a “when-issued” basis. These transactions involve a commitment by an account to purchase or sell securities at a future date (typically one or two months later). No income accrues on securities that have been purchased on a when-issued basis prior to delivery to the account. When-issued securities may be sold prior to the settlement date. If a client account disposes of the right to acquire a when-issued security prior to its acquisition, it may incur a loss. In addition, there is a risk that securities purchased on a when-issued basis may not be delivered to the client account. In such cases, the client may incur a loss.

**ITEM 9: DISCIPLINARY INFORMATION**

**A. Criminal or Civil Proceedings**

None

**B. Administrative Proceedings Before Regulatory Authorities**

None

**C. Self-Regulatory Organization (SRO) Proceedings**

None

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

### **A. Broker-Dealer Registration Status**

NAM-USA is not registered and does not have an application pending as a securities broker-dealer.

As discussed in Item 5 above, certain NAM-USA sales persons are also registered securities representatives of Nomura Securities. The sales persons may offer interests in private funds and or U.S registered investment companies sponsored and/or managed by NAM-USA or its affiliates.

### **B. Futures Commission Merchant, Commodity Pool Operator (“CPO”), or Commodity Trading Advisor (“CTA”) Registration Status**

NAM-USA is an exempt Commodity Pool Operator and Commodity Trading Adviser.

### **C. Material Relationships or Arrangements With Our Investment Adviser Affiliates**

NAM-Tokyo, Nomura Asset Management U.K. Limited, Nomura Asset Management Singapore Limited, Nomura Asset Management Hong Kong Limited and Nomura Corporate Research and Asset Management Inc. (“NCRAM”) (collectively, “affiliated sub-advisers”) serve as sub-advisers for international equity and high yield fixed income accounts managed by NAM-USA. Each affiliated sub-adviser is registered as an investment adviser with the SEC. NAM-USA also acts as a sub-adviser (as discussed in Item 4 above) for Japanese investment trusts managed by NAM-Tokyo. To the extent that NAM-USA delegates investment management to affiliated sub-advisers, NAM-USA and its affiliates retain a greater amount of the total fees than if NAM-USA had delegated to an unaffiliated sub-adviser. Accordingly, there may be a potential conflict of interest in delegating to our affiliates.

To the extent NAM-USA delegates its advisory or other functions to affiliates that are registered with the SEC as investment advisers, a copy of the brochure of each such affiliate is available on the SEC’s website ([www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)) and will be provided to clients or prospective clients upon request. Clients seeking more information about any of these affiliates should contact NAM-USA.

NAM-USA owns 100% of Nomura Global Alpha LLC (“NGA”), a U.S. domiciled investment adviser registered with the SEC and a Commodity Pool Operator registered with the Commodity Futures Trading Commission. NAM-USA shares office space and certain facilities and services with NGA, and certain NAM-USA personnel are officers of NGA. In addition, certain NAM-USA personnel serve on the board of directors of private funds managed by NGA. Certain NGA investment personnel are also employees of NAM-USA. These individuals are responsible for managing NAM-USA’s alpha-oriented fixed income mandates.

NGA currently invests for its clients principally in fixed income instruments and related derivatives according to investment strategies that are substantially similar to the strategies pursued by NAM-USA for its clients. In certain circumstances the investment activities of NGA could adversely affect the prices and/or availability of securities or instruments held by or potentially considered for one or more of NAM-USA’s clients. NAM-USA

has adopted policies designed to seek to ensure that no client is treated unfairly, over time, in relation to any other client in the allocation of securities or investment opportunities.

NAM-USA provides marketing services to NCRAM, NGA and our non-U.S. domiciled SEC registered advisers. These firms compensate NAM-USA out of the advisory fees they receive from their advisory arrangements. NAM-USA also provides corporate services to NCRAM and NGA. Corporate services may include compliance, accounting, certain back-office operations and/or other services.

Although NAM-USA does not expect such conflict to arise, in certain circumstances the investment activities of the affiliated advisers could adversely affect the prices and/or availability of securities or instruments held by or potentially considered for one or more of the clients advised by NAM-USA. NAM-USA has adopted policies designed to ensure that no client is treated unfairly, over time, in relation to any other client in the allocation of securities or investment opportunities.

#### Investment Company Affiliates

NAM-USA serves as investment adviser to a U.S. mutual fund in the fund family known as The Advisor's Inner Circle Trust III. The fund is sub-advised by NCRAM.

