

# Fischer Francis Trees & Watts UK Ltd.

## Part 2A of Form ADV

### The Brochure

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This brochure provides information about the qualifications and business practices of Fischer Francis Trees & Watts UK Ltd. (“FFTW UK”). If you have any questions about the contents of this brochure, please contact us at +44 20 7063 7713. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

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

## **Summary of Material Changes**

On July 21, 2010, the U.S. Securities and Exchange Commission (the "SEC") unanimously adopted changes to Form ADV, Part 2. The new Form ADV, Part 2, also known as the "Brochure", requires disclosure on distinct topics, and answers must be presented in the order of the items in the form, using the headings in the form. Our goal is to provide you with easy-to-understand "plain-English disclosure," using an easy-to-read format and definite, concrete, everyday words.

Our current Form ADV, Part 2 will be available to our existing and prospective clients 24 hours a day through the SEC's Investment Adviser Public Disclosure website. Additionally, we will annually and within 120 days of the end of our fiscal year, provide you either: (i) a copy of our Form ADV, Part 2 that includes or is accompanied by a summary of material changes; or (ii) a summary of material changes that includes an offer to provide a copy of the current Form ADV, Part 2.

We urge you to carefully review all subsequent summaries of material changes, as they will contain important information about any significant changes to our advisory services, fee structure, business practices, conflicts of interest, and disciplinary history.

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## **Advisory Business**

Fischer Francis Trees & Watts UK Ltd. (“FFTW UK”) and its affiliates (Fischer Francis Trees & Watts Inc. and Fischer Francis Trees & Watts Singapore Limited) are part of a global investment management group, Fischer Francis Trees & Watts (the “FFTW Group”), which, as described below, is part of BNP Paribas’ asset management business. The FFTW Group manages 165 mandates and funds on behalf of clients worldwide as of 31 December 2010. The FFTW Group specializes in managing U.S., European, Asian and global fixed income portfolios for institutional clients.

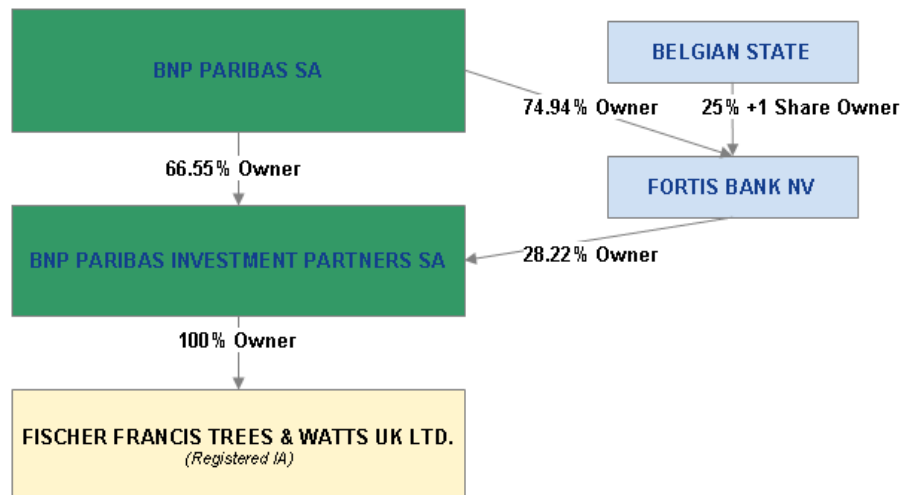
Founded in the U.S. in 1972, the FFTW Group now operates in three strategically located offices throughout the world: United States (New York and New Jersey), United Kingdom (London) and Singapore.

Over the long term, the FFTW Group’s business strategy is to maintain a diversified business within the specialty of fixed income and multi-currency portfolio management. The FFTW Group seeks diversification along several dimensions, including the range of fixed income investment assignments undertaken (i.e., controlled risk, broad market, absolute return strategies) as well as the geographical and industry distribution of its client base.

While part of a global investment management business, the focus of this brochure is limited to the activities of FFTW UK. FFTW UK is a limited liability company established under the laws of England and Wales, Company Registration No. 979759. FFTW UK’s lead regulator is the UK Financial Services Authority and its Firm Registration No. is 119264. FFTW UK is registered with the U.S. Securities and Exchange Commission (“SEC”) as an investment adviser and claims compliance with the requirements of Global Investment Performance Standards (“GIPS”) released by the CFA Institute (it should be noted that FFTW’s New York and Singapore affiliates, Fischer Francis Trees & Watts Inc. and Fischer Francis Trees & Watts Singapore Limited, are also both registered as investment advisers with the SEC).

As of 31 December 2010, FFTW UK has assets under management of US\$ 9.98 billion on a discretionary basis and US\$ 145 million on a non-discretionary basis. FFTW UK’s clients may include insurance companies, corporations, commercial banks and collective investment schemes.

