

# COHEN & STEERS

**Cohen & Steers Asia Limited**  
**1202 Citibank Tower, Citibank Plaza**  
**3 Garden Road**  
**Central, Hong Kong**  
**+1 852 36670080**  
[www.cohenandsteers.com](http://www.cohenandsteers.com)

## **Part 2A of Form ADV: Firm Brochure**

Dated: March 31, 2011

This brochure provides information about the qualifications and business practices of Cohen & Steers Asia Limited. If you have any questions, you can contact us in writing at the address above or call +1 852 36670080. The information that follows has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Additional information about Cohen & Steers Asia Limited is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Any reference to Cohen & Steers Asia Limited as a registered investment advisor or registered entity refers to registration with the SEC or other regulatory agency and does not imply a certain level of skill or training.

### **Item 2: Material Changes**

This is the initial filing of Form ADV, Part 2A. Therefore, there are no material changes to Part 2A at this time.

### Item 3: Table of Contents

Item 1:	Cover Page.....	1
Item 2:	Material Changes.....	2
Item 3:	Table of Contents .....	3
Item 4:	Advisory Business .....	4
Item 5:	Fees and Compensation.....	4
Item 6:	Performance-Based Fees and Side-by-Side Management .....	5
Item 7:	Types of Clients .....	5
Item 8:	Methods of Analysis, Investment Strategies and Risk of Loss .....	6
Item 9:	Disciplinary Information .....	10
Item 10:	Other Financial Industry Activities and Affiliations.....	10
Item 11:	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .	12
Item 12:	Brokerage Practices .....	14
Item 13:	Review of Accounts .....	18
Item 14:	Client Referrals and Other Compensation .....	19
Item 15:	Custody .....	19
Item 16:	Investment Discretion .....	19
Item 17:	Voting of Client Securities.....	20
Item 18:	Financial Information .....	21

### **Item 4: Advisory Business**

Cohen & Steers Asia Limited ("Cohen & Steers" or the "firm") is a manager of portfolios specializing in U.S. and international real estate securities, large-cap value stocks, global listed infrastructure and utilities securities, and preferred securities. Located in Hong Kong with affiliates in New York City, London and Brussels, Cohen & Steers serves individual and institutional investors through discretionary institutional separate accounts, sub-advised portfolios, retail and institutional U.S. registered mutual funds and offshore funds for non-U.S. investors and privately offered pooled investment vehicles.

Cohen & Steers provides investment advisory services to clients pursuant to written agreements. The terms of such advisory services, including any restrictions on investments in certain types of securities, are established by the firm, as modified through negotiations with clients, and they are set forth in the agreement and/or offering documents, organizational documents and/or other documentation applicable to certain investment vehicles. Generally, client portfolios follow Cohen & Steers standard guidelines, but the firm may customize portfolios in certain situations. Examples include the use of a benchmark different from that of the strategy's preferred benchmark or the exclusion of certain securities from the portfolio.

Cohen & Steers is a wholly owned subsidiary of Cohen & Steers, Inc., a public company in which Martin Cohen and Robert Steers have a controlling interest. Mr. Cohen and Mr. Steers are the co-chairmen and co-chief executive officers of the firm. Cohen & Steers was registered with the SEC in March 2006 as a U.S. investment advisor specializing in real estate securities. Cohen & Steers is also licensed with the Hong Kong Securities and Futures Commission to engage in portfolio management, trading and advisory activities. As of December 31, 2010, Cohen & Steers managed \$ 6,090,123,000 in client assets, all of which is managed on a discretionary basis.

### **Item 5: Fees and Compensation**

For institutional separate accounts and sub-advised portfolios (hereinafter referred to as "accounts" and/or "portfolios"), Cohen & Steers charges fees based on contractually specified percentages of the assets of each client's portfolio. Cohen & Steers also provides investment advisory, sub-advisory and/or administrative services to the Cohen & Steers registered investment companies and pooled investment vehicles registered in Australia and Luxembourg (collectively the "Funds"). In connection with these services, Cohen & Steers receives fees as described in the Funds' offering documents filed with the applicable regulator. Such fees are typically asset-based fees assessed on a Fund's asset size.

