



Form ADV Part 2A Brochure

June 29, 2012

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 Batterymarch's Chief Compliance Officer by electronic mail at complianceteam@batterymarch.com or by telephone at 617-266-8300. Additional information about Batterymarch is also available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

We last filed our brochure with the SEC on June 29, 2011. This brochure is being filed in accordance with our annual Form ADV filing obligations. In our opinion, there have been no material changes from our last filing, other than the following:

- Several key appointments were made effective April 1, 2012 as part of the firm’s multi-year succession plan:
 - Adam J. Petryk, CFA was promoted to Chief Investment Officer (he previously served as Deputy Chief Investment Officer, Co-Head of Batterymarch’s Developed Markets investment team and Senior Portfolio Manager);
 - Stephen A. Lanzendorf, CFA was appointed as Deputy Chief Investment Officer, Head of Batterymarch’s Developed Markets investment team and Senior Portfolio Manager (he previously served as Deputy Chief Investment Officer, Co-Head of Batterymarch’s Developed Markets investment team and Senior Portfolio Manager); and
 - David W. Lazenby, CFA was appointed as Deputy Chief Investment Officer, Head of Batterymarch’s Emerging Markets investment team and Senior Portfolio Manager (he previously served as Director and Senior Portfolio Manager and Head of Batterymarch’s Emerging Markets investment team).

Consistent with SEC regulations, we will provide clients with a summary of any material changes made to our brochure within 120 days of Batterymarch’s fiscal year-end (March 31). We will also provide clients with interim disclosures about certain material changes as necessary.

We may, at any time, update this brochure and send you a copy by electronic mail or in hard copy form. 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).

We provide investment advisory and subadvisory services across a wide range of equity asset classes, including US and non-US securities. 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 May 31, 2012, Batterymarch had \$15,115.0 million in total assets under management, including \$14,765.9 million managed on a discretionary basis and \$349.1 million managed on a non-discretionary basis.

Our investment advice and portfolio decisions for client accounts are based on their specific mandates and the investment objectives of each client. 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.

Most of Batterymarch's clients are institutions that invest through separately managed accounts. We also manage or subadvise portfolios for 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. Our quantitative investment strategies fall into two broad categories: Developed Markets Equities and Emerging Markets Equities. Batterymarch's investment professionals are organized into two corresponding teams, each under the direction of one or more leaders. 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.

Batterymarch's primary investment strategies, which are all characterized by rigorous, bottom-up stock selection and integrated risk control, include the following:

Developed Markets Equities

- Global
- Global Unconstrained
- Global Inflation Sensitive
- International
- International Small Capitalization
- Regional (such as UK, Continental Europe and Canada)

- US Large Capitalization
- US MidCapitalization
- US Small Capitalization
- US Style-Based (such as US Small Capitalization Growth)
- Global Market Neutral

Emerging Markets Equities

- Global
- Asia ex-Japan
- Asia ex-Japan Absolute Return

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 rankings, 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 in advance or monthly. 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.

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 Portfolios**
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 Portfolios**
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 Portfolios*
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 and MidCapitalization Equity Portfolios**
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 Portfolios*
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 Market Neutral Equity Portfolios*
1.00% of assets under management; plus
20.00% of positive performance.
- *Global Emerging Markets and Asia ex-Japan Equity Portfolios*
1.00% of assets under management.
- *Asia ex-Japan Absolute Return Equity Portfolios*
1.50% of assets under management; plus
20.00% of positive performance.

** Depending upon the size of the portfolio or relationship, 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 subadviser for various commingled 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. Other fees and expenses, payable to other parties, may be associated with an account, including, but 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, with the exception of certain "soft dollar" benefits associated with the payment of brokerage commissions. See Item 12 for a description of Batterymarch's brokerage practices, including broker selection and participation in soft dollar arrangements.

