

M.D. Sass Associates, Inc. Part 2A of Form ADV The Brochure

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This brochure provides information about the qualifications and business practices of M.D. Sass Associates, Inc. (“MDSA”). If you have any questions about the contents of this brochure, please contact us at 212-730-2000. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

Additional information about MDSA is also available on the SEC’s website at: www.adviserinfo.sec.gov.

Material Changes

MDSA's most recent update to Part 2 of Form ADV was made in March 2012. MDSA's business activities have not changed materially since the time of that update.

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Advisory Business

MDSA serves as an investment manager to separately managed accounts with various investment strategies. MDSA is part of a group of affiliated investment advisers, certain of which are registered with the SEC. We refer to the separately managed accounts that we manage as "Clients" in this brochure.

Investment strategies for Clients may include relative value equities, taxable fixed income, and combinations of equities, equity income plus and taxable fixed income (which we refer to herein as "balanced accounts") and taxable fixed income and investment grade asset backed securities (which we refer to herein as "core plus accounts"). The core plus accounts are managed by MDSA with assistance from its affiliate, Waterfall Asset Management, LLC, acting as a sub-advisor. Separate account management is continuously provided for each client based on agreed upon investment objectives and may be subject to additional restrictions imposed by the Client.

A corporation formed under the laws of the state of Delaware in March 1972, MDSA is controlled by Martin D. Sass. As of February 28, 2013 MDSA managed \$2,041 million on a discretionary basis.

Fees and Compensation

MDSA generally receives a management fee for providing investment management services. Management fees are generally payable quarterly, and are payable for any period that is less than a full quarterly period.

The standard percentage of net assets annual fee for relative value equity (“RVE”) accounts is 1.00% on the first \$10 million, 0.70% on the next \$15 million, 0.60% on the next \$25 million, 0.50% on the next \$50 million and negotiable thereafter. The standard percentage of net assets annual fee for equity income plus (“EIP”) accounts is 0.75%. The standard percentage of net assets annual fee for a taxable fixed income (“TFI”) account is 0.40% on the first \$25 million, 0.35% on the next \$25 million, 0.25% on the next \$50 million, and negotiable thereafter. Management fees are billed to the separately managed account.

All Clients will also incur brokerage and other transaction costs. Please review the section entitled “Brokerage Practices” herein for more information.

MDSA may, at its discretion, negotiate fees which vary from and may be lower than the standard fee schedule rates for RVE, EIP and TFI accounts. In addition, MDSA may accept accounts below the minimum standard account size of \$10 million, in which case the percentage of net assets annual fee is generally 1.00% for RVE accounts and 0.50% for TFI accounts, subject to negotiation at the discretion of MDSA.

Fees for balanced, core plus and other accounts are based on various factors, including the investment strategy, and their size and asset allocation guidelines; accordingly, the fees are negotiable and are not subject to any standard fee schedule.

In the case where a Client’s account is invested in money market funds that pay a management fee to their own adviser, the Client is in effect paying two management fees. Clients indirectly pay an investment management fee to the money market fund manager which is in addition to the investment management fee paid to MDSA.

Either MDSA or the Client may terminate an investment management agreement per the terms negotiated therein. Notice of termination must be given to the other party in writing. Each Client is responsible to pay for services rendered until the termination of its respective investment management agreement. Management fees are generally payable in arrears, however for certain Clients management fees are payable in advance. Upon termination, the fees charged for investment management services will be pro-rated, and a pro rata refund for any unearned fees will be issued if any fees have been paid in advance.

Performance Based Fees and Side-by-Side Management

MDSA is not compensated based on performance, only management fees as set forth above are charged to Clients.

Types of Clients

MDSA generally provides investment advice to clients that are jointly trustee and union, pension, health, welfare, annuity and other funds through separately managed accounts.

MDSA generally requires a minimum separately managed account size of \$10 million. Lower minimums generally apply in the case of limited partnerships or limited liability companies of which MDSA's affiliate is a general partner or managing member, or other MDSA affiliates. MDSA also may accept lower minimum account sizes in its discretion.

Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis/Investment Strategies

Our investment philosophy is to invest only where and when there is the potential to add value and where the related risk can be measured and controlled. This approach is applied to asset allocation decisions, as well as bond and equity selection. Our philosophy has remained constant over the years and emphasizes rotating between sectors in order to be opportunistic and achieve high returns with low risk.