An account's assets may include positions that are "fair valued" by Cohen & Steers, based upon the firm's internal written procedures, when market quotations are not readily available.

### Fee Payments

For institutional separate accounts and sub-advised portfolios, Cohen & Steers receives a fee, generally billed and payable quarterly in arrears, equal to one-fourth of the annual management fee on all investment assets comprising the account or portfolio at the close of business on the last day of the preceding calendar quarter or as stated in the investment management agreement. The fee is calculated on a trade-date basis and includes accrued but unpaid dividends and interest and receivables, net of payables.

The fee is pro-rated for any calendar quarter during which only a portion of this account is open. Cohen & Steers issues promptly following the end of each quarter a statement to the client setting forth the fee for such quarter and the basis on which the fee calculation was made. The client is required to pay the fee within 30 days of receipt of the fee statement. Clients do not pay fees in advance of Cohen & Steers' providing services.

In most cases, either Cohen & Steers or client may unilaterally terminate the investment advisory agreement on prior written notice to the other party. If any advisory relationship terminates on other than the end of the specified period used to determine the market value of the account for the purposes of calculating compensation, fees will be prorated and an adjustment will be made by Cohen & Steers.

For other accounts, including the Funds, Cohen & Steers is paid fees as described in the Funds' offering documents.

In connection with Cohen & Steers investment advisory services, clients may pay other fees or expenses such as brokerage and custodian fees. For global accounts, custodian fees may also include fees payable to sub-custodians in local markets or individual trade ticket charges. All such fees are negotiated and payable by the client to the third party directly and do not involve Cohen & Steers. Clients will incur brokerage and other transaction costs as part of the investment advisory services provided by Cohen & Steers. Please see Item 12 for a detailed discussion regarding such costs.

### **Item 6: Performance-Based Fees and Side-by-Side Management**

Cohen & Steers currently does not manage any accounts structured with performance-based fees.

### **Item 7: Types of Clients**

Cohen & Steers serves a wide range of institutional clients, including endowments and foundations, corporate and public defined benefit plans, insurance, Taft-Hartley plans, sub-advisory relationships and registered and unregistered pooled investment vehicles such as mutual funds and closed-end funds. Cohen & Steers Funds are used by smaller institutions, registered

investment advisors, and individuals and are distributed by Cohen & Steers Securities, LLC, affiliate of Cohen & Steers and an SEC registered broker-dealer.

Cohen & Steers generally sets a minimum account size of \$20 million for institutional separate accounts. This limit may be waived, however, at the firm's discretion. Funds impose minimum initial investment and subsequent investment amounts as stated in their offering documents.

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

Below is a description of the current investment strategies managed by Cohen & Steers and its affiliates.

#### **Real Estate Securities**

Cohen & Steers manages various strategies that invest in real estate investment trusts ("REITs") and other publicly traded real estate securities worldwide. We offer a Global Real Estate Securities strategy, a U.S. Real Estate Securities strategy and Non-U.S. Real Estate Securities strategies. The Non-U.S. strategies include International (Europe and Asia Pacific), Europe only and/or Asia Pacific only real estate securities strategies. The real estate strategies focus on companies that we believe offer superior growth prospects, attractive valuations and the ability to generate income from operations. The portfolios are diversified by sector and by country when applicable.

*Method of Analysis:* In managing client portfolios, the real estate teams adhere to a bottom-up, relative value investment process. A proprietary valuation model ranks securities on price to net asset value and cash flow multiple-to-growth ratios, which we believe are the primary determinants of real estate security valuation. Analysts incorporate both quantitative and qualitative analysis in their estimates. The research process includes an evaluation of management, strategy, property quality, financial strength and corporate structure of each company. The teams also use a macroeconomic framework that guides implementation of country or sector over/underweights and adjusts for unique stock drivers. Judgments with respect to risk control, diversification, liquidity and other factors overlay the model's output and drive the portfolio managers' investment decisions.

#### **Global Listed Infrastructure**

Cohen & Steers' Global Listed Infrastructure strategy invests in securities of companies worldwide that exhibit key infrastructure characteristics, including stable cash flows, largely regulated and monopolistic businesses, and high barriers to entry. Our infrastructure subsectors include airports, pipelines, marine ports, railroads, telecommunications infrastructure, toll roads, utilities and water.