As illustrated in the organizational chart below, FFTW UK is wholly owned by Paribas Investment Partners S.A. BNP Paribas Investment Partners S.A. is owned by, among others, BNP Paribas S.A. (“BNPP”) with a 66.55% interest and by Fortis Bank NV (“FBB”) with a 28.22% interest. BNPP owns 74.94% of FBB. The government of Belgium owns 25% plus one share of FBB.



BNPP is a publicly owned limited liability banking institution organized in France. FFTW UK is part of BNPP’s asset management business, BNP Paribas Investment Partners (“BNPP IP”), within BNPP’s Investment Solutions division. BNPP IP is one of the major players in the investment management industry with a presence in many of the world’s major financial centers and assets under management and advisory totaling \$742 billion (as at 31 December 2010) for clients in over 70 countries across the globe.

FFTW Group manages both long-only fixed income portfolios and long-short fixed income strategies. FFTW Group may also act as manager for separate institutional accounts which employ alternative investment strategies such as foreign exchange strategies. FFTW Group offers a variety of fee schedules for its investment products, as detailed below, which may include both management and performance fees, where appropriate. For each investment product, clients receive individualized investment advisory services tailored to their particular investment objectives and guidelines.

## Fees and Compensation

FFTW UK manages portfolios of fixed-income securities for institutional clients including pension funds, corporations, universities, foundations, foreign institutions and Central Banks. Where permitted by our clients, in connection with the management of fixed income portfolios we also manage exposure to foreign currencies.

Our standard fees for segregated mandates are generally as follows (per annum):

Product/Sub-Product Group	Product	Fee Schedule
Multi-Sector	Global Aggregate	25bps on first \$250M 20bps on next \$250M 15bps thereafter
Multi-Sector	U.S. Core/	25bps on first \$250M

	Intermediate Core	20bps on next \$250M 15bps thereafter
Multi-Sector	Asian	25bps on first \$250M 20bps on next \$250M 15bps thereafter
Government	Global Sovereign	25bps on first \$250M 20bps on next \$250M 15bps thereafter
Government	U.S. Governments	20bps on first \$250M 15bps on next \$250M 10bps thereafter
Government: Inflation-Linked	Global ILB	25bps on first \$250M 20bps on next \$250M 15bps thereafter
Government: Inflation-Linked	U.S. TIPs	20bps on first \$250M 15bps on next \$250M 10bps thereafter
Short Duration – Libor Strategies	AAA Libor Plus	20bps on first \$250M 15bps on next \$250M 10bps thereafter
Short Duration – No Credit	U.S. Short Duration	20 bps on first \$250M 15 bps on next \$250M 10 bps thereafter
Short Duration – No Credit	Global Short Duration	25 bps on first \$250M 20 bps on next \$250M 15 bps thereafter
Short Duration – With Credit	Global SD w/Credit	25 bps on first \$250M 20 bps on next \$250M 15 bps thereafter
Short Duration – With Credit	U.S. SD w/Credit	20bps on first \$250M 15bps on next \$250M 10bps thereafter
Short Duration – With Credit	U.S. Short-Intermediate	20bps on first \$250M 15bps on next \$250M 10bps thereafter
Mortgages	Mortgage index	25bps on first \$250M 20bps on next \$250M 15bps thereafter
Alpha Strategies	Multi-Strategy	60bps on all assets 20% performance share
Alpha Strategies	Currency Overlay	25bps on first \$250M 20bps on next \$250M 15bps thereafter 20% performance share
Alpha Strategies	Currency Alpha	50bps on all assets 20% performance share

Alpha Strategies	Mortgage Alpha	50bps on all assets 20% performance share
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Our standard fees may be negotiated in connection with certain mandates and/or modified for portfolios that have special investment constraints or unusual reporting, clearance, or other administrative requirements or unique characteristics. FFTW UK may impose a minimum fee for starting or maintaining an account.

Certain clients may have a portion of their separate account assets invested in commingled vehicles for which FFTW UK may be an adviser or sub-adviser.

Fees are generally payable quarterly, (although monthly, semi-annual and annual payment periods are also used) and are generally based upon the market value of funds managed as of the end of the preceding calendar quarter or on the average market value of funds managed within the calendar quarter. All client fees are paid in arrears.

FFTW UK's fees are exclusive of brokerage commissions, transaction costs and other related costs and expenses which shall be incurred by the client. Such costs are in addition to FFTW UK's fees and FFTW UK does not receive any portion of these costs. Please refer to the section entitled "*Brokerage Practices*" below for further information regarding the factors that FFTW UK considers in selecting and recommending broker-dealers for client transactions and determining the reasonableness of their compensation.

Our investment management agreements may be terminated by us or by our clients, subject to applicable notice provisions contained in the contracts.

## **Performance Based Fees and Side-by-Side Management**

Performance based fees are fees based on a share of capital gains on or capital appreciation of the assets of a client. Performance fees are in effect for certain clients of FFTW UK.