RVE

MDSA's RVE strategy is a relative value approach to investing in equities, which seeks to outperform relevant equity market indices through positive buy/sell disciplines. MDSA searches for high-quality companies that it believes are misperceived or out of favor with positive long-term earnings growth prospects. MDSA looks to buy when the risk-adjusted present value of estimated future earnings exceeds the market price by at least 25%.

MDSA utilizes a multi-step, fundamental research process, focused on out-of-favor and/or misperceived companies that meet MDSA's minimum liquidity and quality standards. Preliminary MDSA company screening includes diligence on historical growth, competitive strength, free cash flow, debt leverage and trading liquidity. MDSA analyzes candidates to understand reasons for price drops, how the market's perception may lag reality and catalysts for potential price rebound.

Equity Income Plus

MDSA's EIP strategy seeks to generate income as well as capital appreciation, while emphasizing downside protection. MDSA targets larger capitalization companies that pay regular dividends. Stocks are selected based on a consistent set of fundamental and valuation based criteria. In making its investments, MDSA seeks to (i) sell out of the money call options to enhance income or lower the cost basis, and (ii) buy out of the money index puts to reduce downside risk.

TFI

MDSA's TFI strategy invest primarily in intermediate-term U.S. government agency issued and/or guaranteed MBS, CMOs and similar high credit quality securities. MDSA seeks to outperform fixed income benchmarks of comparable intermediate-term duration on a risk-adjusted basis. MDSA's investment strategy is long-only. MDSA will not borrow money to invest in securities.

MDSA invests primarily in U.S. Treasuries, U.S. Agency securities and MBS and CMOs issued by government sponsored enterprises ("GSEs"), (e.g., Ginnie Mae (Government National Mortgage Association), Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation)), the payments of which are backed by GSEs.

MDSA relies on rigorous analytical testing and will target stable Agency MBS and Agency CMOs which have relatively moderate degrees of cash flow uncertainty, with attractive yields relative to similar duration securities. MDSA's fixed-income professionals focus on in-depth fundamental research and utilize a variety of quantitative analyses to ascertain mortgage prepayment/extension risk and credit risk.

Risk of Loss

All investing involves a risk of loss to each Client (and their respective investors), and the investment strategies offered by MDSA could lose money over short or even long periods. No guarantee or representation is made that MDSA will achieve its investment objective or that Clients will receive a return of their capital. In addition, the performance of the Clients' investments is substantially dependent upon the skill, judgment and expertise of MDSA's primary portfolio managers. The death, disability or other unavailability of any of MDSA's primary portfolio managers could be material and adverse to the performance of Clients' investments.

The description contained below is a brief overview of risks related to each of MDSA's significant investment strategies.

RVE

Risks Associated with Investments in Securities. Any investment in securities carries certain market risks. The value of the securities in which MDSA invests fluctuates, and, therefore, the value of an investor's investment at the time it is redeemed may be more or less than such investment's value at the time of purchase. In particular, equities in which MDSA invests may be subject to wide and sudden fluctuations in market value, with a resulting fluctuation in the amount of profits and losses. There is no assurance that MDSA will achieve its investment objective of superior capital appreciation or avoid losses.

Risks Associated with Lack of Diversification. There are no absolute diversification or concentration constraints on MDSA. If MDSA's portfolio becomes relatively concentrated, the value of an investment in MDSA may be subject to greater volatility and may be more susceptible to any single economic, political or regulatory occurrence or the fortunes of a single company or industry than would be the case if MDSA's investments were more diversified.

Stock Market Risk. There is always a chance that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. MDSA's strategies may, at times, become focused in stocks of a particular sector, category, or group of companies. Because MDSA's investments do not have any diversification and/or concentration requirements, MDSA's strategies may underperform the overall stock market.

Manager Risk. Poor security selection may cause MDSA's strategies to underperform relevant benchmarks or other funds/strategies with a similar investment objective.

TFI

General Credit Risks. While assets purchased by MDSA are generally guaranteed and/or collateralized, Clients may be exposed to losses resulting from default on the part of the U.S. Agencies or the U.S. government guaranteeing these assets and principal payments. MDSA cannot guarantee the adequacy of the protection of Client's investments, including the validity or enforceability of underlying loan and securities documents and the maintenance of anticipated priority and perfection of applicable security interests. Furthermore, MDSA cannot assure that claims may not be asserted that might interfere with enforcement of rights that are important to the value of an asset. Liquidation proceeds upon sale of assets may not satisfy the entire outstanding balance of principal and interest on a loan or security, resulting in a loss. Any costs or delays involved in the effectuation of the liquidation of the underlying collateral will further reduce the proceeds and thus increase the loss. Generally, such securities offer a potentially higher return, but may, in certain circumstances involve greater volatility of price and greater risk of loss of income and investment.