*Method of Analysis:* Cohen & Steers believes that success in global listed infrastructure investing requires a balance of top-down industry sector research and bottom-up company specific analysis. Our investment process begins with the identification of the core global infrastructure investment universe and our analysts formulate independent views on fundamentals, regulatory trends and company financials on all companies in our universe. We use a proprietary macro sector overlay,

which ranks the attractiveness of the infrastructure sub-sectors based on several key drivers—industry fundamentals, economic sensitivity, commodity price leverage, capital markets and valuation. After we establish our sector-level over- and under-weights, the portfolio managers determine appropriate security level weightings based upon the output of our analyst-driven fundamental research and valuation models.

### Large Cap Value

Cohen & Steers' Large Cap Value strategy targets the common stock of U.S. companies with a pattern of increasing dividends. Our objective is to generate capital appreciation and dividend income and to outperform the large cap equity market. In focusing on dividend growers, we employ a process that orients us to higher-quality businesses.

*Method of Analysis:* In selecting securities for the Large Cap Value strategy, Cohen & Steers first seeks to identify attractive businesses by industry through identification of key industry drivers and evaluation of each company's business model, market position and management team. Then a number of additional factors are reviewed to assess a company's dividend-growth potential as well as the sustainability of that growth, including analysis of dividend history, free cash flow and dividend-payout ratios. Once this fundamental research has been completed and the universe of companies has been narrowed, a dividend discount model is employed to determine the present value of a future stream of a company's dividend payments to identify stocks the firm believes are undervalued, relative to their long-term growth prospects. This model assists in both quantifying discounts to target prices and in determining individual stock and sector weightings. In an effort to mitigate risk, the firm adheres to a sell discipline that seeks to identify when a position no longer meets its investment criteria, and should consequently be scaled back or sold. Considerations include a change in company management or strategy, a change in dividend policy, an invalid investment thesis, a stock price approaching its target price, deterioration of company fundamentals or changing industry considerations.

### Preferred Securities

Cohen & Steers' Preferred Securities strategy seeks high income and capital preservation by investing in preferred issues that we believe are undervalued relative to their credit quality and other characteristics. Our investment team employs a value-oriented investment approach focused on credit quality and company fundamentals.

*Method of Analysis:* This strategy pursues its objective primarily by investing in issues of preferred and debt securities believed to be undervalued relative to credit quality and other investment characteristics. In making this determination, the firm evaluates the fundamental characteristics of an issuer, including an issuer's creditworthiness, and also takes into account prevailing market factors. In analyzing credit quality, the firm considers not only fundamental analysis, but also an issuer's corporate and capital structure and the placement of the preferred or debt securities within that structure. In evaluating relative value, the firm also takes into account call, conversion and other structural security features, in addition to such factors as the likely directions of an issue's credit rating and relative value versus other income security classes.

### Global Real Estate Long-Short

Cohen & Steers' Global Real Estate Long-Short strategy seeks to maximize absolute risk-adjusted returns with relatively low volatility and low correlation to the broad equities and fixed-income markets by making investments, including short investments, for both speculative and hedging purposes. The strategy will invest primarily in real estate securities and real estate-related instruments, which may include REITs and REIT-like corporate structures, mortgage REITs, mortgage originators, homebuilders, commercial mortgage brokerage companies, land developers, or any company with perceived significant exposure to any aspect of the real estate market whether commercial or residential. The following investment vehicles may be used: common stock, preferred stock, unsecured debt, commercial mortgage backed securities (CMBS), residential mortgage-backed securities (RMBS), put and call options, credit default swaps and property-related swaps or other derivative instruments.

*Method of Analysis:* The investment approach for this strategy centers on the firm's analyses of valuation, balance sheet strength, real estate quality, business model viability and management team quality. For long investments, the team employs a bottom-up approach using Cohen & Steers' proprietary research as well as a valuation model guided by top-down themes. For short investments, the strategy seeks opportunities to generate alpha and hedge market risks.