It should be noted that an adviser charging performance fees to some accounts faces certain conflicts because the adviser can potentially receive greater fees from its accounts having a performance-based compensation structure than from those accounts it charges a fee unrelated to performance (e.g., an asset-based fee). As a result, the adviser may have an incentive to direct the best investment ideas to, or to allocate or sequence trades in favor of, the account that pays a performance fee. FFTW UK is required to treat its clients fairly in relation to such conflicts of interest and will make decisions for client portfolios in accordance with its fiduciary responsibilities. Consistent with this fiduciary duty, FFTW UK's trading procedures seek to ensure that all clients are treated fairly and equitably and that no client account is advantaged or disadvantaged over another.

As mentioned in the section entitled "*Fees and Compensation*" above, certain clients may have a portion of their separate account assets invested in commingled vehicles for which FFTW UK may be an adviser or sub-adviser. Recommendations to these clients to use these affiliated commingled vehicles are made solely to enhance overall investment returns, to improve

investment offerings, and to allow clients to participate in certain investment opportunities that would otherwise not be available or economic on a separate account basis. FFTW UK places assets of its clients in such vehicles only if the client authorizes such use and receives the offering documents for those investments. Fees charged by FFTW UK are specified in a client's investment management agreement.

## **Types of Clients**

FFTW UK may provide customized investment management services to institutional clients and collective investment schemes, including but not limited to, banks, insurance companies, official institutions, and other corporations or business entities.

As discretionary manager, we review the specific circumstances, current investments and investment goals of each client. In order to assure an appropriate fit with the management style chosen, FFTW UK reserves the right to review each prospective client as to investment profile.

We generally impose a US\$100 million account minimum for investment management services. FFTW UK may negotiate minimum asset size on a case by case basis.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

FFTW UK's investment philosophy is based upon the following beliefs:

- i) Systematic use of multiple alpha strategies delivers consistent returns
- ii) Blending qualitative analysis and quantitative models yield superior results
- iii) Specialized, accountable and incentivized managers make better decisions
- iv) Management of risk
- v) Constant innovation keeps investment professionals ahead of the curve

Our clients' portfolios are managed by a team of investment professionals. Investment decisions are made by product heads and portfolio managers focusing on generating alpha according to their specific expertise. All decisions are made to balance the expected return outcome with the assessed risk of the position, in the context of the risk parameters of each client's portfolio. Positions may be strategic and of a long term nature, or tactical to take advantage of short term anomalies.

Periodically, the investment team reviews and establishes target levels of incremental return for each portfolio. Concurrently, consideration of the client's return objectives and the market environment is undertaken in an effort to provide the appropriate scaling of off-benchmark exposures required to meet the targeted incremental return.

We aim to achieve targeted incremental returns from active management by seeking opportunities within the global fixed income markets and foreign exchange markets. Portfolio managers use a three-step process for identifying investment opportunities. The process combines judgmental and quantitative approaches to capture relative value at the asset class and individual security



level. We believe that the drivers of fixed income markets can be grouped into three broad categories; Macroeconomic (such as growth or inflation indicators, monetary and fiscal policies etc), Valuation (typically comparing current pricing against historical experience and relative to other fixed income markets or asset classes) and Sentiment (indicators of market sentiment, positioning and risk appetite). This Macroeconomic Valuation and Sentiment (MVS) framework is applied to all judgmental investment decisions. This three step process guides all investment decisions.

For emerging market portfolios, FFTW UK may invest in bonds and other similar debt securities issued by emerging countries, including but not limited to Chile, Korea, Hungary, Mexico, Poland, the Slovak Republic, the Czech Republic, Turkey and all other countries not belonging to the OECD and companies that have registered offices or conduct a significant portion of their business in these countries. Derivative financial instruments will be utilized to affect this strategy. The strategy seeks to benefit from changes in emerging countries' economic fundamentals (e.g., growing current account surpluses, rising capital inflows, low fiscal deficits) and from interest rate convergence and currency appreciation.

The investment approach centers on taking a series of diversified, often uncorrelated positions that balance currency and interest-rate risks around specified performance benchmarks. Global fixed-income portfolios are constructed using sovereign debt and currencies and, guidelines permitting, corporate bonds, structured securities, and emerging market investments.

We use futures and various other derivatives (such as interest rate swaps, credit default swaps and currency forwards) in the management of fixed-income portfolios, where eligible. These instruments are used to take or hedge existing positions and as a substitute for the cash market when the synthetic alternatives are deemed more efficient. The use of derivatives in portfolios is only when permitted by the client's guidelines and is always consistent with the terms of such guidelines.

FFTW UK's portfolio managers are charged with the responsibility of monitoring the economic research of outside firms. Included among these firms are counterparties with whom FFTW UK regularly transacts securities business. Also included are independent research and consulting firms from whom FFTW UK purchases economic research. As described in further detail in the section entitled "*Brokerage Practices*" below, there are no direct "soft dollar" arrangements for FFTW UK whereby transactions in client portfolios are used through commissions or dealing spreads to pay for research materials.

FFTW UK employs a wide range of tools, models and procedures to monitor and manage risk. Some are proprietary, while others are purchased from vendors. We choose the best tool for the job, and without regard to whether it is developed internally or externally. The tools and software packages utilised by FFTW UK in addition to proprietary systems include but are not limited to: RiskMetrics<sup>TM</sup>, Barclays POINT, and Thinkfolio.