Market and Interest Rate Risk. The market price of fixed income and other securities owned by Clients may go up or down, sometimes rapidly or unpredictably. If the market prices of the securities owned by Clients fall, the value of an investor's investment will decline. The value of a security may fall due to general market conditions, such as real or perceived adverse economic or political conditions, inflation, changes in interest or currency rates, lack of liquidity in the bond markets or adverse investor sentiment. The equity and debt capital markets in the United States have experienced unprecedented volatility. This financial crisis has caused a significant decline in the value and liquidity of many securities. These market conditions may continue or get worse. Changes in market conditions will not have the same impact on all types of securities. The value of a security may also fall due to specific conditions that affect a particular sector of the securities market or a particular issuer.

When interest rates rise, the value of fixed income securities generally falls. A change in interest rates will not have the same impact on all fixed income securities. Generally, the longer the maturity or duration of a fixed income security, the greater the impact of a rise in interest rates on the security's value. In addition, different interest rate measures (such as short- and long-term interest rates and U.S. and foreign interest rates), or interest rates on different types of securities or securities of different issuers, may not necessarily change in the same amount or in the same direction.

Certain fixed income securities pay interest at variable or floating rates. Variable rate securities tend to reset at specified intervals, while floating rate securities may reset whenever there is a

change in a specified index rate. In most cases, these reset provisions reduce the impact of changes in market interest rates on the value of the security.

MBS Maturity Risk; Prepayment Risk; Extension Risk. The investment characteristics of MBS differ from traditional debt securities. The major differences include, but are not limited to, the fact that interest and principal payments are made more frequently, usually monthly, and that the principal may be prepaid at any time. The frequency at which prepayments (including voluntary prepayments by the obligors and liquidations due to default and foreclosures) occur on loans underlying MBS will be affected by a variety of factors, including, without limitation, the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors. Generally, mortgage obligors tend to prepay their mortgage loans when prevailing mortgage rates fall below the interest rates on their mortgage loans. (Note that such MBS give the issuer the option to repay or call the security prior to its stated maturity date. Accordingly, the company holding such MBS may not benefit fully from the increase in value that other fixed income securities generally experience when interest rates fall). Upon prepayment of the security, MDSA would also be forced to reinvest the proceeds at then current yields, which would be lower than the yield of the security that was paid off. In addition, if MDSA purchases a MBS at a premium (at a price that exceeds its stated par or principal value), MDSA may lose the amount of the premium paid in the event of prepayment. Conversely, when the interest rates rise, repayments of MBS principal and interest may occur more slowly than anticipated, extending the effective maturity of such MBS, thereby locking in below market interest rates and exposing MDSA to sharper than anticipated declines in asset market values.

Disciplinary Information

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

Other Financial Industry Activities and Affiliations

Registered Broker Dealer: MDSA is affiliated with M.D. Sass Securities, L.L.C. ("M.D. Sass Securities"), a registered broker-dealer, which may market interests or shares of private funds managed by affiliates of MDSA. M.D. Sass Securities will receive compensation for marketing the interests or shares that may include a portion of the management and performance fees/allocations received by a MDSA affiliate (please see "Client Referrals and Other Compensation" below).

Registered Investment Advisers: The following M.D. Sass entities are related persons of MDSA and are registered investment advisers:

M.D. Sass Investors Services, Inc. ("Investors")
Waterfall Asset Management, LLC ("Waterfall")
M.D. Sass-Macquarie Financial Strategies Management Company, LLC
AMERRA Capital Management, LLC ("AMERRA")

Other Investment Advisers: The following entities are related persons of MDSA and are unregistered investment advisers:

Ascent Real Estate Advisors, LLC
Taurus Funds Management Pty Limited

MDSA does not have any direct arrangements with MDSA related persons that are registered or unregistered investment advisers, but the entities all have common control.