### Risk of Loss

Investing in securities and other financial instruments involves a risk of loss that clients should be prepared to bear. All investment strategies carry some degree of investment, market and political risk. The material risks related to each of the firm's strategies are set forth in the table below and further defined in [Appendix A](#).

Risk	Real Estate	Global Infrastructure	Large Cap Value	Preferred Securities	Global Real Estate Long Short
Investment and Market Risk	✓	✓	✓	✓	✓
Real Estate Market Risk	✓				✓
REIT Risk	✓				✓
Foreign (Non-U.S.) Securities Risk	✓	✓	✓	✓	✓
Foreign Currency Risk	✓	✓	✓		✓
Emerging Markets Risk	✓	✓			✓
Common Stock Risk	✓	✓	✓	✓	✓
General Risks of Investing in Infrastructure Companies		✓	✓		
MLP Risk	✓	✓			✓
Preferred Securities Risk	✓	✓	✓	✓	
Debt Securities Risk				✓	
Below Investment Grade Securities Risk	✓	✓	✓	✓	✓
Short Sales Risk					✓
Derivatives Risk					✓
Availability of Investment Strategies	✓	✓	✓	✓	✓
Quantitative Model Risks					✓
Concentration Risk	✓	✓		✓	✓
Lack of Liquidity in Markets	✓	✓	✓	✓	✓
Illiquid Credit Markets				✓	✓
Suspension of Trading	✓	✓	✓	✓	✓
Securities Believed to be Undervalued or Incorrectly Valued	✓	✓	✓	✓	✓
Hedging Risk					✓
Frequent Trading Risk					✓

### Item 9: Disciplinary Information

Cohen & Steers, including its affiliated entities and management persons<sup>1</sup>, has not engaged in any activities or events resulting in legal or disciplinary action.

### Item 10: Other Financial Industry Activities and Affiliations

Affiliated entities performing services for a client's account, Cohen & Steers or a third party may, when acting in commercial capacities, take steps in their own interests which may be adverse to a client's interests.

#### Affiliated Broker-Dealer

Cohen & Steers Securities, LLC ("C&S Securities"), an affiliate of Cohen & Steers, is registered with the SEC as a broker-dealer and is a member of the Financial Industry Regulatory Authority ("FINRA"). C&S Securities is a limited purpose broker-dealer, functioning primarily as the distributor of the Cohen & Steers family of U.S.-registered mutual funds as well as engaging in sales and servicing activities for private placements of private funds managed by Cohen & Steers.

Funds distributed by C&S Securities may pay investment management, administrative or distribution fees or sales commissions (including 12b-1 fees, loads or contingent deferred sales charges) to C&S Securities.

FINRA-licensed personnel of C&S Securities conduct sales activity in accordance with firm procedures. Cohen & Steers does not direct any trades to trading partners because of fund sales, and the compliance department monitors trading activity for evidence of this prohibited practice. The firm carefully manages this affiliation and does not believe it would lead to any conflicts of interest with the investment management of client accounts.

#### Affiliated Investment Advisors

There are currently three (3) other registered investment advisors affiliated with Cohen & Steers: Cohen & Steers Capital Management, Inc. ("C&S Capital Management"), Cohen & Steers Europe SA ("C&S Europe") and Cohen & Steers UK Limited ("C&S UK"), each of which may serve as investment advisor or sub-investment advisor to certain Funds, separate accounts and sub-advised portfolios managed by Cohen & Steers pursuant to sub-advisory agreements among these entities. In this capacity, these affiliated investment advisors provide investment advisory, trading and/or research services in connection with managing the investments of Funds, separate accounts or sub-advised portfolios. For their services, Cohen & Steers pays each affiliated advisor an advisory fee based on a portion of the fund or account's average assets.

The affiliated investment advisors above share common resources with the firm, including but not limited to legal & compliance, investment administration, human resources and finance. C&S

---

<sup>1</sup> Management persons include anyone with the power to exercise, directly or indirectly, a controlling influence over the firm's management policies, or to determine the general advice given to the clients of the firm.

Capital Management and C&S Europe also employ trade desks which execute transactions in the global markets for the firm's accounts pursuant to the sub advisory arrangements mentioned above. All Cohen & Steers investment advisors conduct their activities on the same instance of Cohen & Steers' trade order management and compliance systems facilitating global compliance oversight.