External data sources relied upon include data and reports distributed or published by the major external counterparties, which are further supplemented by meetings and conversations with the

research professionals themselves. Other important research is obtained from a number of academic sources, specialist research organizations, and professional journals.

All investing involves a risk of loss and the investment strategy offered by FFTW UK could lose money over short or even long periods. No guarantee or representation is made that any of the investment programs offered by FFTW UK will achieve its investment objective. The description contained below is a brief overview of different investment risks related to FFTW UK's advisory services:

*Investing in securities is inherently risky.* An investment in individual securities or in a portfolio of securities could lose money. FFTW UK cannot give any guarantee that it will achieve its investment objectives or that any client will receive a return on or of its investment.

*Market Risk.* The investments may be subject to price volatility due to factors such as interest sensitivity, market perception, and creditworthiness of issuer and market liquidity. Stock markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Different parts of the market can react differently to these developments. The value of an individual security or particular type of security can be more volatile than the market as a whole and can perform differently from the value of the market as a whole.

*Debt Securities Risk.* Debt securities, such as notes and bonds, are subject to credit risk and interest rate risk. Credit risk is the possibility that an issuer of an instrument will be unable to make interest payments or repay principal when due. Changes in the financial strength of an issuer or changes in the credit rating of a security may affect its value. Interest rate risk is the risk that interest rates may increase, which tends to reduce the resale value of certain debt securities, including U.S. Government obligations.

*Government Obligations Risk.* If a government-sponsored entity is unable to meet its obligations, the performance of a mutual fund that holds securities of the entity will be adversely impacted.

*Mortgage- and Asset-Backed Securities Risk.* Mortgage- and Asset-Backed securities risk includes Market Risk, Interest Rate Risk, Credit Risk, Prepayment Risk (*i.e.*, homeowners whose mortgages collateralize the securities held by certain mutual funds may be able to prepay principal due on these mortgages, which could cause such mutual funds to reinvest the proceeds at lower yields) as well as the risk that the structure of certain mortgage-backed securities may make their reaction to interest rates and other factors difficult to predict, making their prices very volatile. Under certain adverse market conditions, mortgage- and asset-backed securities may have more limited liquidity than usual.

*Issuer Risk.* The value of a security may decline for a number of reasons, which directly relate to the issuer, such as management performance, financial leverage, decline in the value of investments held by the issuer, increase in the operational and/or financing cost of the issuer, and reduced demand for the issuer's goods and services.

*Credit and Counterparty Risk.* There is a risk that issuers or counterparties will default and fail to repay principal and interest in a timely manner or do not fulfill their obligations and commitments. If the rating of an issue, issuer or a counterparty is downgraded this may cause the value of the related assets to fall. The severity of the risk varies depending on the quality of the issuer or counterparty. The assets can be partly invested in securities issued by corporate entities, bank, financial institution and/or public sector and this poses a higher risk than investment in government securities.

*Industry or Sector Emphasis Risk.* Investing a substantial portion of assets in related industries or sectors may have greater risks because companies in these industries or sectors may share common characteristics and may react similarly to market developments.

*Non-Diversification Risk.* Non-diversified mutual funds have the ability to take larger positions in a smaller number of issuers than a diversified fund, which makes a non-diversified fund more susceptible to financial, economic or market events impacting such issuers, and a non-diversified fund's share price may be more volatile than the share price of a diversified fund.

*Management Risk.* Management risk means that your investment varies with the success and failure of FFTW UK's investment strategies and its analysis and determination of portfolio securities.

*Mutual Fund and ETF Trading Risk.* Where permitted by a client's investment guidelines, FFTW UK's portfolio managers may invest in mutual funds that are either open-end or closed-end investment companies as well as ETFs. ETFs are investment companies that are bought and sold on a national securities exchange. Unlike mutual funds, ETFs do not necessarily trade at the net asset values of their underlying securities, which means an ETF could potentially trade above or below the value of the underlying portfolios. As such, trading in ETFs is subject to (without limitation) similar risks as those of the listed stocks. Additionally, because ETFs trade like stocks on exchanges, they are subject to trading and commission costs unlike mutual funds. Also, both mutual funds and ETFs have management fees that are part of their costs.

*REIT Securities Risk.* The performance of mortgage REITs depends on the performance of the portfolio investments of the REIT in real estate and/or mortgages. Mortgage REITs may be affected by the quality of any credit extended and by special tax rules that apply to certain investments in securitized pools of mortgages.

*Currency Risk.* Investments in foreign securities involve exposure to fluctuations in foreign currency exchange rates. Such fluctuations may reduce the value of a client's investment in a foreign security.

*Emerging Markets Risk.* Emerging markets may have obsolete financial systems and volatile currencies, and may be more sensitive than more mature markets to a variety of economic factors. Emerging market securities also may be less liquid than securities of more developed countries and could be difficult to sell, particularly during a market downturn.

