

# Nomura Corporate Research and Asset Management Inc.

Two World Financial Center  
Building B, 18<sup>th</sup> Floor  
New York, NY 10281  
212.667.1414  
[www.nomura.com/ncram](http://www.nomura.com/ncram)

## Form ADV, Part 2A Brochure

May 9, 2012

This brochure provides information about the qualifications and business practices of Nomura Corporate Research and Asset Management 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 Corporate Research and Asset Management Inc. is a registered investment adviser with the SEC. Such registration does not imply any level of skill or training.

Additional information about Nomura Corporate Research and Asset Management 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 Corporate Research and Asset Management Inc. is 110411.

## **MATERIAL CHANGES**

**Revised May 9, 2012**

This brochure dated May 9, 2012 serves as an update to the brochure dated March 29, 2012. While there have been no material changes to the brochure, we have made some minor revisions.

## TABLE OF CONTENTS

Item 1 – Cover Page.....	i
Item 2 – Material Changes .....	ii
Item 3 - Table of Contents.....	iii
Item 4 – Advisory Business .....	1
Item 5 – Fees and Compensation .....	2
Item 6 – Performance-Based Fees and Side-By-Side Management.....	4
Item 7 - Types of Clients.....	5
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss .....	5
Item 9 - Disciplinary Information .....	13
Item 10 – Other Financial Industry Activities and Affiliations.....	14
Item 11 – Code of Ethics.....	15
Item 12 – Brokerage Practices .....	20
Item 13 – Review of Accounts .....	23
Item 14 – Client Referrals and Other Compensation .....	24
Item 15 – Custody .....	25
Item 16 – Investment Discretion .....	25
Item 17 – Voting Client Securities .....	25
Item 18 – Financial Information.....	27

## ITEM 4 – ADVISORY BUSINESS

Nomura Corporate Research and Asset Management Inc. ("NCRAM") is a boutique investment management firm that specializes in the below investment grade credit market, focusing on high yield bonds, high yield bank loans and emerging market debt. We operate long-only strategies for various risk tolerances, structured products, and a long-short credit strategy.

We believe that a total return approach driven by credit research is the best way to generate alpha in the high yield market. We describe our investment philosophy as the "Strong Horse" 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.

NCRAM (a Delaware corporation) was founded in March 1991 as a subsidiary of Nomura Holding America Inc. ("NHA"). NHA owns 99% of NCRAM. The ultimate parent company, the Tokyo-based Nomura Holdings, Inc. (NHI), owns the remaining 1%. NHI is a publicly traded company listed on the Tokyo and New York stock exchanges. NHI, together with its affiliates, is known as "Nomura."

In June 1991, NCRAM was registered as an investment adviser with the SEC and began managing total return high yield portfolios later that year.

NCRAM's advisory services are offered through a variety of investment products and arrangements, depending on the strategy. These include separately managed accounts for well-known U.S. and non-U.S. institutional clients and pooled investment vehicles such as non-U.S. mutual funds and U.S. and non-U.S. private investment funds. NCRAM also advises a number of collateralized debt obligation vehicles ("CDOs"), collateralized bond obligation vehicles ("CBOs") and similar finance products. Although most services are provided on a discretionary basis, NCRAM also provides certain services on a non-discretionary basis. NCRAM provides investment advisory services to offshore funds, through arrangements with our affiliates, Nomura Asset Management U.K. Limited, Nomura Asset Management Co., Ltd. and Nomura Funds Research and Technologies Co., Ltd. The funds are offered to offshore investors and under such arrangements, we serve as the sub-adviser.

Although we specialize in investing in high yield fixed income instruments, NCRAM may also acquire and/or hold investment grade debt instruments and equity securities. We may also trade in derivatives instruments such as currency forwards, futures contracts, options, and swaps. We will engage in short sales for our long/short strategy.

Fixed income instruments include the following:

- Debt securities of U.S. and non-U.S. issuers, including zero coupon bonds and payment-in-kind securities.
- Structured notes, including hybrid or “indexed” securities and event-linked bonds.
- Corporate loans, loan participations and assignments.
- Obligations of non-U.S. governments or their subdivisions, agencies and government-sponsored enterprises, including Brady bonds.
- Eurobonds, Yankee Bonds and Global Bonds.
- Obligations of international agencies or supranational entities.

Equity securities include, but are not limited to, common stock, preferred stock, warrants, rights, depository receipts, real estate investment trusts, limited partnership interests, membership interests in a limited liability company, and shares of pooled investment vehicles.

