

# BATTERYMARCH

## FINANCIAL MANAGEMENT, INC.



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### Form ADV Part 2A Brochure

June 6, 2014

This brochure provides information about the qualifications and business practices of Batterymarch Financial Management, Inc. (Batterymarch). Batterymarch is a registered investment adviser with the United States Securities and Exchange Commission (SEC) under the Investment Advisers Act of 1940, as amended (Advisers Act). Registration as an investment adviser does not imply a certain level of skill or training. The information in this brochure has not been approved or verified by the SEC or by any state securities authority.

If you have any questions about the contents of this brochure, please contact us at 212-886-9200. Additional information about Batterymarch is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

This brochure serves as our annual updating amendment. We last filed our brochure with the SEC on June 14, 2013. The following is a summary of changes made to this brochure:

- Items 4 and 10 have been updated to reflect Legg Mason, Inc.’s acquisition of QS Investors, LLC (“QS Investors”) on May 30, 2014, and that QS Investors, Batterymarch Financial Management, Inc. (“Batterymarch”), and Legg Mason Global Asset Allocation, LLC (“LMGAA”) have become subject to common management and investment oversight. To facilitate such relationship and to allow QS Investors employees to assist Batterymarch and LMGAA in its management of client accounts, QS Investors employees have been “dual hatted” into Batterymarch and LMGAA. In addition, individuals in senior management positions at QS Investors have been appointed to the same positions at each of Batterymarch and LMGAA, and the three firms now have a common Chief Compliance Officer. As part of the integration, effective June 30, 2014, Batterymarch will change its name to QS Batterymarch Financial Management, Inc.
- Item 11 has been updated to reflect that Batterymarch has amended its Code of Ethics such that it is substantially similar to QS Investors Code of Ethics.
- Item 12 has been updated to reflect the discontinuation of Batterymarch’s soft dollar program.
- Item 17 has been revised to reflect recent updating changes to Batterymarch’s proxy voting policy.

Consistent with SEC regulations, we will either deliver, free of charge, to each client within 120 days of Batterymarch’s fiscal year-end (March 31): (a) an annual update of our brochure, which includes a summary of material changes; or (b) a separate, stand-alone summary of material changes made to our brochure that includes an offer to provide a copy of the updated brochure. We may also, at any time, update our brochure and send you a copy by electronic mail or in hard copy form or provide you with interim disclosures about certain material changes we have made to the brochure.

You should carefully review this brochure and address any questions to the Batterymarch personnel identified on the cover page of this brochure or a client service representative.

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#### **Item 4 – Advisory Business**

Batterymarch was founded in 1969 and has been a wholly owned, independently operated subsidiary of Legg Mason, Inc. (Legg Mason) since 1995. Legg Mason's common stock is traded on the New York Stock Exchange (symbol: LM).

On May 30, 2014, Legg Mason completed its acquisition of QS Investors, a registered investment adviser based in New York City. Legg Mason intends to integrate Batterymarch and LMGAA into QS Investors over time with the goal of creating a combined investment platform with solutions, quantitative equity, and multi-manager asset allocation capabilities. Effective as of May 30, 2014, QS Investors, Batterymarch, and LMGAA became subject to common management and investment oversight. Please see Item 10 for more information.

Additionally, as a result of the integration of Batterymarch and QS Investors, effective June 30, 2014, Batterymarch will change its name to QS Batterymarch Financial Management, Inc.

We provide investment advisory and subadvisory services across a wide range of equity asset classes, including US and non-US securities, in developed and emerging markets. Our strategies generally invest in publicly traded equities. We provide these services primarily on a discretionary basis, although in some cases on a non-discretionary basis. As of March 31, 2014, Batterymarch had \$10,202.2 million in total assets under management, including \$9,944.2 million managed on a discretionary basis and \$258.0 million managed on a non-discretionary basis.

Our investment advice and portfolio decisions for client accounts are based on their specific mandates and each client's investment objectives. As described in Item 16, discretionary clients may impose specific investment guidelines for their accounts, outlined in their advisory contracts, including restrictions on certain securities or types of securities.

Batterymarch's clients are primarily institutions that invest through separately managed accounts as well as mutual funds and pooled investment vehicles sponsored by us, our affiliates or third parties, including non-US domiciled funds and private investment "hedge fund" type vehicles (collectively referred to as "commingled funds"). See Item 7 for more information about the types of clients to whom we typically provide investment advice.

Using quantitative techniques, we apply traditional fundamental principles to equity research and management. Batterymarch's investment professionals are organized into investment teams, each under the direction of a team leader. As part of our team approach, our portfolio managers work collaboratively and share responsibility for investment decisions. They oversee all aspects of the investment process, including stock selection and portfolio construction, and are responsible for reviewing all trade decisions prior to execution. Together with Batterymarch's quantitative analysts, the portfolio managers perform research in the development and enhancement of the models that drive our investment process.

We believe one of our competitive advantages is that we are not quantitative "black box" investors who rely on statistical anomalies to identify stocks and blindly "bet their models."

Rather, we believe the most efficient way to identify and analyze stocks with strong fundamental underpinnings is from a bottom-up perspective using quantitative techniques in combination with fundamental insights provided by portfolio managers and analysts. We believe this approach provides us with several key advantages over competitors:

- Our investment process is built on a global quantitative platform that is customizable for the specific requirements and characteristics of the markets, sectors and regions in which we invest;
- Our research is structured to foster communication and information exchanges between investment professionals. Research is focused on three distinct areas: alpha generation, risk control and trading, following an agenda set out by Batterymarch's Chief Investment Officer. Each research project team comprises portfolio managers and analysts from our investment teams and is charged with a specific research topic covering one of our main focus areas. The structure of our team-based research is designed to ensure that we get the best thinking of the entire group working collaboratively to improve our overall investment process across investment teams;
- Our quantitative process also allows us to analyze many more companies than can be effectively covered by conventional fundamentally-based managers, using a consistent set of metrics; and
- We analyze stocks from multiple viewpoints, such as region/country, economic sector (industry group) and market cap. By incorporating diverse perspectives, we can develop a more complete picture of each stock's attractiveness.

Unlike many other quantitative managers, our core investment process does not have any specific tilt toward growth or value, and is designed to avoid style bias, which can cause systematic underperformance in market environments not favoring a particular style.

Batterymarch offers a range of strategies to meet client objectives, including the following:

#### **Traditional Developed Markets Strategies**

- Global Equity
- Global Unconstrained Equity
- International Equity
- International Small Capitalization Equity
- Regional Equity (such as Canada and North America)
- US Large Capitalization Equity
- US MidCapitalization Equity
- US Small Capitalization Equity

## **Traditional Emerging Markets Strategies**

- Global Emerging Markets Equity
- Global Emerging Markets Smaller Companies Equity
- Asia ex-Japan Equity

## **Solutions-Based Strategies**

- Global Environmental, Social and Governance Equity
- Global Inflation-Sensitive Equity
- Global Managed Volatility Equity Income
- International Managed Volatility Equity Income
- Regional Managed Volatility Equity Income (such as Europe, Europe ex-UK, UK)
- US Large Capitalization Managed Volatility Equity Income
- Global Emerging Markets Managed Volatility Equity Income
- Global Market Neutral Equity

The majority of our investment strategies are characterized by rigorous, bottom-up stock selection and integrated, objective-based risk control. See Item 8 for additional information about our methods of analysis and investment strategies.

We also provide investment advice, trade recommendations and/or portfolio research services, in the form of model investment portfolios and stock scores, to affiliated and non-affiliated investment advisers. Batterymarch has no responsibilities related to trade execution for these advisers.

## **Item 5 – Fees and Compensation**

### **Fee Schedules**

Batterymarch offers fee schedules based on assets under management or a combination of assets under management and investment performance. See Item 6 for disclosures about performance-based fee arrangements.

In general, Batterymarch's advisory fees are billed quarterly in arrears based on the market value of assets under management on the last business day of the quarter or an average of assets under management during the quarter. Advisory fees may also be billed or be otherwise payable on another basis upon agreement with the client, such as monthly or in advance. If Batterymarch's advisory services begin after the first day of a billing period or end before the last day of the period, advisory fees are prorated. Fees are also prorated during billing periods in which clients have added or withdrawn assets (other than immaterial amounts) based on the number of days during the period those assets were managed. A client may be billed directly or they may authorize their chosen custodian to debit fees from their account upon receipt of a fee invoice from Batterymarch. Batterymarch does not deduct fees directly from client accounts.

Fees may be calculated based on portfolio valuations conducted by Batterymarch or the client's custodian, as agreed upon with the client. There is a potential conflict of interest when an investment adviser bases its fee calculations on its own portfolio valuations. To mitigate this potential conflict of interest, Batterymarch has instituted pricing/valuation policies and procedures for valuing assets for which market prices are unavailable or unreliable, including a review of all manual pricing and pricing overrides.

Clients may terminate their advisory contracts by notifying Batterymarch in writing. Upon termination of an account (the date that Batterymarch ceases management of the portfolio) or the withdrawal of assets, we will promptly refund the prorated, unearned portion of any advance payment received, based on the number of days remaining in the billing period.

Batterymarch offers the following standard annualized fee schedules for the management of separate-account portfolios, with fees based on the market value of assets under management:

- *Global Equity*  
0.65% on the first \$20 million under management;  
0.50% on the next \$80 million under management; and  
0.45% over \$100 million under management.
- *Global Unconstrained Equity*  
0.65% on the first \$20 million under management;  
0.50% on the next \$80 million under management; and  
0.45% over \$100 million under management.

- *International Equity*  
0.65% on the first \$20 million under management;  
0.45% on the next \$30 million under management; and  
0.35% over \$50 million under management.
- *International Small Capitalization Equity*  
1.00% on the first \$25 million under management;  
0.85% on the next \$25 million under management; and  
0.70% over \$50 million under management.
- *US Large Capitalization Equity*  
0.65% on the first \$20 million under management;  
0.35% on the next \$30 million under management; and  
0.25% over \$50 million under management.
- *US MidCapitalization Equity*  
0.65% on the first \$20 million under management;  
0.35% on the next \$30 million under management; and  
0.25% over \$50 million under management.
- *US Small Capitalization Equity*  
1.00% on the first \$25 million under management;  
0.85% on the next \$25 million under management; and  
0.70% over \$50 million under management.
- *Global Emerging Markets Equity*  
1.00% of assets under management.
- *Global Emerging Markets Smaller Companies Equity*  
1.25% of assets under management.
- *Asia ex-Japan Equity*  
1.00% of assets under management.
- *Global Environmental, Social and Governance Equity*  
0.65% on the first \$20 million under management;  
0.50% on the next \$80 million under management; and  
0.45% over \$100 million under management.
- *Global Inflation-Sensitive Equity*  
0.65% on the first \$20 million under management;  
0.50% on the next \$80 million under management; and  
0.45% over \$100 million under management.