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 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 buy-ranked 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 Batterymarch accounts may hold opposite positions, with a security held long in one account while others hold it short. This may occur when a long position is being sold from one portfolio while it is shorted in another. For example, for risk control purposes, a long-only account may hold an underweight position in a particular security relative to the benchmark despite its sell ranking 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 ranked 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 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 all of our investment strategies. 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 each strategy 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 rank the relative attractiveness of all stocks in our investable universe every day across certain fundamentally based categories known as “dimensions,” which assess cash flow, earnings growth, expectations, value 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, particularly in emerging markets, also incorporate fundamental opinions into the ranking process for some securities. Where used, these opinions

are weighted with the quantitative rankings to produce blended ranking scores for such securities.

We rank each stock from multiple viewpoints. These ranks 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 rankings, we seek to develop a more complete picture of each stock's relative attractiveness. Each stock is ranked from 1 to 100, with 1 considered best and 100 considered worst. The buy and sell ranges within this ranking structure vary by investment strategy. Subject to market environment and risk controls, we generally purchase stocks ranked as buys and sell stocks ranked as sells. However, for purposes of risk management, we typically hold positions in securities that are significant benchmark constituents regardless of rank.

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 rankings, 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 and may not be expected to contribute to portfolio alpha.

With client approval, for Developed Markets investment strategies, we may actively hedge major currencies, such as the yen, euro and British pound, to the client's base currency in non-US portfolios, using a conservative hedging strategy that incorporates third-party forecasting and historical currency analysis as well as US dollar relative strength analysis. When we decide to hedge, we will typically hedge less than 15% of the underlying portfolio back into a client's base currency, and currency exposure will never exceed the underlying security exposure. 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. However, these limitations do not apply to our Global Unconstrained and Asia ex-Japan Absolute Return products.

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 Batterymarch's Investment Review Committee, a peer review committee which consists of all investment professionals, including our Chief Investment Officer.

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

There can be no guarantee that an investment manager will be able to achieve a particular level of return, and any investments include the risk of loss that clients should be prepared to bear.

Investment Strategy Risks

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 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.

Some investment strategies may be less diversified than others in terms of region, country, sector, industry or company, which makes these strategies 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.

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.

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.

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 their individual rankings.

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)
- Tracking stocks
- Convertible debt securities
- Exchange-traded funds (ETFs)
- Forward currency exchange contracts
- Swaps
- Equity-linked notes (ELNs)
- Warrants and participation certificates
- Other synthetic and derivative instruments and/or private investments

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 fluctuations 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.

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.

Holders of total return swaps do not have voting or other rights that shareholders of common stock typically have. Batterymarch may use swaps to take short positions in markets that do not allow short selling and because it may be more cost efficient than trading in some common stocks in certain markets.

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 environmental, social or governance (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.

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 monitoring processes and procedures.

Trade Error Risk

Trade errors may occasionally occur in client accounts. These errors may include the following:

- Breach of investment guidelines and/or investment restrictions
- Operational errors
- Trading the wrong security
- 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. Our operations personnel also review client accounts for outstanding trade issues, including errors.

We seek to correct trade errors 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, we reimburse client accounts the difference between the cost to purchase and the proceeds from the sale of these securities. We also typically reimburse clients for any overdraft charges associated with trade errors.

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. Except for the rare occasion (and with the exception of our Global Unconstrained and Asia ex-Japan Absolute Return investment strategies), Batterymarch's investable universe for each product includes only those stocks that meet certain liquidity, data and analyst coverage requirements. However, market liquidity may deteriorate. If a portfolio is unable to sell a deteriorating security because the market is illiquid, losses may be magnified.

We may invest in restricted securities for some client accounts. These securities may be sold only 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.

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 or 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. In addition, market practices in relation to the settlement of transactions and the custody of assets could result in increased risks.

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 US markets, may suffer from economic, political or social instability and may experience negative government actions, such as currency controls or seizures of private businesses or property. Such instability could significantly disrupt the financial markets in such countries and the ability of the issuers there to repay their obligations. Securities of issuers located elsewhere with significant exposure to issuers in disrupted financial markets may also be harmfully impacted by events in those markets. These events could negatively affect the value and liquidity of an account's investments.