NAM-USA also serves as investment manager to two U.S. closed-end funds - Korea Equity Fund, Inc. and Japan Smaller Capitalization Fund, Inc. Each fund is managed by one or more of our affiliated sub-advisers.

#### Affiliated Custodians

Nomura Trust & Banking Co., Ltd. ("NTB"), an affiliate of NAM-USA, acts as custodian and trustee for many of the Japanese Investment Trusts where we serve as sub-adviser.

#### Sponsor of Limited Partnerships

NAM-USA and its affiliates may create and/or distribute unregistered private-placed vehicles and may receive fees.

#### Affiliated Broker-Dealers

Instinet, LLC is an affiliated broker-dealer that provides online security brokerage and electronic trading services. NAM-USA may execute equity transactions for the Japanese Investment Trusts with Instinet, provided they are executed on an agency basis and in compliance with Rule 206(3)-2 of the Advisers Act and best execution.

#### Other Affiliated Arrangements

NHA, , Nomura Funds Research and Technologies Co., Ltd. ("NFRT") and Nomura Funds Research and Technologies America, Inc. ("NFR&TA"), Nomura Securities and certain of their subsidiaries provide to and receive certain services from NAM-USA, which may include accounting, account administration, auditing, business continuity planning, electronic data processing, employee benefit plan and personnel administration, fund administration, insurance, investment, legal, management and financial reporting, occupancy, project



management, tax, transportation and treasury. In addition, Nomura may have ownership interests in trading venues and exchanges which may provide financial incentives to recommend brokers to clients who use these venues or exchanges for the execution of client trades.

**D. Material Conflicts of Interest Relating to Other Investment Advisers**

See Item 10.C above for a discussion of relationships that NAM-USA has with other affiliated investment advisers. NAM-USA does not recommend or select non-affiliated investment advisers.

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

### **A. Code of Ethics**

As an investment adviser and a fiduciary to its clients, we always place our clients' interests first and foremost. However, NAM-USA employees may buy or sell securities for their own accounts that the firm buys or sells for its clients' accounts. We understand that this could create a conflict of interest, where the employee's interest may be at odds with the interest of our clients. To mitigate the appearance of or actual conflict, NAM-USA has adopted a Code of Ethics ("Code") with which all associated persons must comply.

#### Standards of Conduct

The following is a summary of the Code of Ethics' core principles and applies to all supervised persons within our firm:

- Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, and prospective clients;
- Place the interests of clients first and above one's own personal interests;
- Adhere to the fundamental standard that you should not take inappropriate advantage of your position, even if clients are not harmed;
- Conduct all personal securities transactions in a manner consistent with the Code;
- Avoid actual and potential conflicts of interest;
- Preserve the confidentiality of clients' security holdings and transactions, financial circumstances and other client information that has been obtained within the scope of the manager-client relationship;
- Do not participate in any business relationship or accept gifts that could reasonably be expected to affect one's independence, objectivity, or loyalty to clients; and
- Comply with applicable provisions of the U.S. federal securities laws.

All of our supervised persons must acknowledge the terms of the Code, upon joining NAM-USA, annually, and as the Code is amended.

Clients, or prospective clients, may, upon request, receive a copy of NAM-USA's Code by contacting their client service representative or by calling the Compliance Department at (212) 667-1414 or via postal request addressed to:

Attention: Chief Compliance Officer  
Nomura Asset Management U.S.A. Inc.  
Worldwide Plaza  
309 West 49<sup>th</sup> Street  
New York, New York 10019

## **B. Securities that NAM-USA or a Related Person Has a Material Financial Interest**

From time to time NAM-USA, or any related person or any of their respective employees may have a known financial interest in securities owned by or recommended to clients of NAM-USA. For example, such parties may (1) purchase interests in funds or other private investment vehicles managed by NAM-USA or its related persons or (2) invest in mutual funds advised or sub-advised by NAM-USA or its related persons. Potential conflicts could also occur if NAM-USA engages in transactions with any entities which hold significant interests in Nomura. Any such transactions will be conducted in compliance with the requirements of the Advisers Act and the Investment Company Act of 1940, as applicable.