### Affiliated Funds and Limited Partnerships

Certain employees of Cohen & Steers Capital Management may serve as officers and directors of Funds for which the firm serves as investment advisor or sub-advisor. Officers and employees of Cohen & Steers and its affiliates also serve as officers of certain pooled vehicles that pay fees to Cohen & Steers. As such, it is possible that the Cohen & Steers affiliated officers and employees who serve as directors may have potential conflicts of interest with the pooled vehicle. Each Cohen & Steers officer or employee who serves as a director of a pooled vehicle is mindful of his or her obligations to the pooled vehicle and will endeavor to ensure that such conflicts are resolved fairly.

In addition, affiliated entities of Cohen & Steers may also act as the general partner for limited partnerships managed by Cohen & Steers in which clients may be solicited to invest.

Cohen & Steers Capital Management sponsors a Luxembourg-based investment fund with multiple portfolios for which Cohen & Steers serves as investment advisor and distributor. Cohen & Steers is also the sub-advisor for various other-unaffiliated investment companies.

### Unaffiliated Third Parties

Subject to applicable law, Cohen & Steers may from time to time and without notice to its clients retain third parties to provide certain services in connection with the administration or management of client accounts. This may result in additional conflicts of interest.

Cohen & Steers may make information about portfolio positions available to unrelated third parties without identifying the client's identity. These third parties may use that information to provide additional market analysis and research to Cohen & Steers. Cohen & Steers may use that market analysis and research to provide investment advice to clients other than the client whose portfolio positions were used for the analysis.

Cohen & Steers may purchase access to information such as subscriptions to periodicals, participation in conferences, research papers, and access to surveys from organizations affiliated with professional consultant firms that advise potential Cohen & Steers clients. Cohen & Steers does not make payments to these firms conditioned on favorable evaluations of Cohen & Steers and payments are not made to reward these firms for client referrals. Nonetheless, these firms may believe that they have a financial incentive to give favorable evaluations of Cohen & Steers to their clients and may therefore operate as if they are faced with a conflict of interest. Clients should inquire of their consultants as to whether Cohen & Steers purchases or receives any information from such consultant or affiliate thereof.

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

#### **Code of Ethics**

Cohen & Steers has adopted a Code of Ethics (the "Code"), which sets forth guidelines regarding the conduct of the firm and its employees. The Code, among other restrictions, prohibits employees from owning real estate securities and requires employees to obtain preclearance from the compliance department for most personal transactions. Employees are also subject to a 30-day holding period and investment personnel are subject to a blackout period when trading the same security in both personal and client accounts. Using an automated system, Cohen & Steers' legal & compliance department oversees employee personal securities trading activities. Employees who violate the Code may be subject to remedial actions, including, but not limited to, profit disgorgement, fines, censure, demotion, suspension or dismissal. Employees are also required to promptly report any violation of the Code of which they become aware.

A copy of the Code is available upon request by contacting Cohen & Steers in writing at 1202 Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong or by calling +1 852 36670080.

#### **Participation or Interest in Client Transactions**

Cohen & Steers generally does not act as principal buying securities from (or selling securities to) client accounts. However, Cohen & Steers or its affiliates may recommend to clients securities in which the firm has a material financial interest. A description of these situations is set forth below.

#### *Cohen & Steers Global Real Estate Long-Short Strategy*

Cohen & Steers Capital Management offers a global real estate long-short strategy (the "long-short strategy") to existing clients as separate accounts or private funds, including partnerships sponsored by Cohen & Steers Capital Management in which clients may be solicited to invest. This strategy may invest in publicly traded companies, including real estate-related securities, or make private real estate investments. For its services, Cohen & Steers Capital Management receives an asset-based fee and it, or an affiliate, receives a performance-based fee provided the long-short strategy's performance exceeds certain thresholds. Cohen & Steers Capital Management may take positions on behalf of the long-short strategies that conflict with positions taken for other clients including clients of Cohen & Steers, such as selling a security short in the long-short strategy and purchasing the security in long-only client accounts. The firm has adopted policies and procedures to manage potential conflicts and will monitor and periodically test such trading activity for evidence of conflicts and preferential treatment of any account over another. These policies may from time to time result in accounts effecting transactions on terms less favorable than if such policies were not in effect.