Foreign Investment Risk. Foreign securities may be subject to more risks than domestic investments. These additional risks may potentially include lower liquidity, greater price volatility and risks related to adverse political, regulatory, market or economic developments. Foreign companies may also be subject to significantly higher levels of taxation than domestic companies, including potentially confiscatory levels of taxation, thereby reducing the earnings potential of such foreign companies.

## **Disciplinary Information**

FFTW UK and its employees have not been involved in any legal or disciplinary events in the past 10 years that would be material to a client's evaluation of the company or its personnel.

## **Other Financial Industry Activities and Affiliations**

FFTW UK is a subsidiary of BNPP, a publicly owned limited liability banking institution organized in France. Since FFTW UK is a subsidiary of a global financial organization, it has arrangements with companies that are under common control of BNPP. The description below provides an overview of relationships with other businesses affiliated with FFTW UK that are considered material to its advisory business.

BNP Paribas Investment Partners. As part of a global strategy, BNPP's asset management division has been branded as BNP Paribas Investment Partners. BNPP IP includes, those various asset managers which comprise BNPP's asset management business line. A list of the individual BNPP IP asset managers is available upon request. BNPP IP is not itself an investment adviser registered with the SEC; rather, clients will directly contract with individual asset management firms that may be regulated in the U.S. or in jurisdictions external to the U.S.

FFTW UK has arrangements that are material to its advisory business with the following BNPP IP investment advisers that are registered with the SEC:

- i) Fischer Francis Trees & Watts Inc
- ii) Fischer Francis Trees & Watts Singapore Limited
- iii) Fortis Investment Management USA Inc.

Please note that Fischer Francis Trees & Watts Inc. is registered as a commodity pool operator and a commodity trading advisor with the U.S. Commodity Futures Trading Commission and is a member of the National Futures Association.

FFTW UK may from time to time enter into business relationships with other BNPP IP companies as a sub-manager for client portfolios or funds for which another BNPP IP company acts as manager. From time to time prospective clients may be directly introduced to FFTW UK by other BNPP IP companies. In such instances, FFTW UK and the relevant BNPP IP company will negotiate fee sharing arrangements on a case by case basis.

FFTW UK shares office space with certain other BNPP IP companies in compliance with applicable regulation and with the appropriate supervision by legal and compliance personnel. FFTW UK has adopted strict policies and procedures to ensure protection of confidential information relating to its clients. The informational barriers procedures apply to all employees of each affiliated investment adviser. All employees must take all reasonable steps to protect confidential information and to restrict its flow to any other investment adviser or any employee of any other adviser. All employees are required to read and certify compliance with these procedures.

Outsourcing. FFTW UK operates as an investment center and as such outsources a number of its support and operational functions to other entities within BNPP. A summary of these outsourcing arrangements is provided below:

- i) Services in respect of Finance, Tax, Compliance, Legal / Company Secretarial, Human Resources, Facilities, Business Continuity, IT, Risk, Permanent Control (Operational Risk), are provided by BNP Paribas Investment Partners UK Ltd. All services are covered by a Service Level Agreement.
- ii) Dealing services for non-U.S. clients of FFTW UK are provided BNP Paribas FinAms. In the UK the dealing services are facilitated by BNP Paribas Investment Partners UK Ltd. These services are covered by a Service Level Agreement.
- iii) Services in respect of trade support, trade processing and client reporting and performance are provided by BNP Paribas Security Services. All services are covered by Service Level Agreements.

In addition to the services described above, FFTW UK also delegates the portfolio management of certain mandates to Fischer Francis Trees & Watts, Inc. and to Fischer Francis Trees & Watts Singapore Limited.

BNP Paribas. BNPP, its affiliates and their directors, partners, trustees, members, officers and employees are engaged in businesses and have interests which may conflict with the business activities of FFTW UK. These activities and interests include potential multiple advisory, transactional and financial and other interests in securities, instruments and companies.

As previously noted above, BNPP is a full service financial services institution and a major participant in global financial markets. As such, it acts as an investor, investment banker, research provider, investment manager, financier, adviser, market maker, trader, prime broker, lender, agent and principal, and has other direct and indirect interests, in the global fixed income, currency, commodity, and other markets in which FFTW UK directly and indirectly invests on behalf of client portfolios. FFTW UK will make decisions for client portfolios in accordance with its fiduciary responsibilities; however, the potential business relationships, fees, compensation and other benefits to BNPP may, in certain cases, give rise to certain potential conflicts of interest. FFTW UK will use its best efforts to minimize the potential for conflicts of interest arising due to its relationship with BNPP and has policies and procedures in place to ensure that its clients' interests are prioritized.

As a global financial institution, BNPP's business includes brokerage and capital market activities both domestically and in foreign jurisdictions. As such it carries out routine broker dealer and investment banking functions in compliance with local laws and regulations. Notwithstanding, FFTW UK does not act as broker or principal in the purchase of securities for transactions with its clients.

FFTW UK and its affiliates, under common control by BNPP, may invest their capital for their own account in co-mingled investment vehicles for which FFTW UK provides investment management services. In such cases, FFTW UK and its affiliates maintain policies to prevent conflicts of interest harmful to its clients.