In addition, in some foreign countries, less information is available about issuers and markets 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 fully developed, and that 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 protecting investors, 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, an investor could lose all or a portion of its investment 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.

Many 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, have been and may continue to be affected adversely by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade and the economic conditions of those countries.

Custodial and/or settlement systems may not be fully developed in certain emerging markets. Further, the assets of a client account which are traded in such markets and which have been 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 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 rates of exchange 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 adequately hedge currency exposures when it does. Our hedging actions may be unsuccessful, resulting in lower returns or even losses to client accounts. With the exception of our Global Unconstrained and Asia ex-Japan Absolute Return investment strategies, we will not use currency forwards for speculative purposes.

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 synthetic and derivative instruments such as swaps, ELNs, warrants and participation certificates 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 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

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.

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, such as Global Emerging Markets, 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 separate accounts or pooled vehicles in terms of taxes. Prospective taxable 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 and Asia ex-Japan Absolute Return portfolios, including *Batterymarch Asia Master Fund, LP* (and related feeder funds), a commingled fund that may hold long and short positions in Asia ex-Japan equity securities. Unlike other Batterymarch investment strategies, which are typically fully invested, at times the portfolios for these strategies may 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 these strategies will be met. Prospective investors in *Batterymarch Asia Fund, LLC* and *Batterymarch Asia Fund, Ltd.*, feeder funds to *Batterymarch Asia Master Fund, LP*, should read the funds' governing documents carefully before investing.

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.

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

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.
- Investment manager of *Batterymarch Asia Fund, LLC*, *Batterymarch Asia Fund, Ltd.* (Cayman Islands) and *Batterymarch Asia Master Fund, LP* (Cayman Islands). *Batterymarch Asia Fund, LLC* and *Batterymarch Asia Fund, Ltd.* are "feeder funds" in a master-feeder structure to *Batterymarch Asia Master Fund, LP*. Batterymarch is also the managing member of *Batterymarch Asia Fund, LLC*. *Batterymarch Asia GP, Ltd.* (Cayman Islands), a wholly owned subsidiary of Batterymarch, is the general partner of *Batterymarch Asia Master Fund, LP*. Batterymarch's President/Chief Financial Officer

and Chief Legal Officer serve as the sole directors of *Batterymarch Asia Fund, Ltd.* and *Batterymarch Asia GP, Ltd.*

As managing member and general partner of these funds, Batterymarch has full and complete charge of all affairs of these funds, subject to the provisions of the funds' limited liability company agreement, articles of association and limited partnership agreement, as applicable. 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 placement agent of *Batterymarch Asia Fund, LLC*. *Legg Mason Investments (Europe) Limited* and *Legg Mason Investor Services, LLC* are the distributors and shareholder servicing agents of *Batterymarch Asia Fund, Ltd.*

Subadvisory Services

- Investment subadviser to mutual funds offered by *Legg Mason Global Trust, Inc.*, *Legg Mason Charles Street Trust, Inc.* 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 a mutual fund offered by *Legg Mason Global Asset Management Trust*. *Legg Mason Partners Fund Advisor, LLC*, *Legg Mason Global Asset Allocation, LLC* and *Legg Mason Investor Services, LLC* are the investment manager, adviser and distributor, respectively, for this fund.
- 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 to funds in the *Legg Mason Canada Pooled Funds* series of units (Canada). *Legg Mason Canada Inc.* is the trustee and manager of 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.
- Investment subadviser of separately managed accounts for which *Legg Mason Global Asset Allocation, LLC* is the investment manager.

- Investment subadviser for separately managed accounts for which *Legg Mason Asset Management (Japan) Co., Ltd.* is the investment manager.

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.