## **C. NAM-USA or a Related Person May Invest in Same or Related Securities**

From time to time NAM-USA, or any related person or any of their respective employees or principals may invest in the same securities owned by or recommended to clients of NAM-USA. NAM-USA is not obligated to recommend, buy or sell, or take any short position with respect to, or to refrain from recommending, buying or selling or taking any short position with respect to, any security that NAM-USA, its affiliates or their respective access persons, as defined by the Advisers Act, may buy or sell for its or their own account or for the accounts of any other client. In addition, NAM-USA is not obligated to seek information or to make available to or share with any client any information, investment strategies or investment opportunities developed or used in connection with other clients, and NAM-USA may act on the basis of such information for certain portfolios in a manner that may have an adverse effect on other portfolios.

NAM-USA has adopted policies and procedures relating to personal securities transactions and insider trading that is designed to mitigate actual conflicts of interest.

Under NAM-USA's Code of Ethics, NAM-USA's employees are required to disclose their brokerage accounts, obtain pre-clearance for most securities transactions prior to execution, are subject to a fourteen day blackout restriction which prevents them buying or selling a security within seven calendar days before or seven calendar days after the same security is trading for an advisory account, and are also required to hold certain securities for a period of 30 days before they are able to sell.

All securities with a capitalization larger than \$6 billion as well as non-affiliated mutual funds, and broad index based exchange traded funds, are exempt from the above blackout and holding restrictions.

The Code of Ethics requires all employees of NAM-USA and certain non-employees (as applicable) to submit quarterly reports of transactions in accounts in which they or their immediate family members have beneficial interest and annually certify to their holdings. The Code of Ethics also addresses issues such as political contributions, market timing, late trading, gifts and entertainment, service on boards of directors and outside business activities.

## **Material, Non-Public Information and Insider Trading**

From time to time, NAM-USA personnel may come into possession of material, non-public information which, if disclosed, might affect an investor's decision to buy, sell or hold a security. Under applicable law, NAM-USA personnel are prohibited from improperly disclosing such information, or using such information, for their personal benefit or for the benefit of a client, which could limit the ability of clients to buy, sell or

hold certain investments. NAM-USA shall have no obligation or responsibility to disclose, or use such information for the benefit of any person, including clients.

NAM-USA has established “Information Barrier” procedures and other policies that prohibit the misuse of such information. Information barriers exist between different businesses within NHI. As a result of such information barriers, NAM-USA will generally not have access, or will have limited access, to information and personnel in other areas of NHI, and generally will not be able to manage the client accounts with the benefit of information held by these other areas. Nomura may make decisions or take (or refrain from taking) actions with respect to investments of the kind held by NAM-USA clients that may be adverse NAM-USA clients. Information barriers may also exist between businesses within NAM-USA.

In addition, NAM-USA and its affiliates maintain one or more restricted lists of issuers whose securities are subject to certain trading prohibitions, NAM-USA personnel may be restricted from trading in an issuer’s securities if the issuer is on a restricted list or if we otherwise have material, non-public information about the issuer. A client account may be unable to buy or sell certain securities of such issuers until the restriction is lifted, which could disadvantage the client.

#### **D. Conflicts of Interest Created by Contemporaneous Trading**

In making investment decisions for multiple client accounts, we may be faced with conflicts of interest. Below are descriptions of some of these potential conflicts. Clients should also read the discussions on potential conflicts in proxy voting, trade allocation and aggregation and personal trading.

##### *Affiliated Accounts*

NAM-USA manages pooled investment vehicles in which its employees and/or affiliates may invest. Day-to-day management of these pooled investment vehicles are conducted by affiliated sub-advisers. NAM-USA employees and affiliates may invest in certain fund vehicles that are offered to clients. NAM-USA, its affiliates and its employees will benefit from the investment performance of these pooled investment vehicles (“affiliated accounts”). These affiliated accounts will often invest in the same securities, at or around the same time, as other client accounts that are managed by these third party or affiliated sub-advisers.

Affiliated accounts will often invest in the same securities, at or around the same time, as client accounts. NAM-USA’s policy is to allocate trades to affiliated accounts in the same manner as client accounts.

##### *Allocation of Investment Opportunities*

Other potential conflicts of interest may arise in purchasing and selling securities for multiple client accounts. NAM-USA will use its best judgment to act in a manner it considers fair and reasonable in allocation investment opportunities among its clients particularly when there is limited availability of an investment.

In buying or selling the same securities for multiple client accounts contemporaneously, trade aggregation may create the potential for unfairness to client accounts if one account is favored over another, particularly where there is a limited availability or limited liquidity for an investment. Please see Item 12 on “Trade Allocation and Aggregation Practices.”