Certain persons providing services to FFTW UK may be employed by or also providing services to FFTW UK's affiliates under common control by BNPP. Any such provision of services would be undertaken in compliance with applicable regulation and the appropriate supervision of compliance personnel.

*Other Conflicts of Interest.* As discussed in the section entitled "*Performance Based Fees and Side-by-Side Management*" above, FFTW UK may recommend that certain clients invest in co-mingled vehicles for which it acts as investment adviser or sub-adviser or for which another BNPP IP company acts as investment adviser or sub-adviser. Recommendations to these clients to use these affiliated commingled vehicles are made solely to enhance overall investment returns, to improve investment offerings, and to allow clients to participate in certain investment opportunities that would otherwise not be available or economic on a separate account basis. FFTW UK places assets of its clients in such vehicles only if the client authorizes such use. Fees charged by FFTW UK are specified in a client's investment management agreement.

FFTW UK and its respective officers and employees act and continue to act as investment advisers and managers for multiple clients, and may choose to act as investors on their own behalf, notwithstanding that FFTW UK has directly or indirectly material interests or relationships which may involve conflicts or potential conflicts with FFTW UK's duty to its clients.

FFTW UK's officers, directors, and employees may be asked to serve as directors, advisers, or in other forms of participation in other companies or organizations, some of which may be affiliates of FFTW UK under common control by BNPP. Since such commitments can involve substantial responsibilities and potential conflicts of interest or the appearance of such conflicts, prior approval of both senior management and compliance must be obtained in respect of external appointments. For appointments to affiliates of FFTW UK, approval of senior management must be sought before accepting such a position and compliance personnel must be advised of all such appointments.

FFTW UK is required to treat its clients fairly and to take all reasonable steps to ensure that clients do not suffer any detriment in relation to such conflicts of interest or material interests as described above. To meet this requirement, FFTW UK ensures that it has taken all reasonable steps to identify conflicts of interest or material interests and has in place adequate policies and procedures to protect its client interests and manage such conflicts or materials interests, including drawing to its clients' attention to the possibility of such conflicts. Such policies and procedures

include, but are not limited to FFTW UK's Code of Ethics, personal trading policies, trade aggregation and allocation policies, policies governing outside business activities and gifts and entertainment, as well as a Conflicts of Interest Policy which includes an informational barriers policy.

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

FFTW UK has adopted a Code of Ethics which mandates high standards of business conduct and professionalism and establishes rules of conduct for its employees. FFTW UK's Code of Ethics is intended, among other things, to ensure that personal investing activities by FFTW UK's employees are consistent with FFTW UK's fiduciary duty to its clients. The Code of Ethics requires employees to obtain pre-approval for certain transactions, including but not limited to, fixed-income securities, equity transactions, derivatives transactions, exchange traded futures and options contracts, acquisitions in initial public offerings and acquisitions of shares in funds advised or sub-advised by FFTW UK or by another BNPP IP company. Additionally, FFTW UK's employees must adhere to other personal investment policies which are specifically described in the Code of Ethics. FFTW UK's employees may own securities which may be or could be held for clients. FFTW UK's policy is that all employee transactions in any securities which are also eligible for client accounts must be specifically approved in advance. The Code prohibits FFTW UK's employees from trading on material nonpublic information. All of FFTW UK's employees are required to provide Initial and Annual Personal Holdings Reports. Quarterly reporting of personal securities transactions is also required.

FFTW UK will provide a copy of its Code of Ethics to any client or prospective client upon request.

As described above, upon prior approval, from time to time FFTW UK's employees may buy and sell securities for themselves that are also recommended to clients. In such instances, transactions may not be in amounts that will have a material effect upon the price or trading volume of a particular security and are always subject to the prohibition from trading on nonpublic information. Employees may not buy or sell securities for their own personal accounts where their decision is substantially derived, in whole or in part, by reason of their association with FFTW UK unless the information is also available to the investing public on reasonable inquiry. Employees are required to disclose individual security transactions on a quarterly basis to FFTW UK.

FFTW UK is subject to significant conflicts of interest when making investment decisions for clients, and such conflicts can affect its objectivity. There is a financial interest to recommend products or services offered by other companies that are under common control. By conducting business with companies affiliated with us, we are able to increase the overall profitability for the parent company. For information on affiliates of FFTW UK under common control by BNPP and a description of the conflicts of interest see section entitled "*Other Financial Industry Activities and Affiliations.*"

## Brokerage Practices

Counterparty Selection. For FFTW UK, the bodies authorized to approve, decline or remove counterparties/brokers on the authorized Global Counterparty List (GCL) are the Global Counterparty Committee (GCC) and/or one of the Regional Broker Committees (RBC) as appropriate. RBC's benefit from a delegated authority from GCC to leverage local knowledge and relationships for the approval of DVP brokers only. GCC has the authority to overturn RBC decisions.

The objective for GCC/RBC is to examine all elements of the risk/reward matrix to determine the appropriateness of each counterparty or broker for inclusion on the approved list. Particular focus is given to the creditworthiness, operational efficiency, best execution capabilities and relationship value of the counterparty.