Batterymarch employees, including those with discretionary authority over client assets, may occasionally be employed by affiliates for specific purposes. These employees are subject to conditions designed to ensure full compliance with applicable regulations. Unless otherwise agreed, the affiliate treating these individuals as employees is responsible for oversight or management of the activities they perform on behalf of their clients.

Other Financial Industry Activities and Affiliations

Batterymarch's President/Chief Financial Officer serves as Chairman of the Board of Directors of *Batterymarch Global Emerging Markets Fund* (Luxembourg), a commingled fund. Several other officers and employees of Batterymarch also serve as directors of *Commonwealth Equity Fund Limited* (Mauritius), a wholly owned subsidiary of *Batterymarch Global Emerging Markets Fund*. These officers and employees could face a potential conflict of interest between acting in the best interest of fund investors and Batterymarch's best interests. However, none of the other directors of *Batterymarch Global Emerging Markets Fund* is employed by either Batterymarch or any of our affiliates.

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

Batterymarch's 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.¹ All Batterymarch employees are considered supervised

¹ 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.

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 personal material 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
- 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 operations 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* or *Batterymarch Asia 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 rankings. 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 617-266-8300 or complianceteam@batterymarch.com.

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
- Willingness to participate in our commission sharing arrangement
- Value of brokerage and research products and services provided

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 or other services provided.

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 participates in soft dollar arrangements, including commission sharing arrangements, which are also known as client commission arrangements. Under these arrangements, we may execute transactions for client accounts through broker-dealers that provide us with investment research or brokerage services and products. Soft dollar arrangements enable us to achieve greater transparency of execution and research costs, improve our ability to assign value to research products and services that we receive from brokers and obtain additional research while still achieving best execution.² When we use client brokerage commissions to obtain research products and services, we benefit because we do not have to produce or pay for the research directly.

We may direct certain transactions to broker-dealers with whom we have soft dollar arrangements in recognition of the services and products they provide. While these transactions may cause clients to pay higher commission rates than those charged for execution services only, we give preference only to broker-dealers that we believe will enable us to achieve best execution.

Batterymarch uses a significant amount of broker-dealer-provided research in making investment decisions. The services we receive under soft dollar arrangements include, but are not limited to, the following:

- Written or oral research and analyses covering the following:
 - Securities, issuers, industries, sectors, countries and regions
 - Economic factors and trends
 - Investment strategies
 - Market, political and economic commentaries
- Market, exchange and other financial data and analysis
- Meetings (in person, by phone or electronically) with company management, corporate and industry spokespersons, analysts, economists and government representatives
- Pre-and post-trade analytics, including transaction cost and portfolio risk management analyses

² These arrangements all come within the safe harbor of Section 28(e) of the Securities Exchange Act of 1934, as amended (1934 Act). Section 28(e) of the 1934 Act requires an investment adviser to determine in good faith that the commissions paid to broker-dealers are reasonable in relation to the value of the brokerage and research services provided by the broker-dealer.

- Services that facilitate the execution and monitoring of transactions via electronic communications with financial markets and broker-dealers, including dedicated lines, software and messaging services
- Proprietary research created or developed by broker-dealers that execute transactions or their related parties
- Research created or developed by third parties

This research is used by our investment teams primarily to ensure that they remain current with market trends, monitor corporate and news events that may impact current or prospective securities holdings and/or develop new ideas to improve Batterymarch's quantitative investment process.

Under Batterymarch's commission sharing arrangements, broker-dealers that we have selected execute our trade orders and are paid a gross commission. Based on pre-negotiated percentages, one portion of this commission is designated as payment for execution, with the other portion designated for soft dollar credit. The soft dollar portion is paid out by the executing broker-dealer to a commission sharing aggregator, which consolidates soft dollar credits to pay research providers under Batterymarch's direction.

We believe that our use of a commission sharing program with numerous broker-dealers to choose from minimizes the conflict of interest between pursuing best execution for our clients and receiving research and other products and services. This is in contrast with a traditional soft dollar arrangement in which there would be more incentive to use a particular broker-dealer.