Certain investment advisers named above manage partnerships, limited liability companies, separately managed accounts and other investment vehicles in which Clients of MDSA may invest. Other than the License Agreement, MDSA does not have any direct arrangements with the other MDSA related persons which manage such partnerships, limited liability companies, and other investment vehicles, but the entities all have common control.

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

MDSA has adopted a Code of Ethics (the “Code”) pursuant to Rule 204A-1 under the Investment Advisers Act of 1940 (the “Advisers Act”), which is predicated on the principle that MDSA owes a fiduciary duty to its Clients. Accordingly, employees of MDSA must disclose or avoid activities, interests and relationships that run contrary (or appear to run contrary) to the best interest of Clients. Therefore, MDSA endeavors to maintain current and accurate records of all personal securities accounts of its employees in an effort to monitor all such activity. Among other things, the Code requires MDSA and its employees to act in Clients’ best interests, abide by all applicable regulations, avoid even the appearance of insider trading, and pre-clear and report on many types of personal securities transactions. MDSA’s Code of Ethics is available for review and will be provided to any investor or prospective investor upon request by calling us at 212-730-2000.

MDSA is part of a group of affiliated investment advisers. Certain of MDSA’s officers and employees are also officers and employees of one or more of the investment advisers affiliated with MDSA (the “Affiliated Advisers”), and certain of MDSA’s investment professionals will provide investment advisory services to clients of the Affiliated Advisers. While MDSA’s officers and employees will devote the time and services necessary for the conduct of MDSA’s advisory business, these other business activities could, and are expected to, require a substantial amount of these persons’ time and effort.

The Affiliated Advisers may trade securities for their client accounts that are the same as, or similar to, securities MDSA trades for its Clients. The Affiliated Advisers may take positions for their clients similar or opposite to positions taken by one or more of MDSA’s Clients, and clients of the Affiliated Advisers and MDSA’s Clients from time to time may be competing for similar positions in one or several markets. For purposes of seeking to maximize investment opportunities and achieve best execution in certain sector markets, MDSA and the Affiliated Advisers may in some instances coordinate portfolio management and trading activities among their respective clients. MDSA and its affiliates have instituted policies intended to ensure that, with respect to the allocation of investment opportunities and the execution of trades, all clients of MDSA and the Affiliated Advisers are treated fairly and equitably over time.

MDSA, Investors, AMERRA and Waterfall may from time to time effect cross transactions among certain client accounts which are private investment companies in which MDSA and the other above-mentioned advisers act as general partners/investment advisers and in which certain principals may have investments. Such transactions must be consistent with the investment objectives and policies of each account and, in the view of each respective portfolio manager, must be in the interest of each side of the transaction. Any such transaction will be conducted in accordance with applicable rules and regulations (including, if applicable, appropriate consent by the client).

MDSA permits its principals and employees to invest for their own or related accounts in securities purchased for its Clients. In order to avoid possible conflicts with Clients' interests, the following guidelines are followed:

Any principal of MDSA and its affiliates may execute orders through MDSA's trading desk. In such cases, Clients' orders take precedence so that no trades by principals of MDSA or its affiliates will be permitted if it is determined that such trades will disadvantage Clients' interests. If it is determined that such trades will not disadvantage Clients' interests, the securities of principals of MDSA and its affiliates will be traded by the trading desk as part of any blocks traded for Clients. Where principals of MDSA or its affiliates desire to seek brokerage services directly rather than through MDSA's trading desk, no trades for their account are to be made until all Clients have been satisfied.

Principals and employees of MDSA will not act for their own or related accounts in anticipation of a research report or purchase or sell recommendation for Clients' accounts or otherwise on the basis of material non-public information. All transactions by principals or employees are required to be reported to MDSA's compliance department on a periodic basis.

Notwithstanding the above, certain principals and employees are participants in MDSA's profit sharing plan and/or limited partners or members of private investment partnerships or limited liability companies of which MDSA or affiliates of MDSA are general partners or managing members (collectively, "Sass Entities"). Sass Entities pursue a broad variety of investment strategies and practices in seeking capital appreciation, including, in some instances, active short-term trading. On occasion, Sass Entities may own shares of the same companies owned by other client accounts, and in the course of actively trading positions in such companies may purchase or sell securities at the same time as or at different times than other client accounts based on separate investment decisions made for each account in light of its particular investment objectives and risk/return characteristics, provided that no transaction on behalf of a Sass Entity will be permitted if it is determined that it will disadvantage the interests of other clients.