We tailor our advisory services to the individual needs of our clients. Clients may impose reasonable restrictions on investing in certain securities or types of securities, depending on their investment objectives, risk tolerance and other various suitability requirements. These restrictions must be in writing and must accompany the investment management agreement. Clients should be aware, however, that certain restrictions can limit our ability to act and as a result, an account’s performance may differ from and may be less successful than other accounts that have not limited our discretion. Where NCRAM 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.

As of February 29, 2012, NCRAM had approximately \$17.89 billion in assets under management. Assets managed on a discretionary basis totaled approximately \$17.7 billion. Assets managed on a non-discretionary basis totaled approximately \$180 million.

## **ITEM 5 – FEES AND COMPENSATION**

NCRAM’s fee schedule is omitted because this brochure is delivered only to qualified purchasers as defined in the Investment Company Act of 1940, as amended.

### **Separately Managed Accounts**

We generally charge asset-based management fees for all 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 NCRAM 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 will 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.

### **Pooled Investment Vehicle Fees**

NCRAM acts as investment adviser or investment manager to pooled investment vehicles such as offshore mutual funds, private investment funds, CDOs and CBOs. Our fees for such services are based on each investment vehicle's particular circumstances. NCRAM generally receives a management fee for management of registered U.S. and non-U.S. pooled investment vehicles and a management fee and a performance fee for management of U.S. and non-U.S. private funds that are not registered. 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). NCRAM's affiliates may receive additional compensation for administrative, custodial, accounting or other services provided to these pooled investment vehicles.

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 offering memorandum, subscription agreements and other offering documents for additional/supplementary information on the fund, including its fees and expenses.

### **Additional Costs**

Our fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be 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 on brokerage accounts and securities transactions.

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

We may invest client assets in money market funds, exchange traded funds or other types of fund vehicles managed by our affiliates or by a third party. In addition to NCRAM's management fee and any performance fee paid, clients will also incur, relative to investments in such funds, normal expenses and advisory fees imposed by the funds held in the account.

### **Compensation for the Sale of Securities**

*Private Funds.* One or more of our sales persons are registered securities representatives of Nomura Securities International, Inc. ("Nomura Securities"), an affiliated broker-dealer and a member of the Financial Industry Regulation Authority ("FINRA"). Through Nomura Securities, the sales persons offer interests in private funds sponsored and/or managed by NCRAM or its affiliates. These securities are only offered to investors that are qualified purchasers. A sales person may receive sales commissions or some other form of cash compensation for the sale of private funds to investors. This compensation is separate from the management fees that the funds pay the investment adviser, and is paid by NCRAM or Nomura Securities, not by the fund investor. Private funds are only available through Nomura Securities. They are not available through any other non-affiliated entity.

### **Billing**

The specific manner in which NCRAM charges fees is established in our written agreement with the client. We generally bill our fees on a quarterly basis, although fees for various fund vehicles that we manage are often paid monthly. Clients may elect to be billed in advance or in arrears. We do not directly debit fees from client accounts.

## **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 fund prospectus. 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 shall include realized and unrealized capital gains and losses. Performance-based fee arrangements may create an incentive for NCRAM 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. NCRAM has procedures designed and implemented to ensure that all clients are treated fairly and equally and to prevent this conflict from influencing the allocation of investment opportunities among clients. Please see Item 12 for a discussion of NCRAM's trade allocation policy and procedures.

## ITEM 7 – TYPES OF CLIENTS

NCRAM's clients include corporate pension plans, public retirement plans, private investment funds, and non-U.S. pooled investment vehicles such as Japanese Investment Trusts and Undertakings for Collective Investment in Transferable Securities (UCITS) vehicles. NCRAM also acts as an investment adviser to a number of CLOs, CBOs and similar finance products.

NCRAM generally accepts new client accounts with assets of \$100 million or more. In some instances, we may waive or negotiate the minimum based on the complexities of the situation and/or the needs of the client. Pooled investment vehicles managed by us impose their own minimum investment amount and other investor qualifications.

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

### **Investment Strategies**

We believe that a total return approach driven by credit research and a team effort is the best way to generate alpha in high yield. 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. Importantly, 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 must 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.

Our investment process for high yield is as follows: 1) we have creative idea generation in our open environment, 2) we have thorough research with experienced analysts, and 3) we have disciplined portfolio construction where we create portfolios with the best risk and reward opportunities. We characterize this as primarily bottom up, though top-down perspectives are incorporated. We also characterize this as a fundamental, as opposed to quantitative, approach.