## Part 2A of Form ADV: Firm Brochure

---

### *Cohen & Steers Investment Companies*

Cohen & Steers and its affiliates provides investment advisory, sub-advisory and administrative services to U.S. registered investment companies for which clients are solicited to invest. As investment sub-advisor, Cohen & Steers furnishes a continuous investment program for each Fund's portfolio and manages the Fund's investments in accordance with the stated policies of the Fund, subject to the general supervision of the board of directors of each Fund. In connection with these services, Cohen & Steers receives fees as described in the Funds' registration statements filed with the SEC. Such fees are assessed on an account's assets under management that may include positions that are "fair valued" by Cohen & Steers or its affiliates, based upon the firm's internal written procedures, when market quotations are not readily available.

Cohen & Steers Capital Management also sponsors pooled investment vehicles registered in Australia and Luxembourg. Cohen & Steers acts as the advisor or sub-advisor to certain of the portfolios within these vehicles and receives a management fee based upon a percentage of assets. It also acts as distributor to these investment vehicles and may collect a fee for these distribution services that it may share with sub-distributors who assist in distribution of interests in these vehicles. In addition, certain employees of Cohen & Steers and/or its affiliates may provide administration, marketing, and legal and compliance assistance to these entities. Investment in these Funds is currently limited to retail investors in select non-U.S. countries investing through a broker-dealer with a formal sub-distribution agreement in place with Cohen & Steers Capital Management and non-U.S. persons who qualify as institutional or professional investors under relevant local law.

### *Cohen & Steers Indexes*

Cohen & Steers Capital Management also maintains proprietary indexes that are the basis for Exchange Traded Funds ("ETFs") sponsored by third parties and listed on foreign and/or domestic stock exchanges. Cohen & Steers may make revisions to its clients' portfolios that correlate, either wholly or partly, to changes that Cohen & Steers Capital Management makes in the indexes. Cohen & Steers restricts trading in client accounts for the period between the time when decisions have been made to modify the indexes (additions and deletions) and when those modifications have been made public either through press release or posting on the Standard & Poor's (S&P) website. S&P independently calculates the index. Any delay in posting to the S&P website or issuing a press release, however, could negatively impact client portfolios to the extent Cohen & Steers is delayed in effecting changes the firm otherwise would make in a client's portfolio.

## Proprietary/Personal Trading

### *Cohen & Steers Proprietary Accounts*

Cohen & Steers' parent company maintains one or more accounts ("CNS Accounts") on behalf of Cohen & Steers or its affiliates. These may be cash or investment accounts or seeded or

incubating investments intended to build an investment track record. These CNS Accounts are managed by portfolio managers who may also manage certain client accounts. Securities held and traded in the CNS Accounts also may be held and traded in one or more client accounts. It is the firm's policy, however, not to put the interests of the CNS Accounts ahead of the interests of client accounts. Because certain CNS Accounts are managed with a cash management objective, it is possible that a security will be sold out of the CNS Accounts but continue to be held for one or more client accounts. There may also be situations in which the reverse is true. In situations when this occurs, such security will remain in a client account only if Cohen & Steers, acting in its reasonable judgment and consistent with its fiduciary duties, believes this is appropriate and consistent with the objectives and profile of the client account.

### *Cohen & Steers Employee Transactions*

The Code of Ethics places restrictions on securities that Cohen & Steers employees may buy or sell for their own accounts which may also be bought or sold for clients' accounts. These restrictions include: (i) no personal trading in real estate securities, (ii) no buying or selling securities other than real estate securities on the same day there is a pending client order for such security, and (iii) for investment personnel only, no buying or selling securities in a personal account for three days before and one day after a transaction in the same security in a client portfolio they manage. These restrictions also apply to related securities including warrants, options and futures.