- *Global Managed Volatility Equity Income*  
0.65% on the first \$20 million under management;  
0.50% on the next \$80 million under management; and  
0.45% over \$100 million under management.
- *International Managed Volatility Equity Income*  
0.65% on the first \$20 million under management;  
0.45% on the next \$30 million under management; and  
0.35% over \$50 million under management.
- *US Large Capitalization Managed Volatility Equity Income*  
0.65% on the first \$20 million under management;  
0.35% on the next \$30 million under management; and  
0.25% over \$50 million under management.
- *Global Emerging Markets Managed Volatility Equity Income*  
1.00% of assets under management.
- *Global Market Neutral Equity*  
1.00% of assets under management; plus  
20.00% of positive performance.

Depending upon the size of the portfolio or relationship, separate-account portfolios managed under these strategies may be subject to a minimum fee of \$32,500 per quarter.

Batterymarch also manages regional, country-specific and other specialized portfolios and serves as investment manager or subadvisor for various commingled funds (including mutual funds). The fee schedules for some of these strategies or products may be higher or lower than those reflected above.

In certain situations, Batterymarch and a client may negotiate a management fee that has different terms or is lower than the standard fees shown above. For example, we may waive or charge lower management fees to investors that seed an investment strategy. We may also waive or charge lower management fees to current and former employees, their family members, and affiliated companies and their employees who invest in a commingled fund for which we act as general partner or managing member.

Neither Batterymarch nor our employees accept third-party compensation, including asset-based sales charges or service fees, for the sale of securities or other investment products.

### **Other Types of Fees and Expenses**

Batterymarch's fee schedules reflect only the advisory fees payable to us and do not reflect fees or expenses related to the day-to-day management of a client account. These other fees and expenses, payable to other parties, may include, but are not necessarily limited to, custodian fees, brokerage commissions, transaction fees, transfer and other taxes, exchange fees, regulatory fees

and fees for professional services such as audit, tax and legal services. These other fees and expenses are the sole responsibility of each client. Batterymarch does not receive any portion of these other fees and expenses.

Each commingled fund bears its own expenses. Details regarding fees payable to Batterymarch, our affiliates or third parties associated with investments in these funds can be found in each fund's governing documents (prospectus, confidential offering memorandum or limited partnership agreement). Any information about commingled funds in this brochure is superseded by that in the fund's governing documents.

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

### **Performance-Based Fee Arrangements**

A conflict of interest may arise where the financial or other benefits available to Batterymarch or a portfolio manager differ among the accounts under our management. For example, when an account pays, or has the potential to pay, greater management fees than others, such as performance-based management fees, there may be a motivation to favor that account over others.

Batterymarch manages some accounts under performance-based fee arrangements whose terms are negotiated with clients on a case-by-case basis, subject to Section 205(a)(1) of the Advisers Act, in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3.

Batterymarch's compensation may be higher under performance-based fee arrangements than under fee arrangements based solely on assets under management. Therefore these arrangements may create an incentive for Batterymarch to recommend riskier or more speculative investments or to allocate investments with greater return potential to accounts paying performance fees.

Batterymarch's quantitative investment process and operational procedures are designed and implemented to ensure that all accounts are treated fairly regardless of fee structure and to ensure that performance-based fee arrangements do not influence the allocation of investment opportunities among accounts. We generally allocate securities in random order or on a pro-rata basis. See Item 12 for a description of Batterymarch's trade aggregation and allocation procedures.

In addition, our investment professionals are not compensated based on the performance of specific accounts, but rather on the performance of their team across applicable products, as well as their individual contributions to research, client service and new business development.

We include realized and unrealized gains and losses in valuing account assets to calculate fees. This may create an incentive for Batterymarch to overvalue account assets to gain larger fees under performance- and asset-based fee arrangements. To mitigate this potential conflict of interest, we have formal pricing policies and procedures for valuing account assets in instances when market prices are either unavailable or unreliable.

### **Side-by-Side Management**

A portfolio manager might also be motivated to favor certain funds and/or accounts or investment strategies in which he or she, or Batterymarch and/or its affiliates, has a financial or other interest.

As mentioned above, Batterymarch has attempted to lessen this risk by compensating portfolio managers based on the performance of their team across the team's products rather than based on the performance of specific accounts, in addition to other factors.

Batterymarch and its employees are also subject to certain laws and regulations and internal policies and procedures governing personal trading and other conduct. For example, Batterymarch has adopted a written Code of Ethics to promote high standards of behavior and to ensure compliance with applicable laws and regulations. See Item 11 for a description of our Code of Ethics.

Batterymarch provides investment advisory services to a variety of clients using various investment strategies. We may give different advice, take different action or time trades differently for different accounts. Although we seek to ensure that client accounts managed using similar investment strategies have similar portfolio characteristics, we do not typically “clone” accounts by constructing multiple accounts with identical holdings. Therefore holdings may differ from one account to the next within the same investment strategy, and account performance may differ.

For a variety of reasons, we may simultaneously recommend the sale of a particular security for one account while recommending its purchase for another. For example, if we need to raise cash for a redemption or withdrawal in a particular account, we may sell a security that is classified as a buy by our investment process.

Occasionally, we may purchase or sell a security in long-only accounts on the same day we execute an opposite transaction by selling it short in other accounts. In addition, some accounts may hold opposite positions, with a security held long in one or more accounts while others hold it short. For example, this may occur when a long position is being sold from one portfolio while it is shorted in another. Additionally, for risk control purposes, a long-only account may hold an underweight position in a particular security relative to the benchmark despite its sell classification because it is a large benchmark constituent. Underweighting the security in this case is essentially betting against it. At the same time, we may be betting against the security in a different account by shorting it. Both positions reflect a negative return expectation for the security.

The stock selection models, risk controls and portfolio construction rules used for client accounts in a particular investment strategy may differ from those used for accounts in other strategies, including accounts that hold short positions. As a result, securities may be scored differently for different investment strategies, and the timing of trades may differ.

We believe that with our risk controls it is possible for different accounts managed under different investment strategies to both benefit by holding opposite positions in the same security.

Batterymarch’s compliance personnel review opposite transactions and positions for validity, obtaining justification from the investment team if needed. They also review opposite transactions to ensure that any cross transactions are properly documented and reported. In addition, they periodically review account performance dispersion and side-by-side trading of investment products to ensure that no strategies or accounts, including those paying performance fees, appear to receive preferential treatment or are systematically disadvantaged.

## Item 7 – Types of Clients

Batterymarch provides (or has provided) investment advisory and subadvisory services to various types of clients, including:

- Corporations
- Corporate pension and profit-sharing plans
- Public pension and profit-sharing plans
- Taft-Hartley plans
- Insurance companies
- Charitable organizations
- Foundations and endowments
- State and local government entities
- Foreign government entities, including sovereign funds
- Mutual funds
- Foreign funds, such as UCITS (Undertakings for Collective Investment in Transferable Securities) and SIFs (Specialized Investment Funds)
- Collective trusts
- Private investment funds (including so-called “hedge funds”)
- Other US and international institutions

The minimum account size for separately managed accounts is generally \$25 million. Minimum account sizes may be lowered or raised at our discretion. Prospective separate-account clients must execute advisory contracts with Batterymarch that stipulate the terms of service.

The investment minimums and investor qualifications for the commingled funds we manage or subadvise are specified in their governing documents. Institutional clients, qualified investors, accredited investors, retail investors and some Batterymarch employees may be eligible to invest in some of these commingled funds. Prospective commingled fund investors must execute subscription or similar agreements binding them to the terms stipulated in the governing documents.

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

### **Investment Strategies and Process**

Batterymarch analyzes a broad universe of stocks daily using proprietary, quantitative models based largely upon traditional, bottom-up fundamental analysis. Our models use financial data provided through databases licensed from multiple vendors and incorporate the fundamental insights of our investment professionals. These insights may reflect fundamental research on companies performed by our investment professionals.

We use essentially the same investment process for most of our investment strategies, varying the strategies according to client benchmark preferences, investment objectives and investment guidelines. Due to this common architecture, the quantitative research conducted for specific products can be applied or modified for other products or strategies.

We construct an investable stock universe for these strategies by screening all listed securities within the appropriate asset class according to criteria related to trade volume, analyst coverage and availability of reliable company data. For each strategy, we score the relative attractiveness of all stocks in our investable universe every day across certain fundamentally based categories known as “dimensions.” These dimensions fall into broader categories based on either value or sentiment. Value-oriented dimensions assess value and cash flow, while sentiment-oriented dimensions assess earnings, growth, expectations and technical characteristics. Each dimension includes multiple measures of attractiveness called “factors.” Our large factor library includes both traditional and proprietary measures that our research indicates are predictive of excess return. Because not all factors work in all sectors and markets or at all times, we apply them selectively based on periodic retesting. Our objective is to use only those factors that are deemed most predictive at a particular time and are least correlated with other factors.

Some of our investment strategies may also incorporate fundamental opinions into the scoring process for some securities. Where used, these opinions are weighted with the quantitative scores to produce blended scores for such securities.

We score each stock from multiple viewpoints. These scores represent various investment perspectives and are typically based on several of the following considerations: sector, country, region, investment style (such as growth and value) and market capitalization. By incorporating such diverse perspectives in our scores, we seek to develop a more complete picture of each stock’s relative attractiveness. The buy and sell ranges within this scoring structure vary by investment strategy. Subject to market environment and risk controls, we generally purchase stocks scored as buys and sell stocks scored as sells. However, for purposes of risk management, we typically hold positions in securities that are significant benchmark constituents regardless of score.

Sector, country and region allocation decisions are made using proprietary models and the insights of the investment team.

Batterymarch's portfolio construction process incorporates multiple levels of risk control. We optimize portfolios using a multifactor risk model. The process weighs variables such as stock scores, sector/country/region weights, market capitalization, client-specific investment guidelines and other constraints and produces a list of suggested trades. All trades are reviewed by Batterymarch's portfolio managers for risk control purposes before they are released for execution. The portfolio managers have the discretion to pull trades suggested by the optimizer. For example, portfolio managers may pull a trade if they believe that the model has not had sufficient time to incorporate newly available data or if the market environment does not support the trade. Some transactions may be executed primarily for risk control purposes.

For non-US Developed Markets portfolios, we may actively hedge major currencies such as the yen, euro and British pound to the client's base currency, with client approval. Our hedging strategy incorporates third-party forecasting and historical currency analysis as well as US dollar relative strength analysis. We generally do not hedge emerging markets currencies or cross-hedge currencies in portfolios, such as hedging the yen to the euro in an account whose base currency is the US dollar.

All portfolios are managed on a team basis in accordance with the investment objectives and strategies outlined in each client's advisory contract or applicable fund's governing documents. The overall investment process is overseen by QS Investors' Investment Oversight Committee.

See Item 13 for additional information concerning Batterymarch's review of accounts.

### **Primary Investment Strategies**

Listed below are the primary investment strategies offered by Batterymarch, followed by a discussion of related risks. The majority of these strategies share a key objective—each seeks to outperform its benchmark regardless of the market environment. Generally, we seek to add value over a full market cycle of three to five years.

#### Traditional Developed Markets Strategies

- Global Equity
- Global Unconstrained Equity
- International Equity
- International Small Capitalization Equity
- Regional Equity (such as Canada and North America)
- US Large Capitalization Equity
- US MidCapitalization Equity
- US Small Capitalization Equity

Batterymarch's traditional Developed Markets investment strategies use disciplined, systematic techniques based on traditional fundamental analysis to objectively score the relative attractiveness of an investable universe of liquid stocks daily. These strategies are characterized by rigorous, bottom-up stock selection, integrated risk control and cost-efficient trading,

resulting, with the exception of our Global Unconstrained Equity strategy, in well diversified and style neutral portfolios, with moderate active bets versus the benchmark.