Ideas can come from the analysts, the portfolio managers, or the Chief Investment Officer ("CIO"), and when we have an idea, we 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, we study the company's cash flows and its industry dynamics. We frequently communicate with issuers



and often visit them. In analyzing financial risk, we examine the leverage applied to the cash flows, as well as financing needs. Financial models are created for potential investments. We also study the covenants to protect our rights as bondholders. Our dedicated high yield analysts perform the vast majority of all the research utilized in the management of high yield portfolios. Rating agencies, sell-side analysts, and third party experts are utilized as additional sources of information.

After thorough research, analysts will recommend potentially favorable credits from within their sectors for inclusion in the portfolio. These recommendations are discussed in meetings with the portfolio managers and the CIO, and we seek to build a consensus before a position will be and reward, and be taken.

After a portfolio is created, it is actively managed. We closely follow company, industry, and market developments, and we will re-review an investment if an important assumption might have changed. We may sell an investment once it appreciates above fair value, if its fundamentals deteriorate, or if an opportunity with a superior risk and reward is presented. Our goal is to have our portfolios consist of the bonds with the best return potential for the risk.

While this process is primarily bottom up, there are important top-down inputs. We frequently assess economic conditions and forecasts via meeting with the Nomura Securities economist or others. We also assess financial market and liquidity conditions. In addition, we review and manage our sector exposures. The top-down perspectives can contribute to our bottom up views while also contributing to the risk posture and sector weightings of the portfolios.

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

In evaluating securities we take into account a number of factors, including charting, fundamental analysis, technical analysis, quantitative analysis and qualitative analysis methods including cyclical analysis.

NCRAM as an investment boutique maintains a very flat organization that entails frequent interaction by and between the senior leadership of the firm. Communication between research analysts and portfolio managers is continuous. The portfolio managers sit on a trading desk in the middle of the research analysts. Market or issuer developments are shared immediately among members of the investment team. The analysts also communicate with each other, especially their mentors, when undertaking investment research.

Analysts evaluate the credits they cover by utilizing NCRAM's well-developed research approach. After thorough research, analysts will recommend potentially favorable credits from within their sector for inclusion into the portfolio. These recommendations are discussed in meetings with the portfolio managers and the CIO. We seek to build a consensus before a position will be included in any portfolio. Portfolio managers use these recommendations to build portfolios while adhering to the overall investment strategy

based on client risk/return objectives. In conjunction with the CIO, the portfolio manager also has latitude to determine investment strategy position weightings and sector weightings. The portfolio manager will not purchase a security that has not been endorsed by an analyst, as they must jointly endorse an investment idea before it enters into the portfolio. Both credit analysts and the portfolio manager are involved in buy and sell decisions. Existing positions are continuously monitored by the research analyst and also are formally reviewed during periodic portfolio reviews among the portfolio manager, CIO and credit analyst.

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.

### **Material Risks of NCRAM's Strategies**

The following is a summary of some of the material risks associated with the significant investment strategies used by NCRAM. 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 fund managed by NCRAM 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 agreements and other offering documents for additional risk information.

### **Investing in securities involves risk of loss that clients should be prepared to bear.**

*High Yield Risk:* We generally invest in high yield bonds and preferred securities 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 NCRAM may intend to 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 certain 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:* NCRAM 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, NCRAM 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.

*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.

*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.

*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 NCRAM 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.

*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.

*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 whether emergencies and natural disasters, associated with non-U.S. investments. For example, because certain of our client accounts may invest a large percentage 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 a client's investment.

*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.

*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.

NCRAM will invest in equity securities of companies that their portfolio managers believe will experience relatively rapid earnings growth (growth securities) or that their 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.

*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 is 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.

*Emerging Markets Risk:* Foreign Investment Risk as discussed above 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; (xiv) certain considerations regarding the maintenance of clients' portfolio securities and cash with non-U.S. subcustodians and securities depositories.

*Default Risk:* There is a risk that NCRAM may invest in, or hold, a security of an issuer that is in default with respect principal or interest payments. In general, the default risk of emerging market bonds in which the 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.

*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 on 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.

*Currency Risk:* An account that invests in instruments that are denominated in a non-U.S. currency, or that purchase or sell foreign currencies on a spot basis or through forward contracts and derivative instruments, are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments

*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.

*Short Sale Risk:* NCRAM 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.

*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.

*Derivatives:* 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. NCRAM generally uses derivatives as a substitute for taking a position in the underlying asset and/or as part of a strategy designed to reduce exposure to other risks. 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.