### *Material Non-Public Information*

In connection with its activities, Cohen & Steers may receive information that is not generally available to the public. Cohen & Steers is not obligated to make such information available to its clients or to use such information to effect transactions for its clients. Also, at times, the firm's officers or employees may come into possession of material, non-public information. Under applicable law, Cohen & Steers is prohibited from improperly disclosing or using such information, including for the benefit of a client. When it is in possession of material non-public information, Cohen & Steers may be prohibited from making certain securities transactions for its clients even when it would be beneficial to those clients to do so. The firm's procedures include, but are not limited to, restricting firm trading in certain securities while the firm is in possession of material, non-public information, mandatory annual training on inside information for all firm employees, and reporting of the receipt of material, non-public information by employees to the legal & compliance department in order to minimize the impact this information may have on trading in client accounts.

## **Item 12: Brokerage Practices**

### **Broker Selection**

Cohen & Steers considers a range of factors when deciding where and how to place orders for execution on behalf of its clients, including price, cost, speed, likelihood of execution and

settlement, the nature of the order, transparency of the market and other market considerations. The firm also considers the full range of a broker's services, including the value of execution capabilities, commission rate, financial responsibility, administrative resources, scope of research and responsiveness.

The Trading Committee for Cohen & Steers and its affiliates oversees all policies and procedures related to the trading process including best execution, broker approvals, research services, trade allocation and the resolution of trade errors. New brokers are approved by the Trading Committee prior to initiating a trading relationship and on an annual basis thereafter. At the time of initial approval, the Trading Committee reviews broker financials, available regulatory filings and firm-level credit rating, if any, and the results of a background check performed by the compliance department.

### Research and Other Soft Dollar Benefits

Cohen & Steers uses client brokerage commissions to obtain investment research or brokerage services ("soft dollar services") and obtains a benefit because the firm does not have to produce or pay for such research or services. Cohen & Steers may have an incentive to select or recommend a broker-dealer based on its interest in receiving the research or other products or services, rather than on the interests of clients in receiving most favorable execution. However, in all instances, the primary consideration when placing an order with a broker is overall best execution.

All soft dollar services qualify for the safe harbor in section 28(e) of the Securities Exchange Act of 1934 and other applicable laws and regulations and include proprietary research provided by full service brokers as well as eligible services provided by third parties. Such services include research reports on companies, industries and securities; economic and financial data; financial publications; web or computer based market data; research-oriented computer software and services; and brokerage services facilitating the communication of trade order information to counterparties and custodians.

Some services for which soft dollars are utilized are used across multiple strategies, others are strategy specific. Proprietary research is provided by certain brokers with whom we trade. Those brokers who provide proprietary research would receive commissions at the "full service" rate. Cohen & Steers pays these brokers in accordance with its standard, full service commission schedule that is higher than the schedule for those brokers providing only execution services. In addition to providing proprietary research, brokers receiving commissions in accordance with the full service commission schedule may also exhibit a willingness to commit capital, provide best in class service for execution and efficiency and other capabilities we believe warrant additional compensation. In all cases, all accounts participating in a transaction will pay the same commission rate regardless of counterparty.

Cohen & Steers has negotiated Client Commission Arrangements ("CCAs") with several large, well known brokerage firms. The CCAs are linked to the electronic trading venues of these brokers, and the negotiated commission rates for these arrangements are lower than those for full service brokers. Pursuant to the CCAs, a predetermined portion of the commission goes towards



execution of the trade and the remainder is applied to a commission credit account which is used to pay for eligible third party soft dollar services. Cohen & Steers may compensate brokers through CCA's rather than directing trades to the proprietary trading desks of certain research providers. The soft dollar services received may benefit multiple clients, including those whose commissions were not utilized to purchase the service. No third party commission credits are generated by accounts whose investment management agreements specifically prohibit the use of soft dollars or soft commissions. The same commission rate is charged to all accounts participating in a trade, regardless of whether the account generates soft dollar commission credits through the CCA. Additionally, commissions for accounts that specifically prohibit "soft dollars" may be utilized to compensate broker-dealers for proprietary research.

Cohen & Steers may utilize soft dollars to purchase services that are not 100% eligible for purchases with soft dollars. In these circumstances, a mixed-use allocation is proposed and approved by the Trading Committee. The allocation would designate the percentage portion of the service that is eligible for payment with soft dollars and the percentage portion of the service that must be paid utilizing hard dollars.