Batterymarch's Global Unconstrained Equity strategy provides greater alpha potential by making opportunistic use of the information available from Batterymarch's full suite of investment research. This strategy has no restrictions on market cap, style or sector/region allocations.

#### Traditional Emerging Markets Strategies

- Global Emerging Markets Equity
- Global Emerging Markets Smaller Companies Equity
- Asia ex-Japan Equity

Batterymarch's traditional Emerging Markets investment strategies use disciplined, systematic techniques based on traditional fundamental analysis to objectively score the relative attractiveness of an investable universe of liquid stocks daily. These strategies are characterized by rigorous, bottom-up stock selection, integrated risk control and cost-efficient trading, resulting in well diversified and style neutral portfolios, with moderate active bets versus the benchmark.

#### Solutions-Based Strategies

- Global Environmental, Social and Governance Equity  
Batterymarch's Global Environmental, Social and Governance Equity strategy is designed to identify attractive stocks that meet client-specific requirements related to environmental, social and governance (ESG) issues. This strategy integrates Batterymarch's fundamentally-based stock selection model with a proprietary ESG model that uses positive screening methodology incorporating multiple factors pertaining to ESG considerations such as human rights, product safety and environmental strategy.
- Global Inflation-Sensitive Equity  
Batterymarch's Global Inflation-Sensitive Equity strategy is designed to identify the sectors and securities that are expected to do best in specific inflationary environments. This strategy combines bottom-up stock selection with top-down inflationary regime positioning within a broad global equity universe.
- Managed Volatility Equity Income
  - Global
  - International
  - Regional
  - US Large Capitalization
  - Global Emerging Markets

Batterymarch's Managed Volatility Equity Income strategies are designed to provide a strong yield component while achieving superior risk-adjusted returns versus the market.



Offering downside protection and upside return potential, these strategies use diverse risk perspectives, including a fundamental view, and invest only in stocks that are expected to pay dividends.

- Global Market Neutral Equity

Batterymarch's Global Market Neutral Equity strategy is designed to minimize exposure to underlying market risk. Incorporating multiple levels of risk control, this strategy seeks to deliver absolute positive performance, with alpha from both long and short positions.

## **Risks**

In managing client accounts, Batterymarch utilizes various investment strategies and methods of analysis. This section contains a discussion of the primary risks associated with these investment strategies. However, it is not possible to identify all of the risks associated with investing. The particular investment risks to which clients are subject will differ depending on the particular investment strategies or products in which they invest and the types of securities held.

While Batterymarch seeks to manage accounts so that the risks are appropriate to the strategy, it is often not possible or desirable to fully mitigate risks. Any investment includes the risk of loss and there can be no guarantee that a particular level of return will be achieved. An investment is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Past performance or any prediction or forecast is not a guarantee or indicative of future results. We cannot guarantee that we will meet the investment objectives associated with any strategy or client account. Clients should understand that they could lose some or all of their investment and should be prepared to bear the risk of such potential losses.

Current and prospective clients should be aware of the common risks associated with Batterymarch's investment strategies. The following explanations are not, and are not intended to be, a complete list of the risks associated with an investment. Fund investors should also refer to appropriate governing documents and consult with their own advisors before deciding whether to invest.

### Market Risk

The market prices of securities fluctuate, sometimes rapidly, dramatically and/or unpredictably, due to general market conditions, such as real or perceived adverse economic or political conditions, inflation, government intervention, changes in interest rates or currency rates, lack of liquidity in the markets or adverse investor sentiment. Market prices of securities also may be impacted by events or conditions that affect particular sectors or issuers.

Long-only strategies do not use short selling and may not use other hedging techniques that could reduce the risks associated with a market downturn. Therefore long-only accounts are typically at greater risk of losing value during market declines than those accounts that are able to short stocks.

We seek to minimize market risk by screening our stock universe for investability, including liquidity, and applying a variety of portfolio risk controls, including multiple exposure constraints.

### Concentration Risk

Some investment strategies may be less diversified than others in terms of region, country, sector, industry or company, which makes these strategies inherently riskier. Strategies investing solely in one country or region may have greater exposure than more diversified strategies to specific economic cycles, stock market fluctuations, currency exchange rates, government actions and other country- or region-specific issues.

### Security Risk

The value of a security can fluctuate more or perform differently than the market as a whole, often due to disappointing earnings reports by the issuer, unsuccessful products or services, loss of major customers, major litigation against the issuer, changes in government regulations affecting the issuer or the competitive environment, or investor sentiment. Accounts may experience substantial or complete losses on individual securities.

In portfolios managed under most traditional investment strategies (and certain solutions-based strategies), Batterymarch seeks to mitigate security risk by constructing broadly diversified portfolios that are typically style neutral to their underlying benchmarks. We also typically make only moderate active bets versus account benchmarks. For risk control purposes and subject to market environment and portfolio characteristics, we typically hold positions in stocks that are significant benchmark constituents, weighted according to our assessment of their relative attractiveness.

The vast majority of holdings in client account portfolios managed under our primary investment strategies are exchange-traded common stocks. However, if consistent with client objectives and guidelines, we may purchase the following instruments that may be associated with higher counterparty, settlement or other risks:

- Initial public offerings (IPOs)
- American Depositary Receipts (ADRs)
- Global Depositary Receipts (GDRs),
- Non-Voting Depositary Receipts (NVDRs)
- Income trusts, including real estate investment trusts (REITs)
- Master limited partnerships (MLPs)
- Tracking stocks
- Exchange-traded funds (ETFs)
- Foreign exchange (FX) forward currency contracts (including non-deliverable forwards)
- Other derivatives or synthetic instruments (including swaps, equity-linked notes, participation certificates, warrants and stock purchase rights)
- Private investments

Not all of Batterymarch's investment strategies invest in IPOs. The key criterion for determining eligibility of an account to participate in an IPO is the suitability of the investment for the investment mandate as determined by the appropriate investment team. IPOs have a lack of trading history and cannot be scored by Batterymarch's stock selection models. On rare occasion, Batterymarch may also purchase pre-IPO shares for accounts that are managed under certain investment strategies. IPO and pre-IPO shares are frequently less liquid than securities traded on the secondary markets, and may include trading restrictions, such as lock-up periods, and their prices are typically more volatile than those of securities traded on the secondary markets.

Depository receipts (*e.g.*, ADRs and GDRs) are negotiable securities issued by and deposited in banks or trust companies that represent securities of companies that are foreign to the market on which the receipt trades, enabling investors to buy securities of foreign companies without the accompanying risks or inconveniences of cross-border and cross-currency transactions. The risks of depository receipts are similar to that of a single stock exposure, with additional issues including counterparty risk, foreign currency risk and risk arising from the type of receipt. While the price of a depository receipt corresponds to the price of the underlying stock in its home market—adjusted to the ratio of the receipt to foreign company shares—these receipts are traded and settled independently of the underlying shares. Therefore, even where they are denominated in US dollars, depository receipts are subject to currency risk if the underlying security is denominated in a foreign currency.

Investment in NVDRs enables foreign investors to invest in companies in the Thai market despite foreign ownership restrictions. By investing in NVDRs, investors receive the same financial benefits (*i.e.*, dividends, right issues or warrants) as those who invest directly in a company's ordinary shares, except that NVDRs do not carry voting rights. Batterymarch may also invest in other non-US instruments issued by foreign banks or trust companies.

Income trusts are investment trusts whose interests are traded on securities exchanges similar to corporate stock. An income trust is an investment that may hold equities, debt instruments, royalty interests or real properties. The trust can receive interest, royalty or lease payments from an operating entity carrying on a business, as well as dividends and a return of capital. Income trusts include: (a) REITs, which invest in real estate; (b) business income trusts, where individual companies have converted some or all of their stock equity into an income trust capital structure; and (c) royalty/energy trusts, which invest in natural resources, such as oil and gas ventures. In a typical income trust structure, the income paid to an income trust by the operating entity is passed through to investors. This has the effect of reducing the trust's taxable income, but results in such payments being taxed at the unitholder level.

REITs are subject to the risks associated with owning real estate, including its potential decline in value and the difficulties associated with its valuation and sale. REITs are also subject to the risk of income fluctuation from underlying real estate assets, inability to effectively manage cash flows from those assets, borrower prepayments and defaults and failure to qualify for special tax treatment. REITs are generally exempt from taxation at the trust level as long as they distribute at least 90% of their income to their unitholders.

MLPs are limited partnerships that are publicly traded on a securities exchange. Because MLPs are classified as partnerships, they avoid corporate income tax. Investors in MLPs also are allocated their proportionate share of all tax items.

Investments in income trusts (including REITs) and MLPs may have tax implications for certain types of investors (see further discussion below regarding *Tax Risk*).

Tracking stocks, which are traded separately from traditional common stocks, depend on the financial performance of specific business units or operating divisions within companies. As a result, the value of tracking stocks may decrease even if the common stock of their companies performs well. Because shareholders in tracking stocks have limited or no voting rights, they have no legal claim to company assets in the event of liquidation.

ETFs incur their own management and other fees and expenses, such as transaction costs, trustees' fees, operating expenses, registration fees and marketing expenses, with a proportionate share borne by investors. ETF performance will be reduced by these costs and other expenses, which clients pay in addition to Batterymarch's advisory fees. Performance of client accounts investing in ETFs could be lower than if the accounts invested directly in the securities underlying the ETFs. In addition, client accounts holding ETFs are indirectly exposed to the risks of the underlying securities.

Batterymarch may utilize FX forward currency contracts to "lock in" the price of a security that was bought or sold in a foreign currency to the account's base currency. By doing so, Batterymarch seeks to protect a client account against a possible loss resulting from an adverse change in the relationship between the base and foreign currencies from the trade date to the settlement date of the transaction. Batterymarch may also use FX forward currency contracts in an attempt to protect a client account against adverse changes in exchange rates between a foreign currency in which an account has exposure and the account's base currency. For example, such contracts may be used as a hedge to protect the value of a client account's foreign investment securities against a decline in the value of such securities' foreign currency. Certain FX forward currency contracts may be non-deliverable forwards (NDFs). Although NDFs are similar to other FX forward currency contracts, NDFs do not require physical delivery of the reference currency on the settlement date. NDFs, unlike other FX forward currency contracts, are classified as swaps by the US Treasury Department and are therefore subject to a wider array of regulations under the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Batterymarch may use derivatives or synthetic instruments to provide equity exposure not otherwise obtainable in certain non-US markets due to limitations imposed by certain countries, because a client's custodian does not have a local agent bank that will allow Batterymarch to invest directly in such market, or because such instruments may be more cost effective than direct investment.

Batterymarch may also use derivatives to employ defensive strategies designed to protect a client account from an expected decline in the market value of an asset or group of assets that the

account owns or to protect the account from an expected rise in the market value of an asset or group of assets which the account intends to acquire in the future (an “anticipatory” hedge).