Because client accounts have different mandates or investment restrictions, NAM-USA may make different investment decisions for different accounts. As a result, we may buy or sell a security for some accounts even though it could have been bought or sold for other accounts. In addition, we may purchase a security for one or more clients while selling and/or taking a short position in the same security for other clients. Such trading activity may disadvantage some clients, while benefitting others, including affiliated accounts.

NAM-USA has implemented trade oversight and review procedures to avoid systematically advantaging certain clients over others. For example, trade allocations are sampled on a regular basis as part of our trade oversight procedures.

#### *Cross Transactions*

It is our policy not to engage in buying or selling of securities directly from one client account to another (typically referred to as a “cross trade”).

#### *Incentives to Favor Certain Accounts*

As discussed in Item 6 above, the management of accounts with different management fee rates and/or fee structures, including accounts with performance fees, may raise potential conflicts of interest by creating an incentive to favor higher-fee or performance fee accounts. In addition, we have an incentive to favor the affiliated accounts we manage. NAM-USA attempts to address these potential conflicts of interest through various compliance policies that generally are intended to treat all clients fairly and equitably over time.

#### *Model Portfolio Arrangements*

With respect to our model portfolio arrangements, such as certain SMA Programs, our affiliated advisers may provide NAM-USA with model portfolio advice pursuant to which we may purchase, sell, hold, or exercise rights associated with particular investments. There may be timing differences related to (1) the implementation of such decisions and strategies by our NAM affiliates for their discretionary accounts and (2) the provision of advice from our affiliates and NAM-USA’s determination of whether or not to act on the advice. If our affiliates implement such decisions in advance of, or contemporaneously with, NAM-USA’s transactions, market impact, liquidity constraints or other factors could result in NAM-USA’s clients receiving less favorable trading results, the costs of implementing such portfolio decisions or strategies could be increased or such clients could otherwise be disadvantaged.

#### *Principal Transactions and Agency Cross Transactions*

It is our policy not to engage in principal transactions or agency cross transactions. Principal transactions occur where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated hedge fund and another client account. An agency cross transaction occurs if an affiliate acts as broker for, and receives a commission from, a client account on one side of the transaction and a brokerage account on the other side of the transaction in connection with the purchase or sale of securities by the client account.

### **E. Other Conflicts of Interests Related to Nomura’s Activities**

Nomura’s global financial activities may have potential adverse effects on NAM-USA’s client accounts. For example, Nomura and its personnel may have interests in and/or advise accounts and funds that have

investment objectives or portfolios similar to or opposed to those of a NAM-USA client account and which engage in and compete for transactions in the same types of securities or instruments as those in which the client account invests. These interests may involve the same or different investment strategies which could have a negative impact on a client account. A client account and Nomura may also vote differently on or take different actions on proxies or corporate actions which may disadvantage the client account.

NAM-USA might not engage in transactions for a client account in consideration of Nomura's activities outside the client account. For example, NAM-USA may determine to restrict or limit the amount of a client account's investment where exceeding a certain aggregate amount could require a filing, license, or other regulatory or corporate consent, which could, among other things, result in additional costs and disclosure obligation for Nomura, including NAM-USA. We may also limit our activities, transactions and our exercise of rights on behalf of clients where Nomura is providing, or may provide, advice or services to such issuer, or is providing or may provide advice or services to another client that is or may be engaged in a transaction related to such issuer.

#### *Gifts and Entertainment*

Employees of the firm may receive customary gifts and/or entertainment from service providers of the firm and from counterparties that are selected to execute transactions on behalf of client accounts. The firm has controls in place to monitor gifts and entertainment activity for conflicts of interest and violations of law.

#### *Political Contributions*

NAM-USA has a strict policy against making political contributions for the purpose of obtaining or retaining business with government entities. To help ensure compliance with federal, state and local pay-to-play rules, all political contributions by employees and members of their household are required to obtain pre-approval from the Compliance Department.