In limited circumstances, broker-dealers providing Batterymarch with proprietary research may not agree to participate in commission sharing arrangements. In these instances, we may choose to trade with them anyway to obtain their proprietary research. This may pose a potential conflict of interest as it may create an incentive for us to select a broker-dealer on the basis of their proprietary research rather than on their ability to provide best execution.

Some broker-dealers may provide us with "mixed-use" products or services, which are useful both in the investment decision-making process and in administrative or other non-investment decision-making functions. In these cases, we will utilize soft dollars to pay for the portion of the products or services used in the investment decision-making process while using our own funds ("hard dollars") to pay for the portion that serves other non-eligible purposes.

Batterymarch does not allocate the relative costs or benefits of the products and services obtained through soft dollar arrangements to individual client accounts. We believe that the products and services in aggregate benefit our clients as a whole, not just those paying the brokerage commissions. In addition, not all of the research purchased using brokerage commissions may be used by the client accounts that paid the commissions.

Clients can choose not to participate in soft dollar arrangements by notifying Batterymarch. However, accounts that do not participate in soft dollar arrangements will pay the same

commissions as those that do. In these situations, the executing broker-dealer will retain the full commission, with no portion rebated for soft dollar credit.

We review our use of client brokerage commissions to obtain research products and services at least twice a year, including an evaluation of the types and costs of the products and services received, the level of commissions paid and the allocation of mixed-use items.

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. 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.

Cross Transactions

Under rare circumstances, Batterymarch may arrange to buy or sell securities between two client accounts (or with an account managed by one of our affiliates), in a “cross transaction.” The reason for a cross transaction would be to benefit client accounts by reducing trade execution costs. Each cross transaction must achieve best execution and meet all regulatory requirements. We have procedures in place to ensure that no client is favored over another and to prevent inadvertent cross transactions between client 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, Batterymarch’s Investment Review Committee, which includes all investment professionals, typically meets weekly, with formal, regularly scheduled performance and strategy reviews conducted on at least a quarterly basis.

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.

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.

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, there may be limited exceptions where we may have to make these types of payments to consultants to be able to seek or obtain future 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 accounts. 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's clients are responsible for the acts of their custodians and 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 funds only:

- *Batterymarch Market Neutral Fund, LLC*
- *Batterymarch Asia Fund, LLC*
- *Batterymarch Asia Fund, Ltd.*
- *Batterymarch Asia Master Fund, LP*

We are deemed to have custody of assets of these funds pursuant to Rule 206(4)-2(d)(2) under the Advisers Act, because we, or affiliated companies under our control, serve as managing member or general partner of the funds. The authority granted to general partners of limited partnerships, managing members of limited liability companies 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 these commingled funds are held by Batterymarch-appointed prime brokers and qualified custodians or their related entities, which are required by Batterymarch to send investors account statements at least quarterly, reflecting the securities and other assets held and all transactions occurring during the period. Batterymarch has reason to believe, after due inquiry, that the custodians are providing these statements to investors in these funds.

Because we are deemed to have custody of client cash and securities for these 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 for a sample of client accounts:

- 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 these 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.

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.

In general, Batterymarch does not advise clients or take any action on their behalf with respect to any legal proceedings, including class actions, bankruptcies and other shareholder litigation involving the issuers of securities held in their accounts. We believe that decisions such as whether to serve as a plaintiff in a class action, participate in a class action settlement or participate in other securities litigation are legal, not investment, decisions. Such actions may adversely affect a client's legal rights, such as submission to the jurisdiction of a particular court or the ability to pursue other claims against the defendant(s). Although we generally do not make discretionary decisions pertaining to legal matters, we do typically notify clients and their custodian banks of pending class actions when we become aware of them.

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.

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 Batterymarch's Proxy Voting Manager or a client service representative at 617-266-8300 or compliance@batterymarch.com 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.

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.