A swap is an agreement in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of an underlying asset, which includes both the income it generates and any capital gains. The underlying asset can be a security, basket of securities or an equity index.

Equity-linked notes (ELNs) are debt instruments that differ from a standard fixed income security in that the final payout is based on the return of an underlying asset, which can also be a single security, basket of securities or an equity index.

A participation certificate is an investment representing an interest in a security or pool of securities that allows participation in the rise or fall of the price of that security or pool.

Warrants and stock purchase rights are securities permitting, but not obligating, their holder to purchase other securities, typically the issuer’s common stock. Stock purchase rights are frequently issued as a dividend to a company’s stockholders, while warrants are generally sold by a company or issuer.

Most synthetic securities are not actively traded on a secondary market and are designed to be kept to maturity. Holders of such securities typically do not have voting or other rights typically afforded to shareholders of common stock. For example, holders of warrants and stock purchase rights are not entitled to receive dividends or to vote. They also do not have the rights to share in the assets of the company in the event of liquidation.

While the issuer of a synthetic security may register the instrument with a listed exchange, these instruments may not be readily traded in the secondary markets and, therefore, in addition to other risks, they often have increased counterparty risk (see further discussion below under *Derivatives Risk*).

#### Management/Model Risk

Batterymarch’s investment models, used to evaluate securities or markets, are based on certain assumptions concerning the interplay of market factors and do not assure successful investment. The models may not behave as expected. Unanticipated market movements or extraneous events may decrease the predictive success of the models. For example, during periods of sharp market rotations or unusually high volatility, or when investor sentiment rather than economic fundamentals drives the market, the investment process may be challenged. While these periods are typically short lived, there can be no assurance that a client’s specific investment objectives will be achieved.

Batterymarch’s quantitative investment process is supported by extensive proprietary computer code. Despite multiple development, review, testing and change controls for our models, coding errors may occur, as with any complex software or data-driven model. No guarantee or warranty can be made that any quantitative investment model will be completely free of errors. Coding

errors may be difficult to detect and could have a negative impact on investment results. Somewhat mitigating this risk is the structure of Batterymarch's models, which have a wide range of inputs, ensuring that model results are generally not reliant on any one calculation or piece of data. Furthermore, Batterymarch has control systems and processes in place that are intended to identify and escalate in a timely manner any errors that could have a material impact on our investment process.

We receive investment data and other information about investment securities from outside vendors and reserve the right to rely on this data. The data includes, but is not limited to, market price quotations, earnings reports, balance sheets and other indicators of financial performance or expectations. We also receive information from vendors concerning companies that may have ESG issues, such as involvement in weapons, alcohol or tobacco production and distribution. Depending upon client mandates or investment guidelines, we may incorporate ESG issues into our investment analysis and decision-making process using third-party data feeds. Batterymarch may not be able to ensure that the data is complete or error-free.

#### Style Risk

Our stock selection process has no inherent style bias and contains elements of both growth and value. Over time our process may migrate from a pure "core" approach as our model identifies stocks that may exhibit greater growth or value characteristics. At any point in time, an investment style (*i.e.*, growth or value) may be out of favor with investors which could result in the strategy underperforming other investment styles.

#### Market Capitalization Risk

Risks may vary depending upon an issuer's market capitalization. Strategies that invest primarily in one capitalization range (*i.e.*, either large, mid or small cap stocks) take on the risk that one category may be out of favor in comparison to others.

#### Small Cap Stock Risk

Small cap companies may be more vulnerable to adverse business or economic developments than larger, better-established companies and may have limited product lines, markets or financial resources. Their stocks may be less liquid and more volatile than larger stocks or market averages in general and therefore may involve greater risk than investing in the securities of larger companies.

#### Foreign Investment Risk

Foreign countries may have markets that are less liquid, less regulated and more volatile than in the US. These countries may have economic, political or social instability and may experience negative government actions, such as currency controls or seizures of private businesses or property. Such events could significantly disrupt the financial markets in these countries and the ability of issuers there to repay their obligations. These events could also have a harmful impact on the securities of issuers located elsewhere who have significant exposure to issuers in the disrupted financial markets, and this could negatively affect the value and liquidity of an account's investments.

In addition, less information about issuers and markets is available in some foreign countries because of less rigorous accounting and regulatory standards than in the US.

#### *Emerging and Frontier Markets Investment Risk*

Emerging markets, including frontier markets in particular, typically have economic and political systems that are less developed, and can be expected to be less stable, than those of more advanced countries. Legal systems in some emerging markets countries may be less developed than in developed markets. Laws regulating securities transactions and investor protection, and enforcement of these laws, may be inadequate, especially compared to the legal and regulatory framework in more developed markets.

Investing in emerging countries involves the risk of expropriation, nationalization, confiscation of assets and property or the imposition of restrictions on foreign investments and on repatriation of capital invested. Should such an event occur, investors could lose all or a portion of their investments in that country.

Certain emerging market countries restrict or control foreign investment in their securities markets to varying degrees. These restrictions may limit Batterymarch's investment opportunities in those markets.

Several emerging countries have experienced substantial, and in some cases extremely high, rates of inflation. Inflation and rapid fluctuations in inflation rates may have very negative effects on the economies and securities markets of certain emerging countries.

Lower trading volumes in emerging markets may result in a lack of liquidity and increased price volatility. These markets may experience dramatic swings in the value of their currencies. There can be no assurance that currency instability or fluctuations will not occur and, if they do occur, that they will not have a material adverse effect on account performance.

Economies in emerging countries generally depend heavily upon international trade and, accordingly, may be affected adversely by the economic conditions of the countries with which they trade as well as trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by those countries.

Custodial and/or settlement systems may not be fully developed in certain emerging markets. Further, the assets of a client account that are traded in such markets and entrusted to sub-custodians may be exposed to risk under certain circumstances whereby the applicable client custodian will have limited or no liability.

The risks associated with investing in emerging markets could adversely affect account performance and result in substantial losses.

#### *Over-the-Counter Risk*

Over-the-counter (OTC) transactions involve risk in addition to those incurred in transactions in securities traded on exchanges. OTC-listed companies may have limited product lines, markets,

or financial resources. Many OTC stocks trade less frequently and in smaller volume than exchange-listed stocks. The values of these stocks may be more volatile than with exchange-listed stocks, and investors may experience difficulty in purchasing or selling these securities at a fair price.

#### Currency Risk

The value of investments in securities denominated in foreign currencies increases or decreases as the exchange rates between those currencies and the US dollar change. Currency exchange rates can be volatile and are affected by factors such as general economic conditions, the actions of the US and foreign governments or central banks, the imposition of currency controls and speculation. Investors may incur currency conversion costs, and client accounts that require any cash in their accounts to be exchanged back to their local currencies may incur significant exchange rate risk.

If permitted by clients, Batterymarch may use forward currency exchange contracts to hedge against fluctuations in certain currencies, with the objective of protecting the value of client accounts against adverse changes in currency exchange rates. However, there is no guarantee that Batterymarch will employ a hedging strategy or, when it does, adequately hedge currency exposures. Our hedging actions may be unsuccessful, resulting in lower returns or even losses to client accounts. We do not use currency forwards for purposes other than hedging in our primary investment strategies, with the possible exception of Global Unconstrained Equity.

#### Derivatives Risk

If permitted by clients, Batterymarch may use derivatives for various purposes. For example, we may use equity index futures to equitize the cash or cash equivalents in client accounts. We may also use derivatives or synthetic instruments such as swaps, ELNs, participation certificates and warrants to gain equity exposure in some non-US markets that would otherwise be inaccessible. This lack of accessibility may be due to trading restrictions, such as a ban on short selling, or limits on foreign institutional investors. In addition, the custodian for a client account may not have a local agent bank in a particular market, necessitating the use of derivatives to gain exposure to certain securities. The use of these instruments may also be more tax efficient or cost effective than investing directly in some markets. Batterymarch may also use derivatives to protect client accounts from expected increases or declines in the market value of an asset or group of assets.

Risks associated with derivatives include the following:

- A derivative may not be well correlated with the security, index or currency to which it relates
- Derivatives used for risk management may not have the intended effects and may result in missed opportunities or losses
- An account may be unable to sell a derivative due to an illiquid secondary market
- A counterparty may be unwilling or unable to meet its obligations
- Contractual terms related to default may be interpreted differently by various parties
- Returns may be dramatically impacted by interest rate movements



- Derivatives transactions could expose investors to the effects of leverage, which could increase their market exposure and magnify any losses when compared to directly buying or selling the asset, index, or investment upon which the derivative is based.

Batterymarch's business does not consist primarily of providing advice regarding trading futures, options or certain leverage transactions and Batterymarch is not registered as a commodity trading advisor with the US Commodity Futures Trading Commission (CFTC). As a result, Batterymarch is limited in its ability to use commodity futures (which include futures on broad-based securities indexes), options on commodity futures or engage in certain swap transactions or make certain other investments (whether directly or indirectly through investments in other investment vehicles) for purposes other than bona fide hedging, as defined in the rules of the CFTC.

There is no guarantee that Batterymarch will employ, or will successfully employ, derivatives, for hedging or other purposes, and their use could result in lower returns or even losses to a client account.

#### Private Investment Risk

If permitted by clients, Batterymarch may invest in private equity securities, which are not publicly traded on a stock exchange. Private investments in public equity, often called "PIPE" deals, involve the sale of publicly traded common shares or some form of preferred stock or convertible security to private investors. In the US, a PIPE offering may be registered with the SEC or may be completed as an unregistered private placement. Private investments, which are intended to be held for the long term, are illiquid by nature. Investors in private equity securities typically face restrictions such as lengthy lock-up periods as well as lack of transparency and liquidity.

Batterymarch's portfolio managers must obtain written authorization from our compliance team before making an investment in any derivative, synthetic security or private investment in any client account.

#### Liquidity Risk

Some securities may be difficult to sell, or be illiquid, particularly during times of market turmoil. Illiquid securities may also be difficult to value. While the investable universe for most of Batterymarch's primary investment strategies includes only securities that meet certain liquidity, data and analyst coverage requirements, illiquid securities may be purchased from time to time in client account portfolios. Furthermore, market liquidity may deteriorate, resulting in a holding that was previously liquid becoming illiquid. If a portfolio is unable to sell a deteriorating security because the market is illiquid, losses may be magnified.

On rare occasion, Batterymarch may invest in restricted securities for some client accounts. Batterymarch may not be able to sell these securities for a period of time (*e.g.*, during a "lock-up period") or may only be able to sell the securities in privately negotiated transactions, pursuant to a registration statement filed under the Securities Act of 1933, as amended (1933 Act), or pursuant to an exemption from registration, such as Rule 144 or Rule 144A under the 1933 Act.

SEC regulations permit the sale of certain restricted securities only to qualified institutional buyers.

Investments in restricted and illiquid securities may restrict Batterymarch's ability to dispose of investments in a timely fashion and for a fair price as well as to take advantage of other market opportunities.

#### ESG Investing Risk

An account or strategy subject to ESG policy guidelines and restrictions could underperform accounts invested in a similar strategy without the same restrictions because the ESG guidelines may require Batterymarch to avoid or liquidate a well-performing security because it does not meet the ESG criteria.