## ITEM 12: BROKERAGE PRACTICES

### **A. Factors NAM-USA Considers in Selecting or Recommending Broker-Dealers for Client Transactions and Determining the Reasonableness of their Compensation**

#### **Broker-Dealer Selection**

NAM-USA generally has discretionary authority to direct trades for its clients and selects broker-dealers to execute those trades. It is our policy to seek to obtain best execution on all client transaction (which may or may not result in paying the lowest available brokerage commission or dealer spread). As a result, in selecting broker-dealers, our traders take into account many factors, including but not limited to:

- The execution capability of the broker-dealer
- The desired timing of the trade and the broker-dealer's ability to meet our requested speed of execution
- The order size and market depth
- The broker-dealer's access to primary markets and quotation sources
- The broker-dealer's access to certain markets
- The trading characteristics of the security
- The creditworthiness of the broker-dealer
- The financial responsibility of the broker-dealer
- The ability of the broker-dealer to act on a confidential basis
- The ability of the broker-dealer to act with minimal market impact
- The ability of the broker-dealer to locate sources of liquidity and to effect transactions when a large block of securities is involved or where liquidity is limited
- The overall responsiveness of the broker-dealer
- The broker-dealer's ability and willingness to commit capital
- The broker-dealer's ability to engage in after-hours and cross-border trading
- The broker-dealer's trade processing and settlement capabilities
- Other factors that may bear on the overall evaluation of best price and execution

In addition, the brokerage and research services provided by our equity broker-dealers may be a significant factor in selecting a broker-dealer to execute transactions. For this purpose, we have established a voting process in which certain personnel rate the services provided by our equity broker-dealers.

NAM-USA may execute transactions through affiliates to the extent consistent with law, with client instruction, and with its duty to seek best execution.

Our traders may only place orders with broker-dealers that are on the firm's Approved Broker-Dealer List. NAM-USA's Broker Review Committee is responsible for approving broker-dealers and maintaining the Approved Broker-Dealer List. Our traders are responsible for continuously monitoring and evaluating the performance and execution capabilities of brokers that transact orders for our client accounts to ensure consistent quality executions.

NAM-USA executes a majority of fixed income client trades through electronic platforms which charge transaction fees. The fees are paid by the client (either by including the fee in the proceeds or in the cost of the trade or through the payment of a separate invoice).

#### Research and Soft Dollar Benefits

While NAM-USA selects broker-dealers primarily on the basis of their execution capabilities, the direction of transactions to such broker-dealers may also be based on the quality and amount of proprietary research services they provide to us or our affiliates. These so-called soft dollar arrangements (pursuant to Section 28(e) of the Securities Exchange Act of 1934, as amended) are designed to augment the internal research and investment strategy capabilities of NAM-USA or of our affiliated sub-advisers.

In accordance with SEC guidance, we consider whether a given service provides lawful and appropriate assistance to the investment management process and make sure the cost of the service bears a reasonable relationship to the value of the research or service. Such research services may include information on securities markets, the economy and individual companies, pricing information and services, and other appropriate research products and services

These soft dollar arrangements allow NAM-USA and/or its affiliates to obtain a benefit because they do not have to produce or pay for the research and services. We may also have an incentive to select broker-dealers based on our interest in receiving the research or other products or services, rather than based on our clients' best interests in receiving the most favorable execution. NAM-USA does not attempt to match a particular client's transactions with broker-dealers that have provided research services that have directly benefited the client's portfolio.

While our policy is to seek best execution, we may occasionally select a broker-dealer with relatively higher transaction costs than competitors if we determine in good faith that the cost is reasonable in relation to the value of the brokerage and research services provided. We believe that we are able to negotiate costs on client transactions that are competitive and consistent with our policy to seek best execution. We also will use broker-dealers affiliated with us, as permitted. In addition, we do not enter into agreements or understandings with any brokers regarding the placement of securities transactions because of the research services they provide. However, we do have an internal procedure for allocating commissions in a manner consistent with NAM-USA's Broker Review Committee procedures. The Committee has the principal oversight responsibility for periodically reviewing and evaluating the commission allocation process.

NAM-USA currently has not entered into soft dollar arrangements where the broker-dealer provides us with third-party research and/or services ("third-party commission arrangements"). However, sub-advisers that manage client assets for NAM-USA may enter into third-party commission arrangements. Such arrangements will meet U.S. regulatory requirements.

A sub-adviser may receive "mixed use" services, or those that can be used for both research and "non-research purposes." In such cases, the sub-adviser may have a conflict of interest in allocating the costs of the services between those that primarily benefit the sub-adviser and those that primarily benefit its clients and determining what portion may be paid with soft dollars. The sub-adviser makes a good faith



allocation of the relative proportion of the cost of such services used for non-research purposes and pays for such proportion from its own funds.