Brokerage Practices

Selection of Brokers

MDSA considers various factors in selecting brokers through which orders for client accounts are executed. MDSA's primary consideration is the broker's ability to provide best execution of the trade (including both trade price and commission). Assuming equal execution capabilities, MDSA also takes other factors into account.

In determining which brokers provide best execution, MDSA looks primarily to the stock price quoted by the broker through which it can obtain the most favorable price. If the same price is available from more than one broker, MDSA's judgment as to the following factors may influence the selection of a broker for a particular trade: the execution, clearance and settlement capabilities of the brokers under consideration; the nature of the security being traded; the size of the transaction; the desired timing of the trade; the activity existing and expected in the market for the particular security; confidentiality; the financial stability of the brokers under consideration; actual or apparent operational problems of any broker under consideration; and the negotiated commission rates available at the time of the trade.

MDSA also considers the nature and extent of research services provided when it selects brokers. Assuming equal execution capabilities as described above, MDSA may direct commission business to brokers who provide research services. Such services include, but are not limited to: analyses and reports concerning economic factors and trends, industries, specific securities, portfolio strategy, and valuation and performance of accounts; advice regarding critical factors supporting research recommendations and special reports or information based on the specific requests of MDSA's portfolio managers/analysts. MDSA expects that research services received will generally (but not necessarily always) fall within the "safe harbor" provided by Section 28(e) of the Securities Exchange Act of 1934.

Subject to MDSA's duties to seek best execution, MDSA may also from time to time obtain research services prepared by third parties and provided by brokers in exchange for a predetermined amount of commission business. These services include portfolio monitoring, analysis and performance measurement systems, various economic forecasting and research services covering stocks and bonds, research and trading conferences, and a source of information as to block trading opportunities. Such third-party arrangements are cancellable at any time while others require notice. Such third-party arrangements do not involve a substantial amount of MDSA's commission business on behalf of Clients.

Where, in MDSA's judgment, several firms have equal execution capability, MDSA from time to time places orders with brokerage firms which have recommended that MDSA be among a number of investment managers invited to make presentations and proposals to manage potential Clients' assets. These are brokerage firms that provide MDSA with high-quality execution services and with which MDSA would place executions irrespective of the recommendations to potential Clients.

Also, some Clients designate the broker through whom some or all orders for their account are to be executed. Generally, in the case of trades directed to a particular broker, commission arrangements are negotiated in advance by the Client and the broker. Clients who direct MDSA to use a particular broker-dealer should be aware that, in so doing, MDSA may not be in a position to freely negotiate commission rates or spreads, obtain volume discounts on aggregated orders, or to select broker-dealers on the basis of best price and execution. As a result, directed brokerage transactions may result in higher commissions, greater spreads or less favorable execution on some transactions than would be the case if MDSA were free to choose the broker-dealer.

Orders placed on behalf of Clients may be “bunched” for execution with the orders of other Clients of MDSA or of MDSA, its principals or other affiliates. Bunched orders may be executed in block transactions or in a series of transactions throughout a trading day. In the latter case, all participants in such transactions will receive the average price obtained during one trading day. These practices may result in the obtaining of a better average trade price and lower transaction costs than might otherwise be available to certain Clients without such bunching, although the average price may be slightly higher than the lowest price in the series of executions that result in the average price. MDSA will not aggregate orders unless aggregation is consistent with our duty to obtain best execution and the terms of the investment guidelines and restrictions of each Client for which trades are being aggregated.

Generally, MDSA places and executes aggregated (i.e., bunched) equity order transactions at each of the trading “desks” (e.g., Goldman Sachs, J.P. Morgan, etc.) used by MDSA. The non-directed Client accounts trade first. Aggregated trades are carried out one trade desk at a time; for example, MDSA will not have an equity trade that is executed concurrently by two trading desks. For each trading desk used, all participants in such transactions will receive the average price obtained during one trading day. Equity trades for non-directed accounts are completed first, followed by directed brokerage accounts in order of size (largest to smallest). It is likely that execution prices for equity orders will vary by trading desk as a result of the timing of an order’s placement and execution; differences in price resulting from MDSA’s order entry process will primarily depend on the changes in market price in the interim period between the time MDSA’s first and last aggregated order is placed and executed.