#### Managed Volatility Investing Risk

While low-volatility products may have the potential for favorable relative returns in down markets, they have a tendency to lag in up markets.

#### Objective-Based Performance Risk

In addition to the specific performance risks stated above, there is a risk that Batterymarch may not be able to achieve its investment or performance objectives under each of its investment strategies, including but not limited to solutions-based strategies (see also Management/Model Risk above).

#### Compliance Risk

While there is a risk that Batterymarch may violate client investment guidelines and limitations, we have established control procedures to mitigate this risk.

Prior to the inception of new client accounts, our client service team, in collaboration with our operations, compliance and trading personnel, as well as the relevant investment team, prepares formal documentation of all required information and agreements. They also work with new clients to interpret their investment guidelines if needed and review the guidelines and account restrictions with the investment team and compliance personnel to identify compliance monitoring requirements. We follow a similar process when existing clients amend their investment guidelines.

Batterymarch's compliance personnel monitor client accounts on an ongoing basis for adherence to client-specific guidelines and restrictions. See Item 13 for information about our account review procedures.

#### Trade Error Risk

Despite various controls and best intentions, trade errors may occasionally occur in client account portfolios. These errors may include the following:

- Breach of investment guidelines and/or investment restrictions
- Trading the wrong security or more shares of a security than intended

- Trading a security for the wrong account or fund
- Purchasing a security that a portfolio manager intended to sell, or vice versa

Batterymarch's compliance personnel seek to detect potential trade errors by reviewing, among other things, opposite trades and positions in client accounts as well as trade reversals, cancels and corrections. Our operations personnel also review client accounts for outstanding trade issues, including errors. See Item 13 for information about our trade error correction policies and procedures.

#### Allocation Risk

If a portfolio manager identifies a limited investment opportunity (including an initial public offering) that may be suitable for multiple accounts, that opportunity may be allocated among several accounts, which due to liquidity constraints or other factors may limit a client's ability to take full advantage of it. Batterymarch has adopted trade allocation procedures designed to ensure that allocations of limited investment opportunities are conducted in a fair and equitable manner among client accounts. Nevertheless, investment opportunities may be allocated differently among client accounts due to the particular characteristics of an account, such as the size of the account, its cash position, investment guidelines and restrictions, sector, country, region or market capitalization exposure, other risk controls, market restrictions or for other reasons. These trade allocation procedures can result in partial-fills of trade orders and, as a consequence, it may take multiple days to complete certain trades. Clients might experience higher transaction costs or obtain less favorable pricing when it takes multiple days to complete a trade order. See Item 12 for a description of Batterymarch's trade aggregation and allocation procedures.

#### Counterparty and Settlement Risk

If the issuer of a security held in a client account or counterparty to a financial contract defaults, is downgraded or is perceived to be less creditworthy, or if the value of the assets underlying a security declines, the value of an investment will typically decline. Accounts are subject to the credit risk of parties with whom they trade and may bear the risk of settlement default. Trading in certain security types may result in increased counterparty and settlement risk, as further described above under Security Risk. In addition, market practices in relation to the settlement of transactions and the custody of assets could result in increased risks.

Client accounts may be adversely impacted should counterparties (e.g., broker-dealers and prime brokers) selected by Batterymarch become insolvent. Batterymarch typically trades securities with broker-dealers on a delivery-versus-payment basis, thereby greatly reducing counterparty risk. Certain client account and fund assets are held by prime brokers, and those accounts may be significantly impacted in the event of the prime broker's bankruptcy. Rehypothesized securities<sup>1</sup> could be frozen if a prime broker files for bankruptcy and those assets could be claimed by a prime broker's creditors. Certain other trading activities, such as swaps and derivatives

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<sup>1</sup> Prime brokers "rehypothesize" customer's assets as collateral for loans in the prime broker's name, to raise cash and make loans to clients for leveraging of purchases and the support of stock borrowings that prime brokers lend to funds that sell securities short. Asset protection laws vary by country.

transactions under the International Swaps and Derivatives Association regime or principal transactions with broker-dealers, also have increased counterparty risk.

#### Redemption Risk

If client accounts with substantial assets terminate their advisory agreements with Batterymarch or redeem significant levels of assets in a strategy with limited liquidity, it may be difficult for us to provide sufficient funds to meet the redemption requests without liquidating positions prematurely, at inappropriate times or on unfavorable terms. These sales may cause market impact, reducing the prices of some securities with limited liquidity or trading volumes, and diminish the value of remaining client account portfolios. Significant redemptions in commingled funds may also disrupt their operations.

#### Turnover and Trading Cost Risk

Some of Batterymarch's investment strategies may generate relatively high turnover, which will result in higher transaction costs than would be the case with a buy-and-hold strategy. The transaction costs associated with active trading strategies reduce account returns. Trading costs vary by market. Trading costs in less developed markets, especially in emerging markets, are typically higher, and may be much higher, than those in the US and other developed markets.

#### Tax Risk

Our investment strategies and process generally do not consider clients' tax status or the tax consequences of trades in their accounts, including commingled funds. Investment strategies may generate significant short-term capital gains, which may disadvantage investors in separate accounts or pooled vehicles in terms of taxes. Taxable earnings received from investments in certain security types may generate unrelated business taxable income (UBTI), which can be taxable to certain otherwise tax-exempt investors. Clients should consult their tax advisors about the tax consequences of establishing separate accounts with Batterymarch or investing in a Batterymarch-managed or subadvised commingled fund.

#### Short-Selling Risk

Some accounts may engage in short selling (selling securities they do not own). If the value of a security that has been sold short increases, an account will realize a loss. Securities that are sold short are subject to unlimited losses, and investors may lose more than their initial investments. Purchasing securities to close out short positions can cause the value of the stocks to increase further, magnifying losses. Shorting securities involves borrowing money, or margin trading, using the borrowed investment as collateral. Short sellers may be subject to margin calls, requiring them to provide more cash or liquidate a position. Accounts with both long and short positions run the risk that the value of the short positions will rise as the value of the long positions decline, magnifying losses.

Some of the assets in accounts using long-short strategies are held as collateral by prime brokers rather than custodian banks. Due to short positions, some assets are held in one or more margin accounts, which may provide less segregation of client assets than in a more conventional custody arrangement. If a prime broker's business is liquidated, the account assets could be

frozen and inaccessible for an extended period of time, resulting in a potential loss to an account due to adverse market movements during the period the positions cannot be traded.

#### Leverage Risk

Accounts managed using a market-neutral or limited shorting strategy are inherently leveraged, holding positions in excess of the amount invested. Leveraged accounts have greater investment exposure, may incur additional costs and may be subject to greater losses if the value of the leveraged investments decline.

#### Timing of Trading Risk

At times, certain accounts may trade a particular security in advance of other accounts. In such situations, a purchase may increase the price of a security intended to be purchased by another account, or a sale or short sale in one account may lower the sale price received in a sale by a second account.

#### Market Timing Risk

Batterymarch may attempt to time the market as part of its investment strategy for Global Unconstrained Equity portfolios. Unlike other Batterymarch investment strategies, which are typically fully invested, the portfolios managed under this strategy may at times hold a large percentage of their assets in cash or other short-term instruments. As with all investment strategies and products managed or subadvised by Batterymarch, there is no guarantee that the investment objectives of a strategy will be met.

#### Business Disruption Risk

Batterymarch has prepared a business continuity/disaster recovery plan (BC/DR Plan), providing a timeline for site and systems recovery for its overall business. Batterymarch has successfully performed BC/DR Plan testing of its mission-critical systems and applications. These procedures are regularly reviewed and enhanced. In the event of a business disruption, such as a catastrophic event like the destruction of our office building or the death or disability of a group of key Batterymarch employees, Batterymarch may not be able to adhere to the recovery timeline that it has outlined for business recovery, including investment management services. In the event of a material business disruption, Batterymarch intends to notify its clients as soon as is reasonably practicable.

#### Investment Companies Risk

Certain accounts may invest in shares of investment companies as part of their core investment strategy or as a means to gain exposure to certain asset classes. These may include shares of open-end investment companies, closed-end investment companies, unit investment trusts, and exchange-traded funds (“ETFs”). Investment companies are generally actively managed portfolios that invest in a particular strategy, index, asset class, or other objective defined by each company for a management fee. Investing in ETFs and other investment companies generally carry the same risks as investing directly in the underlying assets, but carry additional expenses in the form of management fees, distribution fees, shareholder service fees, or other fees imposed by the investment companies. Please refer to the underlying funds’ Prospectuses, Statements of Additional Information, or other offering documents for a more complete discussion of risks

specific to each fund. Additionally, note that ETFs trade on a securities exchange, which means their shares may trade at a premium or discount to their actual net asset value.

*Key Person Risk*

The success of a strategy or account is largely dependent on the skill and expertise of our investment professionals and research staff. Although each of our strategies are managed by a team of professionals, the loss of key personnel could have an adverse impact on the performance of a given strategy or account.

*Regulatory Risk*

The financial services industry is highly regulated and constantly evolving. Changes to regulations may impede our ability to offer certain products and services, invest in certain products, assets classes, or markets, and/or may require us to alter our strategies or practices in order to comply with new rules and directives. We cannot predict the impact or effect, if any, of future regulatory reform on the strategies we currently manage or products and services we currently provide.

### **Item 9 – Disciplinary Information**

There are no legal or disciplinary events that would be material to a client's or prospective client's evaluation of Batterymarch's business or the integrity of our management.

## Item 10 – Other Financial Industry Activities and Affiliations

### **Financial Industry Affiliations**

On May 30, 2014, Legg Mason completed its acquisition of QS Investors. Legg Mason intends to integrate Batterymarch and LMGAA into QS Investors over time with the goal of creating a combined investment platform with solutions, quantitative equity, and multi-manager asset allocation capabilities. Effective as of May 30, 2014, QS Investors, Batterymarch, and LMGAA became subject to common management and investment oversight. To facilitate this relationship, QS Investors employees have been “dual hatted” into each of Batterymarch and LMGAA, LMGAA employees have been dual hatted into each of QS Investors and Batterymarch, and Batterymarch employees have been dual hatted into QS Investors and LMGAA. In addition, individuals in senior management positions at QS Investors have been appointed to the same positions at each of Batterymarch and LMGAA. QS Investors employees that have been dual hatted into Batterymarch and LMGAA may assist Batterymarch and LMGAA in its management of client accounts. QS Investors, Batterymarch, and LMGAA have adopted compliance policies and procedures, including the Code of Ethics, that are substantially similar in all material respects, and the three firms have a common Chief Compliance Officer.

As a wholly owned subsidiary of Legg Mason, Batterymarch has direct business relationships with other Legg Mason-affiliated companies. Some of these relationships may be characterized as material because they allow us to gain access to investors who might otherwise not be accessible to us. Although these relationships could create a conflict of interest between Batterymarch, our affiliates and our clients, our policies and procedures are designed to ensure that we treat all clients fairly.

To eliminate a potential conflict of interest, we do not trade with any affiliated broker-dealers.