Sub-advisers may also enter into commission sharing agreements with some of their execution brokers. Within these agreements, the execution broker will retain a predefined percentage of the commission total. The remainder is allocated to a research “pool.” At the end of each month, the sub-adviser instructs the execution broker to pay defined amounts from the research pool, to nominated research providers.

#### Brokerage for Client Referrals

NAM-USA does not consider referrals when selecting broker-dealers.

#### Client Directed Brokerage

NAM-USA permits clients to direct the firm to execute transactions through specified broker-dealers. Although, clients should be aware that we may be unable to negotiate commissions, aggregate or bunch client orders, or otherwise achieve the benefits described above including best execution. Directed brokerage commission rates may be higher than the rates we might pay for transactions in non-directed accounts. Also, clients that restrict our brokerage discretion may be disadvantaged in obtaining allocations of new issues of securities that we purchase or recommend for purchase in other clients’ accounts. As a general rule, we encourage each client to compare the possible costs or disadvantages of directed brokerage against the value of the custodial or other services provided by the broker to the client.

#### Aspects of Certain ADR Strategies

Clients of certain ADR strategies may incur additional trading costs, including costs to buy or sell foreign currency, the ADR conversion fee and other ADR-related costs since local shares purchased on foreign exchanges will be converted to ADRs. These additional trading costs are reflected in the “net price” clients pay for or receive from the transaction.

### **B. Trade Allocation and Aggregation Practices**

When we trade the same security in more than one client account, we generally attempt to aggregate or “bunch” the trades in order to create a “block transaction.” Generally, buying and selling in blocks helps create trading efficiencies, prompt attention, and desired price execution. When we fill a block order in its entirety, each participating client account generally receives the average share price for all such purchase or sales executed during the trading day. When we partially fill a block order, we generally allocate pro rata on the basis of the client’s participation in the transaction. Each client account generally receives the average price obtained on all such purchases or sales made during such trading day. Orders may be aggregated when permitted in accordance with applicable law.

In certain cases, we may determine that pro rata allocation is not appropriate and will base the allocation upon relevant factors such as investment needs, portfolio styles, risk profile and existing holdings of clients. NAM-USA may decide not to aggregate trades with the same broker-dealer if we feel that the decision is in the best interests of our clients. In addition, we may or may not purchase or sell the same security for all

clients that could buy the security under the account's investment objectives, depending on various factors, including the size of the accounts, cash availability in each account, each account's investment restrictions and investment strategies.

We generally do not acquire securities in initial public offerings ("IPOs") for our clients. However, our sub-advisers who manage client assets on our behalf may enter into IPO transactions. The securities acquired through an IPO will generally be allocated to participating clients in accordance with the processes described in the preceding paragraphs.

Instructions received by our trading department will generally be executed on a first in first out basis, unless the intended transaction fails pre-trading checks such as cash availability, stock availability, or client restrictions. Orders may also be delayed where similar orders for the purchase or sale of the same security are expected imminently and it is believed that aggregating the orders may be more efficient.

Note that time zone differences, separate trading desks, or portfolio management processes in a global organization may, among other factors, result in separate non-aggregated executions for trades in the same stock being entered for client accounts managed in one region before trades in the same instruments for client accounts managed in other regions.

Although allocating orders among clients may create potential conflicts of interest because we may receive greater fees or compensation from some client accounts, or because we may be affiliated or have other relationships with certain clients, we will not make allocation decisions based on such interests, greater fees or compensation.

During the initial ramp-up investment period for a new account, NAM-USA may overweight the account's allocation of securities purchased in a bunched transaction due to the relatively high percentage of a new account's un-invested balance or the percentage of a new account's assets typically held in cash or short-term investments.

## **ITEM 13: REVIEW OF ACCOUNTS**

### **A. Frequency and Nature of Review of Clients Accounts**

Client accounts are reviewed on a regular basis by the applicable portfolio team primarily responsible for the day-to-day management of the account.

Sub-advised accounts are reviewed periodically by the affiliated manager. For example the Performance Review Committees in NAM-Tokyo and Nomura Asset Management Singapore Limited review the portfolios they manage on a regular basis.

Accounts sub-advised to NCRAM are reviewed by the portfolio managers and investment analysts on an ongoing basis in order to verify that transactions conform to the client's investment objectives and restrictions. NCRAM holds periodic meetings with its analysts to review and discuss events affecting investment strategy. Informal monitoring occurs daily with respect to the purchase and sale of securities or instruments.