The business may propose new counterparties/brokers. Such proposals need to be supported by both the Chief Investment Officer of the relevant business line as well as the appropriate Head of Dealing. For each new proposal, a fully completed application form is required, detailing the business case, legal entity, contact details etc. For Counterparty relationships, Credit Risk must also perform a risk analysis commensurate with the anticipated risk profile.

GCC has minimum counterparty rating standards which can only be changed upwards for counterparties. In the event of a split rating the lowest rating will be used. OTC transactions must be documented under an ISDA plus a Credit Support Annex (CSA) where possible. DVP brokers are not subject to the same level of scrutiny in consideration of the short term and relatively benign nature of the product being traded. However, GCC & RBC are required to consider the integrity of the operating and settlement environment of the DVP activity as well as the creditworthiness of the counterparty/broker.

Temporary dealing may be approved on a one-off basis subject to Straight Through Processing ("STP") compatibility where liquidity or best execution demands require it.

Where a counterparty or broker is specified by a client as a preferred entity then even if this name is not on the GCL, it can be approved for use in respect of this client only. This approval is subject to the very strict understanding that this requirement must be documented in writing by the client with a clear statement to the effect that the client understands that it takes full responsibility for this selection.

Best Execution. All transactions executed in over-the-counter markets are executed on a net price basis. As a matter of policy FFTW UK will only enter into cross transactions on an exceptional basis where such transactions are in the best interests of its clients taking full account of any conflicts of interest and ensuring these are properly addressed. Cross transactions must be formally approved by the Head of Compliance or her delegate prior to execution.

All trades are executed with counterparties which are approved by FFTW UK in accordance with the process described above, selected in a manner consistent with seeking best execution. No concessions on prices are made to any dealer by reason of services performed or offered to be performed, or goods supplied or offered to be supplied. In addition to the gross dealing price,



FFTW UK takes into account the level of charges, mark up or mark down made by the counterparty and the creditworthiness of the counterparty.

*Affiliated Transactions.* When effecting transactions on behalf of client accounts, FFTW UK may execute such transactions with BNPP or its affiliates. Any such transactions are conducted on an arms length basis and are strictly subject to the principle that FFTW UK must always act in its clients' best interests and transaction must be in accordance with the FFTW UK's Best Execution Policy.

*Soft Dollars.* In addition to minimizing direct transaction costs such as commissions and bid/offer spreads, FFTW attempts to minimize indirect cost factors such as market impact and trade settlement costs. Highly liquid markets in which reliable pricing information is available may enable execution of large orders with a single dealer in a manner that minimizes market impact. FFTW UK utilizes sources of information such as inter-broker trading platforms and other electronic trading resources, which provide a transparent view of where market prices are at any moment. FFTW UK's portfolio managers utilize all available information in support of the price discovery process.

As a matter of policy FFTW UK does not enter into any soft-dollar arrangements with its brokers. FFTW UK bears the cost of any additional research and does not direct any trading activity in lieu of payment for research or other resources.

Affiliates of FFTW UK, under common control as a result of BNPP's ownership interest in their respective organizations, may adopt differing policies, subject to applicable law and regulation, and choose to utilize soft dollar arrangements if deemed to be beneficial to their clients' interests.

*Trade Aggregation and Trade Allocation.* As an adviser and fiduciary to our clients, FFTW UK places its clients' interests first and foremost. Consistent with this fiduciary duty, FFTW UK's trading procedures seek to ensure that all clients are treated fairly and equitably and that no client account is advantaged or disadvantaged over another. In furtherance of this policy, when the same securities are purchased or sold for one or more of FFTW UK's client accounts, FFTW UK's general policy is to, when possible, purchase or sell the securities as a block transaction, and to allocate such securities or proceeds for the participating accounts at the price paid per unit allocated.

In allocating the securities, the principles employed are 1) allocation of each investment decision to each individual account shall be broadly determined with respect to the investment guidelines and investment policy applying to each individual account; (2) dealing for different clients in the same security and at the same time shall be aggregated and traded as a block to the extent possible; and 3) each aggregate allocation shall be allocated at the unit price paid to all participating accounts. Aggregated transactions are allocated fairly and equitably among eligible clients.

## **Review of Accounts**

FFTW UK assigns a portfolio manager with supervisory responsibility for each client portfolio. The selection and trading of positions are generated by the specialist portfolio managers and

executed by a separate dealing desk. The portfolio manager monitors account objectives and guidelines, as well as communicating with each client on a continuous basis.

For those accounts managed in the UK, Investment Compliance provides an independent check of all clients' compliance with their respective investment guidelines. The primary tool used for pre and post-compliance checks in the UK is Sentinel, a Latenzero Fidessa product. Sentinel enables Investment Compliance to monitor any pre and post-trade breaches and to notify relevant parties in a timely manner for action. Post trade controls are performed daily on Sentinel which performs a check using the updated prices for that day taking into account intra-day asset movements. Any breaches identified are notified immediately to the portfolio managers and to UK Compliance. Any breaches not rectified within internal or client requirements are escalated to senior management.