The following is a description of certain advisory relationships Batterymarch has with affiliated companies:

### Advisory Services

- Investment adviser to offshore, *i.e.*, non-US-domiciled, funds, in the *Legg Mason Funds ICVC* family of funds (England/Wales). *Legg Mason Investment Funds Limited* is the Authorised Corporate Director, Administrator and Registrar for these funds.
- Investment manager to an offshore fund in the *Legg Mason Managed Solutions SICAV* family of funds (Luxembourg). *Legg Mason Global Asset Allocation, LLC* is the general portfolio manager and *Legg Mason Investments (Luxembourg) S.A.* is the management company of this fund.
- Investment manager and managing member of *Batterymarch Market Neutral Fund, LLC*. As managing member, Batterymarch has full and complete charge of all affairs of the fund, subject to the provisions of the fund’s limited liability company agreement. Batterymarch could face a conflict of interest between acting in the best interest of fund



investors and in Batterymarch's best interest. *Legg Mason Investor Services, LLC* is the distributor and placement agent of this limited liability company.

#### Subadvisory Services

- Investment subadviser to mutual funds offered by *Legg Mason Global Asset Management Trust* and *Legg Mason Partners Equity Trust*. *Legg Mason Partners Fund Advisor, LLC* is the investment manager and *Legg Mason Investor Services, LLC* is the distributor for these funds.
- Investment subadviser to an additional mutual fund offered by *Legg Mason Global Asset Management Trust*, for which *Legg Mason Partners Fund Advisor, LLC*, *Legg Mason Global Asset Allocation, LLC* and *Legg Mason Investor Services, LLC* serve as the investment manager, adviser and distributor, respectively.
- Investment subadviser to offshore funds for *Legg Mason Global Funds plc* (Ireland). *Legg Mason Investments (Europe) Ltd.* is the investment manager and promoter of this family of funds. *Legg Mason Investments (Europe) Limited*, *Legg Mason Investor Services, LLC*, *Legg Mason Asset Management Hong Kong Limited*, *Legg Mason Asset Management Singapore Pte Ltd.* and *Legg Mason Investments (Taiwan) Ltd.* serve as distributors and shareholder servicing agents for these funds.
- Investment subadviser of *Legg Mason Global Equity Trust* (Australia). *Legg Mason Asset Management Australia Limited* is the Responsible Entity of this trust company.
- Investment subadviser of a portfolio of *Legg Mason Collective Trust*. *Legg Mason Investment Counsel & Trust Company, National Association* is trustee of this collective trust.

#### **Other Investment Services**

Batterymarch provides trade recommendations and/or portfolio research services, in the form of model investment portfolios, to *Legg Mason Asset Management (Japan) Co., Ltd.* Batterymarch does not have the authority to make investment decisions or execute trades for these accounts.

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

As a registered investment adviser, Batterymarch has a fiduciary duty to clients. We have therefore established a Code of Ethics and other written policies and procedures that address, among other things, the following areas:

- Personal securities trading
- Insider trading and the use and communication of material, non-public information
- Confidentiality of client information
- Offering and receiving gifts and entertainment
- Participation in outside business activities
- Political contributions
- Other potential conflicts of interest

Effective June 2, 2014, Batterymarch amended its Code of Ethics such that it is substantially similar to QS Investors Code of Ethics. The Code of Ethics applies to all Batterymarch “supervised persons,” who must avoid activities, interests and relationships that are prohibited by federal securities laws or might interfere or conflict with client interests.<sup>2</sup> All Batterymarch employees are considered supervised persons, along with other individuals who provide advice on our behalf under our supervision and control or may have access to non-public information regarding our clients’ purchases or sales of securities. These individuals may include temporary employees, consultants, independent contractors or employees of our affiliates. Batterymarch’s Chief Compliance Officer determines on a case-by-case basis whether the Code of Ethics applies to these individuals.

Different requirements and limitations within the Code of Ethics apply to various supervised persons, depending on the nature of their activities for Batterymarch. However, all supervised persons must comply with the following basic elements of fiduciary duty:

- Place client interests before personal interests
- Do not take personal advantage of information about trading or other activities at Batterymarch or our affiliates
- Do not pursue investment opportunities that rightfully belong to client accounts
- Do not unduly influence client accounts to engage in activities calculated to create a personal benefit
- Disclose personal interests (for example, notify Batterymarch’s Chief Compliance Officer if participating in an investment decision for a client account may result in a material personal benefit)
- Do not attempt to manipulate markets by creating or spreading false information or rumors or by engaging in activities intended to affect security prices or an issuer’s financial condition

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<sup>2</sup> Batterymarch’s Code of Ethics complies with the requirements of Rules 204A-1 and 204-2 under the Advisers Act and Rule 17j-1 under the Investment Company Act of 1940, as amended.

- Protect confidential information related to Batterymarch, current and former clients, vendors and others

All Batterymarch employees are also considered “access persons.” Access persons have access to non-public information regarding the purchase or sale of securities by client accounts, make securities recommendations to clients, or have access to non-public securities recommendations. All access persons at Batterymarch must formally acknowledge the terms of the Code of Ethics annually and upon any amendments.

Under the Code of Ethics, we continually monitor employee personal trading activity to avoid conflicts of interest between Batterymarch and our clients. All personal securities transactions in covered securities must be precleared by one of our compliance officers.

Subject to certain restrictions, Batterymarch employees may trade in securities that we recommend to client accounts. Employees or family members may purchase, hold or sell securities at or around the same time that we purchase, hold or sell the same securities for client accounts. The personal actions by these individuals could also be different in nature or timing from the advice and actions taken by Batterymarch for client accounts.

If there is a pending trade in a security for a client account, we generally prohibit employees from purchasing or selling that security in their personal accounts or accounts in which they have a beneficial interest, such as those belonging to immediate family members in the same household. Employees are also generally prohibited from personally purchasing securities in initial public offerings or private placements that may be eligible for investment in client accounts. Furthermore, they must abide by transaction-related restrictions in Batterymarch-managed funds.

Additional restrictions apply specifically to portfolio managers, analysts, traders and other trading personnel, such as trading “black-out” periods near the time of client trading activity. The Code of Ethics designates certain types of securities and transactions as exempt from these restrictions if trading in these securities would not materially interfere with client interests. There may be other exceptions to the restrictions upon approval by Batterymarch’s Chief Compliance Officer.

Batterymarch employees have specific reporting requirements related to their transactions and holdings of reportable securities and funds in which they have a beneficial interest, including the provision of brokerage confirmations and account statements. (Reportable funds are those for which Batterymarch or another Legg Mason subsidiary is the investment manager or subadviser.)

Our employees may hold a beneficial interest in Batterymarch-managed investment products, including mutual funds and other commingled funds. For example, some employees, including portfolio managers and officers, may own units of beneficial interest in *Batterymarch Market Neutral Fund, LLC*, for which we serve as investment manager and managing member. They may also invest in mutual funds for which we are the investment subadviser. In these cases,

employees may have direct knowledge of current fund holdings, which is non-public information.

Batterymarch or our affiliates may provide seed capital to fund accounts for new Batterymarch investment strategies or products.

Some Batterymarch separate-account clients may also invest in mutual funds and other commingled funds managed or subadvised by Batterymarch or our affiliates. Clients make these investments at their own discretion. Unless directed by a client to do so, we will not invest separate-account assets in a mutual fund or other commingled fund managed or subadvised by us or our affiliates.

While these activities may create potential conflicts of interest between Batterymarch, our supervised persons and our clients, we believe that our Code of Ethics, combined with our other policies and procedures, are reasonably designed to address these matters.

Individual securities, such as those personally held by employees or issued by our clients, for the most part cannot receive preferential treatment within Batterymarch's investment process due to our unbiased quantitative stock scores. However, because there are also fundamental inputs into our investment process, and portfolio managers ultimately have investment discretion over client accounts, conflicts of interest are possible.

To ensure that investment decisions are made in the best interest of client accounts, Batterymarch's compliance personnel monitor the following:

- Transactions in securities held both by client accounts and our investment professionals
- Changes to trade allocations made by Batterymarch's trading desk
- Securities issued by our clients and held in client accounts
- Opposite trades, where the same securities are simultaneously purchased and sold for different accounts
- Opposite positions, where different accounts simultaneously hold long and short positions in the same securities
- Performance dispersion between client accounts managed using the same investment strategy

In addition to our own Code of Ethics, Batterymarch has adopted Legg Mason's Code of Conduct, which sets out principles for day-to-day business activities relating to the following:

- Compliance with laws and regulations
- Conflicts of interest
- Corporate opportunities
- Gifts and entertainment
- Confidential information
- Insider trading
- Fair dealing

- Safeguarding assets and property
- Accuracy of books and records
- Public disclosure and reporting
- Treatment of others

There are also restrictions banning employees from serving on the board of directors of a publicly held company, engaging in certain transactions in Legg Mason stock, including a ban on purchases for client accounts other than index funds, and knowingly participating in or facilitating late trading, market timing or any other activity in violation of applicable law or the provisions of a fund's governing documents.

Batterymarch's clients or prospective clients may request a copy of Batterymarch's Code of Ethics and Legg Mason's Code of Conduct by contacting our compliance team or a client service representative at 212-886-9200.

Despite the measures outlined above, clients should be aware that no set of policies and procedures can anticipate or relieve all potential conflicts of interest. If an unanticipated conflict of interest should arise, we will seek to resolve the situation in the best interests of our clients.

## Item 12 – Brokerage Practices

### **Broker-Dealer Selection**

Unless directed otherwise by clients, Batterymarch has the discretion to choose broker-dealers to execute trades for client accounts and to determine the commissions paid to them. We select broker-dealers based primarily on the following considerations:

- Execution capability, reliability and accuracy
- Ability to find liquidity
- Familiarity with specific markets and current market conditions and events
- Commission rates
- Capital strength and stability
- Integrity, confidentiality and reliability
- Operational capabilities and technology infrastructure
- Willingness to commit capital

Batterymarch's trading desk maintains an "approved" list of executing broker-dealers that have been pre-evaluated by our compliance personnel in terms of capital strength and any potential risks associated with using them. Our trading desk and investment teams periodically review the quality of the services obtained from each broker-dealer on the list to determine any necessary changes.

Batterymarch has a fiduciary duty to clients to obtain "best execution" of its securities transactions. Batterymarch's determination of best execution is based on the weighing of both qualitative and quantitative factors, and evaluated over time after multiple transactions have been completed. We do not always direct a transaction to the broker-dealer offering the lowest commissions but may choose one whose higher commission rate is superseded by superior execution capabilities.

Batterymarch uses a range of strategies designed to manage transaction costs, which consist of explicit costs, such as commissions, fees and taxes, as well as implicit costs, also known as market impact. To best preserve investment returns, Batterymarch seeks to minimize the total transaction costs of trading.

We manage explicit costs of trading by negotiating competitive commission rates and selecting a suitable access method (*i.e.*, trade venue) when trading, such as a cash desk, program desk, algorithm or electronic crossing network. Implicit costs are managed through careful choice of execution strategies, real-time trade management and detailed post-trade analytics.

Batterymarch's traders negotiate commissions based on their understanding of institutional rates in the markets in which we trade. These rates are not widely distributed, especially in emerging and frontier markets, and thus it is possible that lower commissions could be negotiated. We typically negotiate rates by access method within each country. Therefore, commission rates tend to be consistent per each access method across all brokers we use in a particular country.