Our absolute return fixed income accounts are reviewed by the portfolio management team. Client accounts are monitored and reviewed at least weekly by the head or other members of the portfolio management team. The head of the portfolio management team holds periodic meetings with portfolio managers, analysts, and risk management staff to review and discuss events affecting investment strategy. Risk management personnel monitor the risk profiles of certain accounts on a daily basis.

### **B. Factors Prompting Review of Client Accounts Other than a Periodic Review**

In addition to periodic review, NAM-USA and its affiliated managers may perform reviews as it deems appropriate or otherwise required. Additional reviews may be triggered by the following factors (not limited to): client requests, compliance monitoring, industry factors, market developments, statutory and regulatory changes

### **C. Content and Frequency of Reporting to Clients**

Depending on the investment vehicle NAM-USA may furnish monthly or quarterly reports to clients detailing, among other things: portfolio positions, security cost basis and market value, and cash and security transaction activity. In addition, certain clients are provided with a monthly or quarterly summary performance analysis report, which contains a portfolio analysis and current and historical performance. In general, meetings with clients are held semi-annually or less frequently, according to the stated desires of each client. All reports are in addition to custodial statements and transaction confirmations received from the client's custodian. We may also distribute securities, country, or economic analysis or other reports prepared by our affiliates at no cost.

Clients in SMA programs sponsored by other firms should contact the Sponsors for information regarding reports provided to their program clients.

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

### **A. Economic Benefits for Providing Services to Clients**

Neither NAM-USA nor any of our employees receives any economic benefit, sales awards or other prizes from any outside parties for providing investment advice to our clients.

As discussed in Item 10, we have marketing arrangements with NCRAM and NGA. These firms pay NAM-USA a percentage of the advisory fees they earn from certain client accounts.

### **B. Compensation to Financial Intermediaries, Consultants and Other Third Parties**

From time to time, NAM-USA or its affiliates may pay investment consultants or their parent or affiliated companies for certain services including industry data services, technology, operations, tax, or audit consulting services, and/or may pay such firms for NAM-USA's attendance at investment forums, conferences or seminars or for various studies, surveys, or access to databases. NAM-USA or its affiliates may also provide investment advisory services to investment consultants and/or their affiliates. NAM-USA reserves the right to enter into arrangements pursuant to which certain unaffiliated persons and entities may be compensated, directly or indirectly, for referring clients to NAM-USA. To the extent deemed applicable, such arrangements will be entered into in accordance with the terms and conditions of Rule 206(4)-3 under the Advisers Act.

### **ITEM 15: CUSTODY**

Generally, NAM-USA does not have custody of its client assets. Funds and securities for these clients are held by a qualified custodian appointed by clients pursuant to a separate custody agreement. Clients should understand that the statements received from the custodian for their funds or securities are the official records for the advisory account.

Clients are urged to compare the account statements that they receive from their qualified custodian with any that they receive from NAM-USA.

We are considered to have custody over the assets of several Japanese Investment Trusts ("JITs") in which we serve as sub-adviser solely because an affiliate acts as custodian or trustee. Arthur F. Bell Jr. & Associates, L.L.C. ("Arthur Bell") has been appointed the independent representative for these JITs to review and reconcile quarterly account statements issued by the JIT's' custodians.

## **ITEM 16: INVESTMENT DISCRETION**

NAM-USA accepts discretionary and non-discretionary authority to manage advisory accounts. A client's executed investment management agreement or other account opening documentation authorizes such authority.

Clients may place limitations on the manager's discretionary authority based on its investment objectives, policies, or guidelines. For registered investment companies, our authority to trade securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made

When selecting securities and determining amounts, we observe the investment objectives, policies, limitations and restrictions of our clients. Investment guidelines and restrictions are generally accepted and must be provided to us in writing.

For SMA Programs, NAM-USA acts as sub-adviser through a process generally documented and administered by the SMA Program Sponsor. Participants in a program, generally with assistance from the Sponsor, may select NAM-USA to provide investment advisory services for their account (or a portion thereof) in a particular strategy. NAM-USA provides investment advisory services based upon the particular needs of the SMA Program participant as reflected in information provided to NAM-USA by the Sponsor. SMA Program participants are encouraged to consult their own financial advisors and legal and tax professionals on an initial and continuous basis in connection with selecting and engaging the services of an investment manager in a particular strategy and participating in an SMA Program. NAM-USA's discretionary authority over an account is generally subject to directions, guidelines and limitations imposed by the SMA Program participant and the SMA Program Sponsor. NAM-USA will endeavor to follow reasonable directions, investment guidelines and limitations. Although NAM-USA seeks to provide individualized investment advice to its discretionary client accounts, NAM-USA will not be able to accommodate investment restrictions that are unduly burdensome or materially incompatible with NAM-USA's investment approach (including restrictions affecting more than a stated percentage of the account), and reserves the right to decline to accept, or terminate, client accounts with such restrictions. See Item 4.