It is MDSA’s policy that investment opportunities are allocated fairly and equitably among Clients. MDSA’s general policy is to make investment allocations pro rata across Client. Notwithstanding the foregoing, because of the diversity of objectives, risk tolerances, fund or account investor-imposed limitations, tax situations, differences in the timing of capital contributions and withdrawals among various Clients, the type of investment strategy, and other factors considered relevant by MDSA, there may often be differences among Clients in the weighting and cost basis of particular positions and in the particular securities and other-instruments held.

Examples of permissible reasons why *pari passu* allocations or average price may not occur in every situation may include, but are not limited to, the following:

- Differences in Clients’ or investment fund investors’ tax situations;
- Differences in available capital;
- Different risk parameters, investment guidelines or specific instructions from a particular Client;
- Differences in investment programs’ emphasis on particular types of investments;
- Commission costs of allocating limited purchases or sales among several Clients;
- The limited size of an available position;
- The varying ability to margin, and any applicable margin limitations, for particular Clients;
- Liquidity requirements of a particular Client;

- The domicile of a particular Client, and the ability to participate in particular positions and securities based on such domicile;
- Issuer based restrictions with respect to a particular Client; and
- The type of investment strategy.

In seeking best execution for transactions on behalf of Clients, MDSA from time to time may instruct the broker-dealer that executes the transaction to allocate or “step-out” a portion of such transaction to another broker-dealer. The broker-dealer to which MDSA has “stepped out” would then settle and complete the designated portion of the transaction and the executing broker-dealer would settle and complete the remaining portion of the transaction that has not been “stepped out.” Each broker-dealer would receive a commission or a brokerage fee with respect to that portion of the transaction that it settles and completes. Generally speaking, MDSA’s goal in conducting a “step-out” trade is to use a broker that will provide best price and execution and also give commission business to brokers with whom it has other arrangements that need to be paid for but whose execution capability is not as good.

Determination of Commission Rates

In accordance with industry practice, commission rates are normally determined through negotiations with brokers conducted by MDSA’s traders. These negotiations take into account industry norms for particular transactions, the size and type of trades, the size and expertise of the brokerage firm involved and the nature of brokerage and research services provided, including special services in connection with a particular trade. Such special services could include, among other things, the assumption of market risk in connection with a trade or series of trades or the facilitation of trades in a thin or volatile market. Although MDSA generally seeks competitive commission rates and commission equivalents, it will not necessarily pay the lowest commission or equivalent. Commission rates paid by MDSA may in some situations be higher than those charged by other brokers for execution of similar trades without the provision of research and/or special services, which may justify higher commissions and equivalents than would be the case for more routine services.

Evaluation of Research; Soft Dollars

Often no precise monetary value can be assigned to research and special execution services furnished to MDSA by brokers. MDSA reviews all research services and determines that the amounts of commissions directed to brokers are reasonable in relation to the value of the brokerage and research services provided, viewed in terms of both particular transactions and MDSA’s overall responsibilities with respect to the accounts over which it exercises investment discretion. MDSA maintains an internal allocation procedure to identify those brokers who provide it with research services and the amount of research services they provide, and then endeavors, subject to MDSA’s duty to seek best execution, to direct sufficient commissions to them to ensure the continued receipt of such services as MDSA believes to be valuable.

MDSA may, from time to time, affect fixed income or other securities transactions with certain institutions for soft dollar credits on an agency basis, instead of effecting such transactions on a principal basis with market makers. In connection with transactions that are effected in this

manner, a commission will be charged by the executing broker in addition to a mark-up or mark-down, which is included in the market maker's bid or ask prices of the securities being purchased or sold. When using soft dollar credits on an agency basis with certain brokers to obtain research or other products or services, MDSA receives a benefit because it does not have to produce or pay for such research, products or services. This benefit may create an incentive to MDSA to select a broker based on MDSA's interest in receiving research or other products or services, rather than its Clients' interests in receiving most favorable execution.

Research services furnished by brokers are generally used in servicing all of MDSA's accounts, although not all such services may be used in connection with any particular account that paid commissions to the brokers providing such services. Research services may be shared among MDSA and its Affiliated Advisers. Therefore, research services that primarily benefit MDSA and/or an Affiliated Adviser may be paid for with commissions generated by any of the other affiliates.