As a matter of policy, we do not execute transactions for clients using any broker-dealer affiliated with Batterymarch or our parent company, Legg Mason.

Batterymarch does not receive client referrals from any broker-dealers, thus client referrals do not influence Batterymarch when selecting broker-dealers for trade execution.

### **Soft Dollars**

Batterymarch does not participate in soft dollar arrangements or enter into commission sharing arrangements. Although Batterymarch does not participate in such arrangements, Batterymarch may receive research from broker-dealers through which securities transactions are executed. Batterymarch does not consider the receipt of such research to be a consideration in its broker-dealer selection process.

### **Directed Brokerage**

Clients with “directed brokerage” arrangements may ask Batterymarch to direct a portion of their trades to particular broker-dealers through commission recapture or other programs in exchange for products and services provided for their benefit. These clients should be aware that this direction may adversely affect our ability to negotiate commission rates, gain volume discounts or obtain best execution on their behalf.

When Batterymarch participates in client-directed brokerage arrangements, including commission recapture programs, clients may obtain less favorable commission rates or trade executions than those from brokerage firms that we have selected and should be fully aware of the potential impact on execution. We may not be able to determine whether the directed brokerage transaction costs are most favorable because we are generally unaware of the recapture amount clients receive directly from their designated broker-dealers or the full value of the services they receive.

Clients who direct trades to particular broker-dealers should assess whether they are obtaining best execution by reviewing Batterymarch’s periodic broker-dealer commission summaries as well as the value of the research products and services received from the designated broker-dealers. They should consider whether their directed brokerage programs may result in costs or disadvantages to their accounts, either because they may pay higher commissions on some transactions than Batterymarch might otherwise obtain, or receive less favorable execution of some transactions, or both.

### **Trade Aggregation and Allocation**

Although each client account is individually managed, Batterymarch will often buy or sell the same securities on the same day for multiple client accounts. When possible, we generally aggregate these transactions as a single transaction order, which may reduce transaction costs. With limited exceptions, each client will be allocated the average execution price and the average commission paid in the aggregated order. If we cannot completely fill an aggregated order, we will typically allocate the partially filled transactions to clients on a pro-rata basis, subject to minimum fill size.

We generally base the pro-rata allocation on each client's order size relative to the aggregated order. The minimum fill size for each order may be specific in terms of security, account size or exchange (based on a fixed lot size) or determined at Batterymarch's discretion. Occasional exceptions may be based on factors including the following:

- Available cash in client accounts due to redemptions or subscriptions
- Compliance with client-specific guidelines and restrictions
- Batterymarch's risk controls
- Rules and regulations established by an exchange, market or others

In some situations, Batterymarch may not be able to or may choose not to aggregate orders for client accounts. These situations could result from the following:

- Countries with market restrictions, as is the case in some emerging markets
- Trades in the same security that are released to a broker-dealer at different times of the day
- Trades in the same security that are released to the same broker-dealer at the same time but with different trading instructions
- Short sales of securities where Batterymarch may choose to trade with an account's designated prime broker in order to seek "best execution" or maintain a specific long-short ratio
- Participation in client-directed brokerage arrangements

As a result, there may be differences among client accounts in the number of completed trade orders on a particular day.

When trades are not aggregated, they do not typically receive the same average execution price. In these situations, we seek to have broker-dealers generate separate orders equitably.

When we are unable to aggregate trades, accounts may have higher market impact costs. We seek to reduce these costs by monitoring stock liquidity and limiting trade volumes.

Whenever possible, we include transactions for directed-brokerage clients in aggregated orders. In these cases, the broker-dealer we select must agree to transfer the portion of an aggregated order that pertains to a directed-brokerage client to the specified broker-dealer. This action is known as a "step-out" or "give-up" transaction. In these transactions, the first broker-dealer executes the trade, while the second one clears and settles all, or part, of the trade in return for all, or part, of the commission.

Step-out transactions allow Batterymarch's traders to satisfy client-directed brokerage commitments while matching trades to broker-dealers' expertise or order flows, which can reduce market impact. If the executing broker-dealer Batterymarch selects for trade execution does not agree to participate in a step-out transaction, the trade for a directed-brokerage client will be executed separately by their specified broker-dealer (not aggregated). Transaction costs



for these trades may differ from those obtained from an executing broker-dealer chosen by Batterymarch.

Clients with directed brokerage may pay higher commissions than others in aggregated orders. For example, commission costs in an aggregated transaction may vary if Batterymarch steps out a portion of the trade to a designated broker-dealer. Because of our predetermined liquidity constraints, we may not execute the same number of shares in trades for clients with directed brokerage versus those executed on behalf of clients without such arrangements. If we do not include clients with directed brokerage in an aggregated order, we strive to generate their separate orders in an equitable manner.

We confirm that broker-dealers follow our trade instructions properly. In addition, our compliance department periodically reviews partially-filled trade allocations among client accounts to ensure that they have been conducted in accordance with our trade allocation policy. Delays in executing trade orders and deviations from Batterymarch's trade allocation policy may occur from time to time due to various circumstances and are generally not considered trade errors.

### **Cross Transactions**

We do not engage in cross trades, which are generally defined as the matching of buy and sell orders for the same security in different client accounts, either internally or externally through a broker. We will notify you if this practice changes (where permitted), generally in the form of an updated Brochure.

### **Dual Management Arrangements**

As noted in Item 6, certain of our portfolio managers may manage long-only accounts alongside accounts that buy securities both long and short ("dual management arrangements"). When dual management arrangements are in place, there may be instances in which a portfolio manager holds a long position in a security in one account while holding the same security short in another account (or vice versa). Selling a security short may result in a decrease of its value; conversely, purchasing a security may result in an increase in its value. Since certain client positions may be conflicted in these scenarios ("conflicted securities"), we have implemented policies and procedures addressing dual management arrangements that are reasonably designed to ensure that all of our clients are treated fairly and equitably. Specifically, all trades that result in a conflicted security are reviewed by Compliance to ensure that no account(s) is favored or disadvantaged with respect to other accounts.

## **Item 13 – Review of Accounts**

### **Portfolio Manager Review**

For those accounts with available cash or recommended sell transactions, Batterymarch's portfolio optimization process generates potential trade lists each day. All accounts are monitored daily and typically traded at least weekly.

Batterymarch uses a team approach to investment management, with portfolio managers working collaboratively and sharing responsibility for investment decisions. One or more portfolio managers review the trade recommendations generated by our investment process for each discretionary client account prior to execution by our trading desk. Although individual portfolio managers have been assigned to specific client accounts to facilitate the trade review, any portfolio manager on an investment team is qualified to conduct the trade review.

The portfolio managers and quantitative analysts review daily, weekly and monthly diagnostics for stock selection, portfolio construction and investment performance. They also review weekly and monthly account performance attribution as well as reports comparing account portfolio characteristics to those of benchmark indices and accounts within the same strategy. In addition, the overall investment process is overseen by QS Investors' Investment Oversight Committee. This Committee typically meets quarterly, with formal, regularly scheduled performance and strategy reviews.

### **Compliance Review**

Batterymarch's compliance personnel monitor most client investment guidelines and restrictions for client accounts on both a pre- and post-trade basis through a software application integrated with our order management system. The compliance application tests the rules coded for each portfolio against trading activity during the course of the trading day, at order entry, trade allocation and completion of trades. Compliance personnel also review daily exception reports to ensure that market fluctuations have not resulted in any breach of investment guidelines.

Investment guidelines and restrictions that cannot be monitored automatically are reviewed manually each month on a post-trade basis. In addition, the compliance team periodically reviews portfolio holdings and account characteristics to ensure compliance with account investment objectives, policies and restrictions. They also monitor trading activity to confirm the absence of manipulative trading practices and that no strategies or accounts appear to receive preferential treatment.

The compliance team reports all compliance breaches in writing to Batterymarch's Chief Compliance Officer and consults with our investment professionals to determine any need for corrective action.

### **Trade Error Correction**

When trade errors occur, Batterymarch seeks to correct them promptly by reversing trades before settlement, if possible, or by selling excess securities or repurchasing those sold in error. In the event of a loss, Batterymarch reimburses client accounts for any actual losses incurred. We also

typically reimburse clients for any overdraft charges associated with trade errors, but will generally not compensate a client for loss of available funds nor lost opportunity costs (*e.g.*, an estimate of the benefits that may have been realized had the funds been invested elsewhere).

In certain instances, the positioning of a client account's portfolio (*e.g.*, its relative exposure to a group of securities) may move outside risk control parameters specified in the account's investment guidelines. For example, a client may have an investment guideline requiring each sector's weight in its portfolio remain within a specified percentage relative to the sector's weight in the account's benchmark index. If the portfolio becomes overweight or underweight relative to the benchmark index by more than this threshold percentage, whether because of a trade execution, changes in market value or otherwise, Batterymarch will seek to bring the portfolio back into compliance as soon as prudently possible but will not typically reimburse a client account for costs or losses associated with correcting such investment guideline breaches.

Furthermore, Batterymarch will not typically reimburse a client account for a loss associated with the correction of an investment guideline breach that was caused by, or could not be prevented due to, the use in good faith by Batterymarch of inaccurate data (*e.g.*, market capitalization, country of domicile of an issuer, ESG-related information, etc.) obtained from a third party (*e.g.*, Bloomberg, Thomson Reuters, MSCI, etc.) in Batterymarch's portfolio construction process or automated compliance software.

Clients may be reimbursed for losses resulting from trade errors by check, wire or, if acceptable to the client, a reduction in fees. Any trade error resulting in a gain will generally accrue to the benefit of the client account in which the error was made, unless doing so would violate client guidelines or legal restrictions. In those situations, the broker will generally reverse or absorb the trade at the original purchase or sale price and Batterymarch shall not receive any portion of such gain.

When calculating the amount to reimburse a client for trade errors that involve more than one security, Batterymarch will generally net the gains and losses resulting from the correction of those trades.

Batterymarch will typically notify clients of trade errors (including the nature of the error and the manner of its resolution) only if they have suffered a loss from the error, unless requested to do otherwise by the client.

### **Operations Review**

Batterymarch's operations personnel reconcile the cash positions, holdings and market values shown in our portfolio accounting system for each discretionary client account relative to custodian bank records. Cash positions are generally reconciled daily, while holdings and market values are reconciled at least monthly.

The operations team also reviews client accounts for outstanding trade issues. Unless otherwise directed by a client, we typically provide notification of a trade error only in the event of a loss, including an explanation of the error and a description of its resolution.

**Client Reporting**

Batterymarch's clients generally receive monthly reports with the following information about their accounts:

- Securities held, including quantities
- Cost and reported or estimated market value of each position held
- Total market value of the account
- Summaries of transactions and brokerage commissions
- Performance returns

This information, which is derived from Batterymarch's portfolio accounting system, should not be considered the official record of a client account. We consider the client's custodian the official record keeper for each account. As described in Item 15, clients should receive account statements from their custodians on a regular basis.

In addition to these reports, Batterymarch provides the following information, typically on a quarterly basis:

- Performance
- Brief market commentaries
- Discussion of portfolio performance
- Performance attribution relative to benchmark returns
- Portfolio characteristics relative to the account benchmark

We also provide annual proxy voting summary reports to clients for whom we exercise voting responsibility, providing more frequent reports upon request.