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.

## **ITEM 9 – DISCIPLINARY INFORMATION**

We are required to disclose whether there are legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management. NCRAM does not have any legal or disciplinary information to disclose.



## ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

NCRAM is not registered and does not have an application pending as a securities broker-dealer, futures commission merchant, commodity pool operator or commodities trading adviser.

### **Broker-Dealer Affiliates**

As discussed in Item 5 above, certain NCRAM sales persons are also registered securities representatives of Nomura Securities, an affiliated broker-dealer registered with the SEC. The sales persons may offer interests in private funds sponsored and/or managed by NCRAM or its affiliates.

Subject to client restrictions, NCRAM may execute client trades with Nomura Securities and other affiliated broker-dealers. This activity gives us an incentive to direct trades to our affiliates even though they may charge higher commissions or provide inferior pricing or execution than non-affiliated broker-dealers. To address this conflict, NCRAM has implemented procedures designed to ensure we seek to obtain best execution for all transactions, whether executed through affiliated or non-affiliated broker-dealers.

### **Investment Adviser Affiliates**

NCRAM manages non-U.S. pooled investment vehicles through sub-advisory arrangements we have with our foreign investment advisory affiliates, Nomura Asset Management Co., Ltd. (“NAM-Tokyo”), Nomura Asset Management U.K. Limited (“NAM-UK”) and Nomura Funds Research and Technologies Co., Ltd. (“NFRT”). NCRAM has investment discretion under each of these arrangements, which includes the selection of executing broker-dealers. All pooled investment vehicles are managed in accordance with investment objectives and guidelines established by NCRAM and/or our affiliates. In addition to NAM-Tokyo, NAM-UK and NFRT, NCRAM’s other investment advisory affiliates include Nomura Asset Management U.S.A. Inc. (“NAM-USA”), Nomura Asset Management Singapore Limited (“NAM-Singapore”), Nomura Asset Management Hong Kong Limited (“NAM-HK”), Nomura Global Alpha LLC (“NGA”), Nomura Funds Research and Technologies America, Inc. (“NFR&TA”), Nomura Asset Management Malaysia Sdn. Bhd., Nomura Islamic Asset Management Sdn. Bhd, and Nomura Asset Management Deutschland. NAM-Tokyo, NAM-UK, NAM-USA, NAM-Singapore, NAM-HK, NGA and NFR&TA are registered with the SEC as investment advisers.

### **Investment Company Affiliates**

NCRAM acts in an advisory or sub-advisory capacity to non-U.S. investment companies, as well as pooled investment vehicles including collective trusts and private investment funds, managed or sponsored by its affiliates. Certain NCRAM personnel are also directors, trustees and/or officers of these pooled investment vehicles. Although its affiliates serve as adviser or sub-adviser for U.S. registered open-end and closed-end investment companies, NCRAM does not currently manage assets for such funds.

## **Affiliated Custodians**

We have relationships with two affiliated custodians:

- Nomura Trust & Banking Co., Ltd. (“NTB”) acts as custodian and trustee for some Japanese Investment Trusts that we manage or serve as sub-adviser.
- Nomura Bank (Luxembourg) S.A. (“NBL”) acts a custodian for several offshore funds that we manage or serve as sub-adviser. NBL may also provide administrative services to these funds.

NTB and/or NBL also act, at times, as the counterparty for foreign exchange transactions that are executed for certain offshore funds we sub-advise.

## **Other Affiliated Arrangements**

NCRAM receives marketing and/or client service support from its affiliates, NAM-Tokyo, NAM-USA and NAM-UK. NAM-USA also provides accounting, compliance and portfolio risk oversight services to NCRAM. In addition, NHA and Nomura Securities and certain of their subsidiaries provide to and receive certain services from NCRAM, which may include, accounting, account administration, auditing, business continuity planning, electronic data processing, employee benefit plan and personnel administration, insurance, investment, legal, management and financial reporting, occupancy, project management, tax, transportation and treasury. NCRAM also receives operations support and various other services from Nomura Services India Private Limited. Information barriers exist between NCRAM and the other businesses within NHA, Nomura Securities and its other affiliates.

# **ITEM 11 – CODE OF ETHICS**

## **Our Code of Ethics**

As an investment adviser and a fiduciary to our clients, we always place our clients’ interests first and foremost. However, NCRAM 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, NCRAM has adopted a Code of Ethics (“Code”) with which all supervised persons must comply.

The Code consists of the following 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 NCRAM, annually, or as the Code is amended.