Client portfolio and transaction records are maintained using computerized accounting systems. Information on all trades is provided to clients upon request. FFTW UK provides clients with a review of account holdings and/or performance results on a quarterly basis, although other schedules may be arranged.

Standard reports typically cover the following:

- i) investment returns for the portfolio and its performance benchmark for up to ten years or since inception, whichever is shorter;
- ii) a summary of market developments, portfolio activity and current investment strategy;
- iii) a listing of portfolio assets; and
- iv) a compilation of all transactions.

## **Client Referrals and Other Compensation**

From time to time, FFTW UK may enter into arrangements with individuals and organizations pursuant to which each has agreed to introduce FFTW UK to certain US and non-US clients who may be interested in FFTW UK's investment management services. These individuals and organizations would be contracted or employed as consultants and advisers to FFTW UK in connection with the marketing of FFTW UK's investment management services. Compensation may vary for each consultant. In such cases, pursuant to Rule 206 (4)-3 of the SEC Rules under the Investment Advisors Act of 1940, where cash payments are made for solicitation, FFTW UK would implement a written agreement binding the solicitor to comply with the 1940 Act and Rules and requiring delivery to the client of (a) Part 2 of FFTW UK's Form ADV and (b) a written fee sharing disclosure statement meeting the requirements of the Rule. All such arrangements would also be subject to and must adhere to UK regulatory requirements under the rules of the Financial Services Authority.

## **Custody**

Custody is defined as any legal or actual ability by FFTW UK to access client funds or securities. Since all client funds and securities are maintained with a qualified custodian, FFTW UK does not take physical possession nor does it have the authority to take possession of client assets.

However, under the current SEC rules, FFTW UK is deemed to have custody of certain client assets solely by virtue of the fact that the qualified custodian is a member of the larger BNPP group. Therefore, we urge all of our clients to carefully review and compare their quarterly reviews of account holdings and/or performance results received from us to those they receive from their custodian. Should you notice any discrepancies, please notify us and/or your custodian as soon as possible.

FFTW UK has implemented policies and procedures to govern those instances where the custodian of a client is a related person of FFTW UK (i.e. a person directly or indirectly controlling or controlled by FFTW UK or a person under common control with FFTW UK). In accordance with those policies and procedures, FFTW UK maintains a copy of the internal control report (SAS 70 or equivalent document) of the related person and prepares an internal memorandum to evidence that the related person is operationally independent of FFTW UK. The related person is operationally independent of FFTW UK if the following four criteria are satisfied and no other circumstances can reasonably be expected to compromise the operational independence of the related person:

- i) client assets in the custody of the related person may not be subject to the claims of FFTW UK's creditors;
- ii) FFTW UK's personnel may not have custody, possession, or access to client assets, or the power to dispose of client assets to third parties for the benefit of FFTW UK or the related person, or otherwise have the opportunity to misappropriate client assets;
- iii) FFTW UK's personnel and personnel of the related person who have access to advisory client assets are not under common supervision; and
- iv) FFTW UK's personnel may not hold any position with the related person or share premises with the related person.

## **Investment Discretion**

FFTW UK typically manages client accounts on a discretionary basis, subject to the restrictions that have been provided by clients. These investment guidelines are established with each of FFTW UK's clients, stipulating various limits governing the management of each portfolio, including eligible securities and maximum commitments. Within the guidelines, FFTW UK may execute trades without further authority. Trades are executed with those dealers or other financial institutions which, in FFTW UK's judgment, offer the most favorable terms for its clients. Fixed-income securities are traded predominantly with dealers at net prices without commissions. When FFTW UK utilizes brokerage services, such as for exchange-traded futures contracts, the reasonableness of the commission paid to brokers is evaluated on basis of the amount of commissions in relation to the execution services rendered. Clients of FFTW UK may specify a subset of dealers or financial intermediaries in its guidelines which may be utilized for its portfolio, or similarly provide a minimum credit rating to which FFTW UK must adhere in selecting a dealer or financial intermediary.

## **Voting Client Securities**

As required under the UK FSA rules, BNPP IP UK (which includes FFTW UK) has issued a Statement of Compliance with the UK Stewardship Code which is available on the UK website. BNP Paribas Asset Management SAS (“BNPP AM”) has in place Governance and Voting Principles which are also available on the UK website and these principles are followed by FFTW UK. It is generally advised that clients delegate proxy voting authority to FFTW UK or BNPP AM in order to safeguard their shareholder interests taking into account all relevant factors. Proxies of clients are voted solely in the interests of clients and the ultimate beneficiaries of funds where applicable. Voting rights which are exercised for mutual funds and UCITS are delegated to BNPP AM.

Upon request, clients may obtain information on how FFTW UK has voted its proxies and/or a copy of FFTW UK’s complete proxy voting policies and procedures.

## **Financial Information**

FFTW UK has never filed for bankruptcy and is not aware of any financial condition that is expected to affect its ability to manage client accounts.