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

Batterymarch and its affiliates directly market the firm's services. In rare circumstances, unaffiliated individuals and entities provide Batterymarch with client referrals. Solicitors that refer Batterymarch to new clients may be paid fees that are generally based on a percentage of the investment advisory fees paid to Batterymarch by those clients, in accordance with written solicitation agreements. These fees are paid directly by Batterymarch and not by our clients, who are not assessed any additional charges. Any solicitation arrangement Batterymarch enters into will comply with the requirements of Rule 206(4)-3 under the Advisers Act.

If the solicitors are unaffiliated with Batterymarch, they must provide clients with a disclosure describing the terms and conditions of the solicitation arrangement, including their compensation from Batterymarch, and a copy of our brochure (Form ADV, Part 2). Upon entering into an advisory contract with us, clients referred by unaffiliated solicitors are required to provide signed and dated acknowledgement that they received the disclosure statement and brochure. Solicitors that are affiliated with Batterymarch are only required to disclose the nature of the relationship.

While consultants may refer Batterymarch to their clients, it is not our practice to pay referral fees to consultants. However, some consultants charge investment advisers a fee to obtain or respond to requests for proposals or participate in manager searches. Some consultants may also charge a fee to an investment adviser when they award business to that adviser. This fee is typically based on a percentage of the investment advisory fee for the awarded mandate. While Batterymarch has not participated in these types of arrangements in the past, there could be instances in the future where we make these types of payments to consultants to obtain business.

Batterymarch may purchase products or services from certain consultants, such as portfolio analytics, benchmark index data and database access. Additionally, Batterymarch may pay to attend consultant-sponsored conferences. We may also contribute to charitable events sponsored by clients and consultants as well as provide them with limited gifts and entertainment (subject to Batterymarch's gifts and entertainment policy). Consultants and clients could face possible conflicts of interest as a result of these purchases and contributions.

## Item 15 – Custody

Batterymarch does not act as a custodian for any client account. Instead, each separate-account client contracts with a qualified custodian of their choice to take possession of the assets in their account. The custodian is also responsible for settling transactions, accepting instructions from Batterymarch regarding the account assets and informing us of additions and withdrawals from the account. Batterymarch is not responsible for the acts of a client's custodian or for direct account expenses, such as custodial fees and brokerage expenses.

Clients should receive statements at least quarterly from the custodians for their accounts. We urge clients to review these statements and compare them to statements that we provide. Batterymarch's statements may vary from custodial statements based on accounting procedures, reporting dates or valuation methodologies of certain securities. As noted in Item 13, we reconcile holdings and market values shown in our portfolio accounting system for each discretionary client account at least monthly with custodian bank records. However, clients should also report any material discrepancies they identify between the two statements to Batterymarch and their custodian.

Under current SEC regulations, Batterymarch is deemed to have custody of client cash and securities for the following commingled fund only:

- *Batterymarch Market Neutral Fund, LLC*

We are deemed to have custody of assets of this fund pursuant to Rule 206(4)-2(d)(2) under the Advisers Act, because we serve as managing member of the fund. The authority granted to managing members of limited liability companies, general partners of limited partnerships, or comparable positions held for other types of commingled funds may provide such persons or entities access to client funds or securities.

Securities and other assets of this commingled fund are held by a Batterymarch-appointed prime broker or its related entities. The prime broker is considered to be a "qualified custodian" and is required to send investors account statements at least quarterly, reflecting the securities and other assets held and all transactions occurring during the period. The third-party administrator for this commingled fund sends the account statements to the fund's investors on the custodian's behalf. Batterymarch has reason to believe, after due inquiry, that the custodian account statements are being provided to investors in this fund on at least a quarterly basis.

Because we are deemed to have custody of client cash and securities for one or more commingled funds under current SEC regulations, we are subject to an annual surprise examination by an independent public accountant. This examination may include, but is not necessarily limited to, the following procedures:

- Review of contract provisions with qualified custodians
- Confirmation of cash and securities held by qualified custodians either under the client's name or under Batterymarch's name as agent or trustee

- Reconciliation of cash and securities to books and records of client accounts maintained by Batterymarch
- Confirmation with clients and investors in commingled funds of the cash and securities that Batterymarch is deemed to have custody on their behalf and the contributions and withdrawals made in such clients' and funds' portfolios
- Reconciliation of all confirmations received with Batterymarch's books and records

Investors in commingled funds should carefully review the statements they receive from each fund's qualified custodian. They should also notify Batterymarch if they do not receive a statement from the custodian at least quarterly.

## **Item 16 – Investment Discretion**

Batterymarch's clients provide written investment guidelines and restrictions. Most clients give us discretionary authority for their accounts, including the following decisions:

- Type and amount of securities purchased and sold
- Prices at which to transact
- Broker-dealers selected for trade executions
- Commissions paid to broker-dealers

Occasionally, some of our clients may impose certain restrictions on our discretionary authority, such as one or more of the following constraints:

- Holding of securities of certain issuers
- Types of investments held
- Markets in which we may invest
- Broker-dealers used for trade executions

Despite such restrictions, we typically consider these accounts to be discretionary.

Client guidelines may impede our ability to manage accounts similarly to others within strategies and may lead to performance dispersion among a group of like accounts. Prior to entering into agreements with our clients, we discuss the potential impact that certain client-mandated guidelines or restrictions may have on their accounts.

However, some Batterymarch accounts are considered non-discretionary, generally when clients are responsible for executing trades in their accounts or when they have the discretion to reject our trade recommendations. In addition, we provide portfolio research services, in the form of model portfolios, and/or trade recommendations to some clients. In these circumstances, clients retain full investment and trading discretion over their accounts.



## **Item 17 – Voting Client Securities**

Unless otherwise instructed by the client, Batterymarch makes proxy voting decisions for securities held in client accounts. We use Institutional Shareholder Services, Inc. (ISS), a recognized authority on proxy voting and corporate governance, as our proxy voting agent. ISS obtains proxy ballots, provides vote recommendations, votes proxies and provides recordkeeping and reporting services on behalf of those clients that have provided Batterymarch with the authority to vote proxies. We have a fiduciary responsibility to vote proxies in our clients' best interests. Batterymarch's operations and compliance personnel are responsible for managing the relationship with ISS and for ensuring that we are meeting our proxy voting obligations.

Batterymarch typically votes in accordance with ISS's voting recommendations. When such recommendations are not made available to Batterymarch, we typically vote in accordance with ISS's standard proxy voting guidelines. We have adopted ISS's standard proxy voting guidelines as our own. Some clients have asked us to vote in accordance with custom proxy voting guidelines, such as ISS's Taft-Hartley Advisory Services' guidelines. Batterymarch manages assets for a wide variety of clients that may have divergent goals regarding the outcome of a shareholders' meeting. Due to differences in proxy voting guidelines, we may vote proxies for the same security differently for different clients.

Under rare circumstances, Batterymarch's investment teams may believe that it will be in the best interests of clients to vote against ISS's vote recommendations or in contradiction with ISS's proxy voting guidelines. In these cases, if there is no material conflict of interest, we will override the vote recommendation from ISS or vote in contradiction with their guidelines. Such votes require pre-approval by Batterymarch's Chief Compliance Officer.

Proxies for the shares of certain ETFs held within client accounts may be voted in accordance with an "echo voting" procedure to the extent required by procedures we have adopted to comply with applicable legal and/or regulatory requirements. Under echo voting, proxies are voted in the same proportion as shares held by other shareholders of the fund(s).

Batterymarch may have a potential conflict of interest when a company that is soliciting a proxy is one of our advisory clients or when our employees have an interest in a proxy voting proposal that conflicts with the interests of our clients. We believe that we minimize such potential conflicts of interest by following predetermined proxy voting guidelines and by voting in accordance with vote recommendations from ISS.

Unless the cost of voting would appear to outweigh the benefits, we generally cast votes for all shares for which we have voting authority.

Due to restrictions on trading during the proxy solicitation period imposed by many non-US issuers (known as "share blocking"), we typically do not vote shares of some issuers in some markets. During a share blocking period, a blocked security cannot be sold without a formal recall, which can take time and may not be successful. Share blocking periods can last one day to several weeks. If we are unable to sell a blocked security, this could result in substantial costs to

clients. If we do not vote a proxy for a particular security, we are not subject to these share blocking restrictions. We may decide in some instances to vote a proxy despite share blocking if we believe that a certain proposal or series of proposals is likely to result in a substantial change to shareholder value and/or rights.

Some clients may participate in client-directed security lending programs, which also require a recall of the loaned securities to properly assign voting rights to the lender. Because of these administrative considerations, Batterymarch often does not receive adequate notice of a proxy voting solicitation to arrange a recall of shares through the client's custodian or other intermediary in time to vote the proxies. Therefore, we generally do not vote proxies for securities on loan.

ISS maintains complete records of all votes cast on behalf of each of our client accounts and provides us with periodic, customized reports for each client account for which we vote proxies. Clients for whom we exercise voting responsibility receive proxy voting summary reports from us at least annually. In addition, they may contact a client service representative at 212-886-9200 for a copy of our proxy voting policies and procedures, a summary of our proxy voting guidelines, or information about how we voted their securities.

Lastly, from time to time, securities or other investments held in clients' accounts may be the subject of legal proceedings, including but not limited to bankruptcies, class action lawsuits, and other shareholder litigation. Except as expressly agreed to in writing or as otherwise required under applicable law, Batterymarch does not advise clients or take any action on their behalf with respect to any legal proceedings on behalf of clients.

## **Item 18 – Financial Information**

We are not aware of any financial condition that is reasonably likely to impair our ability to meet contractual commitments to clients. We have not been the subject of a bankruptcy petition at any time.

## Privacy Notice

Batterymarch collects information about clients from forms, agreements, and other written and verbal information they provide to us. In order to service client accounts and process transactions, we may provide the client's personal information (i.e., name, address, tax identification number) to firms that assist us in servicing the accounts, including third-party administrators, transfer agents, custodians, and broker-dealers. We may also provide the client's name and address to one of its agents for the purpose of mailing account statements and other information about our products and services to the client. We require these firms, organizations, and individuals to protect the confidentiality of client information and to use the information solely for the purpose for which it is intended.

We do not provide customer names, addresses, or other information to outside firms, organizations, or individuals except in furtherance of our business relationship, or as otherwise required or permitted by law. For example, we are required or we may provide information to government entities or regulatory bodies in response to requests for information or subpoenas, to private litigants in certain circumstances, to law enforcement authorities, or any time we believe is necessary to protect the firm.

Batterymarch will only share information about clients with those employees who will be working with us to provide our products and services to our clients, which may include those of our affiliates or parent company. We maintain physical, electronic, and procedural safeguards that comply with federal and state standards to protect our client's personal information.

We consider privacy fundamental to our client relationships and adhere to policies and practices and maintain physical, electronic, and procedural safeguards to protect current and former clients' information. Only individuals who need to do so in carrying out their job responsibilities may access client information.

We never sell customer lists or individual client information.

We may also disclose non-public personal information to other parties as required or permitted by law.