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

Nomura Corporate Research and Asset Management Inc.  
2 World Financial Center, Building B  
Compliance Department, 18<sup>th</sup> Floor  
Attention: Chief Compliance Officer  
New York, New York 10281

### **Personal and Proprietary Trading**

NCRAM anticipates that, in appropriate circumstances, consistent with clients' investment objectives, we will cause accounts over which we have management authority to effect, and will recommend to investment advisory clients, the purchase or sale of securities in which NCRAM, its affiliates and/or other clients, directly or indirectly, have a position of interest. NCRAM's employees and persons associated with NCRAM are required to follow NCRAM's Code. Subject to satisfying this policy and applicable laws, officers, affiliated directors and employees of NCRAM ("NCRAM personnel") and its affiliates may trade for their own accounts in securities, including fund vehicles, which are recommended to and/or purchased for NCRAM's clients. The Code is designed to assure that the personal securities transactions, activities and interests of NCRAM personnel will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing NCRAM personnel to invest for their own accounts. Under the Code certain classes of securities have been designated as exempt transactions, based upon a determination that these would materially not interfere with the best interest of NCRAM's clients. In addition, the Code requires pre-clearance of many transactions, and for certain supervised persons, restricts trading in close proximity to client trading activity. In addition, holding period requirements apply to certain types of investments. Restrictions also exist on the ability of NCRAM personnel to acquire securities in an initial public offering and to participate in private placements. Nonetheless, because the Code in some circumstances would permit NCRAM personnel to invest in the same securities as clients, there is a possibility that such personnel might benefit from certain client market activity.

Personal trading is continually monitored under the Code, and procedures are in place to reasonably prevent conflicts of interest between NCRAM and its clients. For example, to assist NCRAM in ensuring NCRAM personnel comply with its personal trading policies and restrictions, supervised persons are required to (1) ensure that their brokerage firms provide transaction and holdings information for securities accounts in which they have direct or indirect beneficial interest, and (2) report personal securities transactions on a quarterly basis and provide NCRAM with a detailed summary of certain holdings (both initially upon commencement of employment and annually thereafter) in which they have a direct or indirect beneficial interest.

Subject to pre-clearance requirements as noted above, select NCRAM personnel may invest in certain private investment funds in which clients of NCRAM also invest. These investments of NCRAM personnel may be viewed as creating a conflict of interest because NCRAM and its principals may have an incentive to act in its or their own self-interests as opposed to that of the Fund. However, NCRAM has adopted a Code, as described above, and NCRAM has adopted controls, such as its allocation and aggregation policies, that are intended to ensure that no clients are favored over other clients.

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

From time to time, NCRAM 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, NCRAM 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. NCRAM shall have no obligation or responsibility to disclose, or use such information for the benefit of any person, including clients.

NCRAM has established "Information barrier" procedures and other policies that prohibit the misuse of such information. Information barriers exist between different businesses within NHA. As a result of such information barriers, NCRAM 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 NCRAM clients that may be adverse NCRAM clients. Information barriers may also exist between businesses within NCRAM.

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

Additionally, NCRAM personnel are subject to NHA policies and procedures regarding confidential and proprietary information, information barriers, private investments, outside business activities and personal trading.

### **Potential Conflicts of Interests in Trading and Management**

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*

NCRAM manages accounts for itself and for affiliates. NCRAM employees and affiliates may also invest in fund vehicles that are offered to clients. NCRAM, its affiliates and its employees will benefit from the investment performance of these accounts and funds (“affiliated accounts”).

Affiliated accounts will often invest in the same securities, at or around the same time, as client accounts. Although NCRAM may have an incentive to favor affiliated accounts, NCRAM’s policy is to allocate trades to affiliated accounts in the same manner as client accounts. Affiliated accounts are normally included in NCRAM’s daily block trades to the same extent as client accounts. For more information on trade allocation and aggregation practices, see Item 12 below.

#### *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. NCRAM attempts to address these potential conflicts of interest through various compliance policies generally intended to treat all clients fairly and equitably over time.

#### *Allocation of Investment Opportunities*

Other potential conflicts of interest may arise in purchasing and selling securities for multiple client accounts. NCRAM will use its best judgment to act in a manner it considers fair and reasonable in allocating 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 one 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, NCRAM 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 benefiting others, including affiliated accounts.

NCRAM 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, which includes the monitoring of conflicting positions.