Allocations

MDSA advises multiple and diverse Clients and investors, which may compete for MDSA's time and attention and for limited investment opportunities. MDSA has a fiduciary obligation to use its best efforts to ensure that no Client is treated unfairly in relation to any other Client in the allocation of securities or investment opportunities or in the order in which transactions are executed. MDSA will seek to allocate orders and investment opportunities among Clients in a manner that it believes is equitable and in the best interests of all of its Clients. Although such allocations may be pro rata among participating Clients, they will not necessarily be so, where MDSA's allocation policies (e.g., taking into account differing objectives or other considerations) dictate a different result. There can be no assurance that a particular order or investment opportunity will be allocated in a particular manner or that it will be practicable for each account to participate in every transaction or position that is suitable for its objectives and strategy.

Review of Accounts

Senior officers of MDSA periodically monitor all portfolios for compliance with investment guidelines, positioning with respect to target portfolio structure, investment performance and adherence to investment objectives. Certain reviews can be daily and are done by the senior officer and/or senior portfolio manager (and/or designees). Effective March 1, 2013, SEI Global Services, Inc. ("SEI") assumed responsibility for trade settlement, investment accounting, reconciliation, mandatory corporate action processing, pricing, performance measurement and production of client reports for all MDSA portfolios. SEI staff reconciles positions, cash balances and transactions with custody statements daily (for portfolios whose custodians make such information available to SEI electronically) and positions (including cash balances) monthly for portfolios whose custodians do not make information available to SEI on a daily basis. SEI staff also prepares monthly and/or quarterly Client reports for separately managed accounts, which are reviewed by another SEI team member as well as someone within MDSA before being provided to the Client service area for distribution to Clients.

The Chairman and CEO, President and several portfolio managers (with the title of Senior Vice President) review the performance of the investment strategies they are responsible for on a

regular basis (not less than monthly). Clients with separately managed accounts receive reports not less than quarterly, and frequently monthly. Reports on separately managed accounts include returns (in dollars and percentages), comparison of performance to a benchmark, details of portfolio holdings, information on portfolio transactions and other data as required. Clients also receive annual tax information necessary for their tax returns.

Client Referrals and Other Compensation

On a discretionary basis, MDSA may compensate certain employees for Client referrals. Additionally, MDSA may from time to time compensate third parties for Client referrals pursuant to written solicitation agreements complying with the provisions of Rule 206(4)-3 under the Advisers Act.

Custody

Client assets are held in custody by unaffiliated broker/dealers or banks.

Investment Discretion

MDSA generally has discretionary authority to determine, without obtaining specific consent from Clients, the securities and amount to be bought or sold. Notwithstanding the foregoing, however, some Clients have (or may in the future) placed different limits on MDSA's discretionary authority to invest pursuant to their respective investment management agreements with MDSA.

Voting Client Securities

To the extent MDSA exercises or is deemed to be exercising voting authority over Client securities, MDSA's general policy is to vote proxy proposals, amendments consents or resolutions (collectively "proxies") in a manner that serves the best interest of a Client, as determined by MDSA, in its discretion, taking into account factors described in its proxy voting policies and procedures (together, the "Policy").

In furtherance of the foregoing, MDSA generally opposes placing restrictions on the business judgment of management. MDSA considers, on a case-by-case basis, executive compensation plans and supports those that promote the adoption of fair, competitive compensation packages for executives and it reviews matters relating to changes in a company's charter documents and generally votes in favor of those measures that provide management with the most operational flexibility. MDSA follows procedures that are designed to identify conflicts or potential conflicts that could arise between its own interests and those of its Clients. If it is determined that any such conflict or potential conflict is not material, MDSA may vote proxies notwithstanding the existence of the conflict. If it is determined, however, that a conflict of interest or potential conflict of interest is material, appropriate personnel of MDSA will work to agree upon a method to resolve such conflict before voting proxies affected by the conflict. The Policy itself contains other more specific policies (including appropriate exceptions) that MDSA intends to follow with respect to both routine and non-routine matters.

Some Clients do not allow MDSA to vote proxies for them. Such Clients will receive their proxies or other solicitations directly from their custodian or a transfer agent. In the event Clients have questions about a particular solicitation, they may contact us at 212-730-2000.

The foregoing summary of MDSA's Policy is qualified in its entirety by the complete text of the Policy, a copy of which may be requested along with MDSA's proxy voting record by contacting us at 212-730-2000.

Financial Information

MDSA has never filed for bankruptcy and is not aware of any financial condition that is reasonably likely to affect its ability to manage Client accounts.