## ITEM 17: VOTING CLIENT SECURITIES

### A. Policies and Procedures Relating to Voting Client Securities

NAM-USA has adopted written policies and procedures as required by Rule 206(4)-6 under the Advisers Act. These policies and procedures are designed to ensure that proxies are voted in the best economic interest of NAM-USA's clients and in accordance with NAM-USA's fiduciary duty.

Clients may grant authority to NAM-USA to vote for securities held in their account. NAM-USA utilizes a third party proxy voting service, Institutional Shareholder Services ("ISS"), to assist us with proxy voting activities.

It is NAM-USA's general policy to vote with management's recommendations, absent a particular reason to the contrary. We reserve the right to depart from this policy in order to avoid voting decisions that we believe may be contrary to our clients' best economic interests. We generally do not assume the role of an active shareholder. If we are dissatisfied with the performance of a particular company, we will generally reduce or terminate our position in the company, rather than attempting to force management changes through shareholder activism.

NAM-USA seeks to address potential material conflicts of interest where proxies relate to advisory clients of NAM-USA and its advisory subsidiaries (collectively, the "NAM Companies"). We believe a potential material conflict of interest exists where the annual revenue received from any one client exceeds 1% of the total annual revenue of the NAM Companies, in aggregate. Where such a potential conflict exists, our proxy voting procedures allow the firm to vote proxies in accordance with recommendations made by an independent proxy voting firm.

Please note that we may vote in a manner that could diminish the value of a client's position in the short-term if we believe it will increase this value in the long-term and we hold the security in the client's portfolio for the long-term.

Our Proxy Voting Policy discusses our policies on specific issues, such as: the election of directors; election of auditors, anti-takeover measures; mergers, acquisitions and other corporate restructurings; capital structure changes; and executive compensation.

We invest significantly in foreign markets. Please note that proxy voting rules may vary significantly from jurisdiction to jurisdiction, and in some cases may be substantially burdensome than in the U.S. or other developed countries. Proxy voting in certain countries requires "share blocking." That is, shareholders wishing to vote their proxies must deposit their shares shortly before the date of the meeting (usually one week) with a designated depository. During this blocking period, shares that will be voted at the meeting cannot be sold until the meeting has taken place and the shares are returned to the clients' custodian banks. Our sub-advisers may determine that the value of exercising the vote does not outweigh the detriment of not being able to transact in the shares during this period. In such cases, they may not vote on the affected shares.

For certain foreign securities held in depositary receipt form, NAM-USA may not have the option to vote proxies as the receipt issuer may not pass through to receipt holders the voting rights of the ordinary shares.

Clients or prospective clients may obtain a copy of NAM-USA's proxy voting policy or know how NAM-USA voted any proxy in their account by contacting NAM-USA's Chief Compliance Officer at (212) 667-1414 or via postal request addressed to:

Attn: Chief Compliance Officer  
Nomura Asset Management U.S.A. Inc.  
Worldwide Plaza  
309 West 49<sup>th</sup> Street  
New York, New York 10019

If a client does not grant us proxy voting authority, then the client will receive proxies and other solicitations directly from its custodian or a transfer agent.

#### Class Action Settlements

From time to time, we may receive notices regarding class action lawsuits involving investments that are or were held in a client's portfolio. As a matter of policy, the client, not NAM-USA, retains the authority to file claims related to class action settlements with respect to investments held in a client's portfolio. We specifically disclaim any legal responsibility to act in class actions for our clients, including separately managed accounts and discontinued or liquidated accounts.



**ITEM 18: FINANCIAL INFORMATION****A. Balance Sheet**

NAM-USA does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

**B. Financial Conditions Likely to Impair Ability to Meet Contractual Commitments to Clients**

NAM-USA is not aware of any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients.

**C. Bankruptcy Filings**

NAM-USA has not been the subject of a bankruptcy petition at any time during the past ten years.