### **Participation or Interests in Client Transactions**

Nomura is a global, full-service financial services firm. As such, Nomura provides a broad range of services to a diversified client base and is a major participant in global financial markets. Nomura has direct and indirect interests in global fixed income, equities, bank loans and other markets, including possibly in securities and issuers in which NCRAM client accounts may invest. As a result, Nomura's activities and dealings may affect NCRAM client accounts in ways that may disadvantage or restrict those client accounts and/or benefit Nomura. The following describes some of the existing and potential conflicts of interest.

#### *Participating in Affiliated Underwritings*

Subject to applicable regulatory requirements, clients may participate in securities offerings where an affiliate of the registrant serves as lead manager or a member of the underwriting syndicate ("affiliated underwritings"). Although it is our policy not to acquire securities from an affiliate in an affiliated underwriting, the affiliate still may benefit even if the securities are acquired through a non-affiliated underwriter. For example, if each syndicate member has proportionate liability for any securities remaining unsold, the successful sale of all securities, regardless of which member sold them, benefits all members including the affiliated underwriter.

#### *Cross Transactions*

It is our policy not to engage in buying or selling of securities from one client account to another (typically referred to as a "cross trade"). The vast majority of trades made for client accounts will be executed through the open market.

#### *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.

### *Other Conflicts of Interests Related to Nomura's Activities*

The extent of Nomura's global financial activities may have potential adverse effects on NCRAM'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 an NCRAM 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 a differing 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.

NCRAM might not engage in transactions for a client account in consideration of Nomura's activities outside the client account. For example, NCRAM may determine to restrict or limit the amount of a client account's investment where exceeding a certain aggregate amount could require a filing, or license, or other regulatory or corporate consent, which could, among other things, result in additional costs and disclosure obligation for Nomura, including NCRAM. 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.

## **ITEM 12 – BROKERAGE PRACTICES**

### **Broker-Dealer Selection**

NCRAM generally has discretionary authority to direct trades for its clients and selects broker-dealers to execute those trades. It is NCRAM's policy to seek to obtain best execution on all client transactions (which may or may not result in paying the lowest available brokerage commission or dealer spread). As a result, in selecting broker-dealers, NCRAM takes 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 trade processing and settlement capabilities
- Other factors that may bear on the overall evaluation of best price and execution

In addition, the provision of research may be a consideration for certain transactions, as described below. NCRAM may execute transactions through affiliates to the extent consistent with law, with client instruction, and within its duty to seek best execution.

Orders may only be placed with broker-dealers that are on the firm's Approved Broker-Dealer List.

### **Research and Soft Dollar Benefits**

In placing brokerage transactions, broker-dealers may furnish NCRAM with their proprietary research. We will use this proprietary research to service all or a portion of our clients, including accounts of our affiliated entities.

Under Section 28(e) of the Securities and Exchange Act of 1934, as amended, investment managers are permitted to cause a client to pay a higher commission than another broker-dealer might have charged for research and/or brokerage services provided by the broker-dealer that provide lawful and appropriate assistance to the investment manager in the investment decision-making process or trade execution process. In such circumstances, an investment manager is deemed to have paid for such research or brokerage services with "soft dollars." Soft dollars will be used within the safe harbor created by Section 28(e).

Fixed income securities are generally purchased from the issuer or a primary market maker acting as principal on a net basis without a stated commission but at prices reflecting a dealer spread. Fixed income securities may also be purchased from underwriters at prices that include underwriting fees. Because of this pricing structure, NCRAM does not direct fixed income transactions to particular broker-dealers for soft dollars. However, when selecting a broker-dealer for an equity transaction, NCRAM may take into account the value of proprietary research services provided by the broker-dealer, as long as such consideration does not jeopardize the objective of seeking best execution. These so-called soft dollar arrangements are designed to augment the internal research and investment strategy capabilities of NCRAM. Broker-dealers may provide NCRAM with proprietary research through written reports, telephone contracts, and meetings with security analysts, data disks or on-line data links. The written reports typically contain recommendations of brokerage research analysts and monetary and economic data prepared by brokerage research departments. The data links may furnish analytical services.

When NCRAM uses client commissions to obtain research and brokerage services, NCRAM obtains a benefit because it does not have to produce or pay for the research and services. We 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. However, we believe that we are able to negotiate costs on client transactions that are competitive and consistent with our policy to seek best execution. To the extent that soft dollars or the equivalent are earned with respect to a transaction made on behalf of a client, such research or other products or services received will not always be used by or for the benefit of the specific client that pays the brokerage commission used to obtain such research,

NCRAM currently has not entered into soft dollar arrangements where the broker-dealer provides us with third-party research and/or services.

### **Directed Brokerage**

We do permit clients to direct us to execute transactions through specified broker-dealers. Clients who direct us to use particular broker-dealers should be aware that we may be unable to negotiate commissions, block or batch client orders or otherwise achieve the benefits described above, including best execution, if you limit our brokerage discretion. 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. Accounts with directed brokerage instructions will generally be executed following completion of any non-directed trades. As a result, performance results for these accounts may vary from other client accounts we manage in the same strategy. 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.

### **Brokerage for Client Referrals**

We do not consider referrals when we select broker-dealers.

### **Trade Allocation and Aggregation Practices**

When we trade the same security in more than one client account, we generally attempt to batch or "bunch" the trades in order to create a "block transaction," in accordance with applicable law. Generally, buying and selling in blocks helps create trading efficiencies, prompt attention and desired price execution. When executing block trades, trades will be allocated among accounts using procedures that we consider fair and equitable.

Participation of an account in the allocation is based on such considerations as investment objectives, investment guidelines and restrictions, availability of cash, amount of existing holdings of the security in the accounts, and directed brokerage instructions, if applicable. In some cases, such as for new issues of fixed income securities, various forms of pro rata allocations are used, and in other cases, random allocation processes are used. However, considerations such as lot size, existing or targeted account weightings in particular securities, account size, cash availability, diversification requirements and investment objectives, and investment guidelines and restrictions may result in more particularized allocations. When we fill a block order in its entirety, each participating client account generally will receive the average share price for all such purchase or sale executed during

the trading day. We generally do not participate in initial public offerings of equity securities.

Although allocating orders among clients may create potential conflicts of interests because we may receive greater fees or compensation from some client accounts than other clients, 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, NCRAM may overweight the account's allocation of securities or loan investments 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.

Trade allocations are sampled on a regular basis as part of the Compliance Department's trade oversight and review procedures in an attempt to ensure fairness over time.

### **Non-Discretionary Accounts**

We provide non-discretionary investment advisory services in which we make recommendations to clients on purchasing, selling and holding particular investments. Once the client has informed us whether to accept our recommendations, NCRAM will execute purchases or sales on behalf of the client. Discretionary and non-discretionary clients may hold the same or similar securities. There may be timing differences related to the transmission of advice to a non-discretionary client for consideration and that client's determination of whether or not to act on the advice. As a result, trades may be executed with respect to securities for discretionary clients in advance of executions for non-discretionary clients, potentially disadvantaging the non-discretionary clients.

## **ITEM 13 – REVIEW OF ACCOUNTS**

Client accounts primarily are reviewed by the Portfolio Managers and investment analysts. Client accounts are monitored and reviewed 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. Some factors that trigger reviews are listed below:

- High yield fixed income accounts - credit quality of issues in the portfolio, tender offers, calls, the market price of securities, consent solicitations and company specific news releases.
- Leveraged loan accounts - credit quality of borrowers in the portfolio, mandatory and voluntary prepayments of outstanding corporate loans, the market price of the corporate loan investments, periodic, non-public financial reports by the

corporate borrowers to the corporate loan investors, and company-specific news releases and periodic public reports.

- Emerging market fixed income accounts - credit quality of issues in the portfolio, debt exchanges or liability management exercises, calls, the market price of securities, company specific news releases, country or governmental agency specific news releases, changes in interest rate policy, changes in foreign exchange policy, imposition or relaxation of foreign exchange controls, changes in political office or political power base within a given country or region within a country, changes in tax policies or other regulations that may impact foreign investors, changes in settlement procedures and changes in policy that would increase or decrease the liquidity of securities in emerging markets.

NCRAM maintains a computer system that electronically monitors many of the investment guidelines and restrictions. This system is a tool used to assist our portfolio managers, compliance personnel and operations support staff.

We furnish monthly accounting reports to clients detailing, among other things: portfolio positions, security cost basis and market value, and cash and security transaction activity. In addition, we provide clients with a summary performance analysis report, which contains a portfolio analysis and the portfolio's current and historical performance. These reports are provided monthly. 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.

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

Neither NCRAM 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 NAM-USA, NAM-Tokyo and NAM-UK. NCRAM pays these affiliates a percentage of the advisory fees that it earns from certain client accounts.

From time to time, we pay industry consultants for consulting and/or educational services. Our employees also periodically participate in and/or attend conferences sponsored by industry consultants. For some engagements, NCRAM and/or its affiliates may pay compensation to the consultant. These industry consultants may at times evaluate and/or recommend NCRAM to their other clients. In the event that we obtain a client through a consultant we have provided compensation for such services or conferences, or for which our employee has participated in such conferences, we will disclose the relationship to the client upon request.

## ITEM 15 – CUSTODY

NCRAM does not have custody of separately managed account assets. Such client funds and securities are held by a qualified custodian appointed by clients pursuant to a separate custody agreement. Therefore, each client must select a custodian and may be required to pay custodian fees.

We may be deemed to have “custody” of certain private funds where we or an affiliate serves as general partner or managing member, or where such funds maintain their assets with banks or other qualified custodians affiliated with NCRAM. For these funds, we provide each investor in the fund with audited financial statements that comply with U.S. generally accepted accounting practices (“GAAP Audits”) within 120 days following the fund’s fiscal year end.

## ITEM 16 – INVESTMENT DISCRETION

We usually receive discretionary authority from our clients to select the identity and amount of securities to be bought or sold, although we do have non-discretionary authority for certain client accounts. Prior to assuming discretionary or non-discretionary authority, we execute an investment management agreement with our clients. NCRAM will provide clients with the firm’s current Form ADV Part 2A and Part 2B (if applicable). By signing the agreement, clients grant NCRAM discretionary or non-discretionary investment authority over their accounts .

When selecting securities and determining amounts, we observe the investment objectives, policies, limitations and restrictions of our clients.

## ITEM 17 – VOTING CLIENT SECURITIES

When you give us authority to vote proxies and consents (together, “proxies” or “proxy voting”) for securities held in your account, we do not assume the role of an active shareholder. Rather, if we are dissatisfied with the performance of a particular company, we will generally reduce or terminate our position in the company rather than attempt to force management changes through shareholder activism. Nevertheless, our goal and intent is to vote all proxies in our clients’ best interests.

Note that we may vote in a manner that could diminish the value of your position in the short-term if we believe it will increase this value in the long-term and we are holding the security in your portfolio for the long-term.

We recognize that proxy voting is a valuable right of company shareholders and consent voting is an important right of debt security holders. Generally, NCRAM will vote all proxies it receives. However, we may refrain from voting in certain circumstances.

- *Voting for Non-US Companies:* Practicalities and costs involved with voting an international proxy may make it impossible at times, and at other times disadvantageous, to vote proxies in every instance. These issues include, but are not limited to: (i) untimely notice of a shareholders meeting or of a consent action, (ii) restrictions on a foreigner's ability to exercise votes, (iii) requirements to vote proxies in person, (iv) "shareblocking" requirements where investors who exercise their voting rights surrender the right to dispose of their holdings for some specified period of time in proximity of the shareholder meeting, (v) difficulties in translating the proxy, (vi) requirements to provide local agents with unrestricted powers of attorney to facilitate voting restrictions, and (vii) any other instances where the cost of voting the proxy outweighs the possible benefit to the client.
- *Securities Lending:* If an NCRAM client has decided to participate in a securities lending program, NCRAM will not seek to vote proxies relating to securities on loan because NCRAM does not have a contractual right to recall such loaned securities for proxy voting purposes.

It is our general policy, absent a particular reason to the contrary, to vote with management's recommendations. However, 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 interests. Our Proxy Voting Policy discusses our policies on specific issues.

We also have procedures to address potential material conflicts of interest between NCRAM and our clients. If a material conflict of interest exists, we will determine whether voting in accordance with the guidelines set forth in the procedures is in the best interests of the client or other appropriate action should be taken.

If you would like to know how we voted any proxy in your account or if you would like a complete copy of our written proxy voting procedures please contact our Chief Compliance Officer at 212-667-1414 or via postal request addressed to:

Nomura Corporate Research and Asset Management, Inc.  
2 World Financial Center, Building B  
Compliance Department 18<sup>th</sup> Floor  
Attn: Chief Compliance Officer  
New York, New York 10281

If you do not grant us proxy voting authority, then you will receive proxies and other solicitations directly from your custodian or a transfer agent. If you are voting your own proxies and have questions about any proposal, you may contact us at 212-667-1414 to discuss the proposal.

**Class Action Settlements**

From time to time, we may receive notices regarding class action lawsuits involving investments that are or were held in your portfolio. As a matter of policy, the client, not NCRAM, 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**

We are required in this Item to provide you with certain financial information or disclosures about our financial condition. We have no financial condition that impairs our ability to meet contractual and fiduciary commitments to clients and have not been the subject of a bankruptcy proceeding.