The Trading Committee maintains primary responsibility for overseeing the soft dollar activities of the firm. This includes: (i) determining whether the proposed product or service is eligible as defined in Section 28(e); (ii) assessing the extent to which certain expenditures may be "non-research" and determining the proper allocation between hard and soft dollars for a particular expenditure; (iii) assessing the execution quality of brokers who are currently providing soft dollar services, and (iv) approving all new soft arrangements and reviewing all expenditures at least annually.

Cohen & Steers may also have an incentive to place orders via electronic trading networks and other trading platforms to obtain volume discounts to reduce access fees paid by Cohen & Steers. Cohen & Steers seeks to mitigate such conflicts through its broker selection and best execution monitoring process.

### Brokerage for Client Referrals

In selecting a broker, Cohen & Steers does not consider whether the firm or a related person receives client referrals from a broker or third party.

### Directed Brokerage

Cohen & Steers generally trades all client accounts in a single block and allocates executions accordingly. The firm believes that this method is the most efficient in achieving best execution for its clients and as a result the firm does not generally participate in client directed brokerage programs. Clients who request brokerage to be directed to a particular broker-dealer risk the loss of purchasing power of larger transactions sizes and can suffer less-than-optimal execution quality as a result. However, in certain circumstances when an account is trading on its own due to specific account issues, such as cash needs or the initial construction of the portfolio, the firm will



consider utilizing a client directed brokerage program, subject to our duty to provide best execution.

### Trade Aggregation

In making decisions regarding the placement and execution of client trades, the firm's goal is to provide fair and equitable treatment over time to all clients in terms of priority of execution and allocation of price, and the timeliness and efficiency of execution, even though a specific trade may have the effect of benefiting one account against another when viewed in isolation. Consistent with its duty to seek best execution for each of its clients, Cohen & Steers may aggregate trade orders that could be effected concurrently for more than one client account.

Although allocating orders among clients may create potential conflicts of interest because Cohen & Steers may receive greater fees or compensation from some clients than other clients, or because we may be affiliated or have other relationships with certain clients, Cohen & Steers has policies that are intended to monitor and oversee that allocation decisions are not based on these differing interests, greater fees or compensation.

Cohen & Steers' policy is to aggregate and execute as a block order equity trades for the same security or contract with consistent attributes. Orders in the same security with different execution limits set by the portfolio manager will not be aggregated unless the trade can be executed in accordance with each portfolio manager's limits. Where a block order is executed at multiple prices, all accounts participating in the order will receive the same average price, including trading costs. In the event that an aggregated order, including shares offered in an initial public offering, can only be partially filled, participating client accounts will receive proportionate allocations on the basis of their order size subject to certain minimum trade values at the account level. In the event of a partially filled order, Cohen & Steers may determine that the proportionate allocation to a particular account is not material to that account or inefficient relative to the size of the order with respect to the cost of settling the transaction, and so may waive that account's allocation. If this occurs, the account's allocation will be reallocated to other participating accounts on a proportionate basis. In addition, Cohen & Steers may determine that an account should not participate in a transaction, for example, because of cash flow or account-specific tax considerations or diversification or other portfolio management considerations. By not participating in an aggregate order clients may pay higher commissions or other fees on the transaction. It is also possible that participation in an aggregated order itself might result in a poorer execution than if a particular account's order had been executed by itself.

Allocations of fixed income securities may be made on an account-by-account basis based upon predetermined criteria in lieu of designating a pre-order allocation for each trade. Predetermined criteria may include the degree to which the security is fungible with other securities held in the portfolio, duration, cash flows, credit quality and liquidity. Contemporaneous orders for the same security are consolidated by the fixed income trader and executed as a block trade.

Certain accounts managed by Cohen & Steers may compensate the manager using performance based fees. Orders for these accounts will be aggregated, to the extent possible, with any other

account managed by Cohen & Steers, regardless of the method of compensation. In the event such orders are aggregated, allocation of partially-filled orders will be made on a pro-rata basis in accordance with pre-trade indications. An account's fee structure is not considered when making allocation decisions.

Cohen & Steers may aggregate orders of client accounts with those of the C&S Accounts; however, under no circumstances will preferential treatment be given to the C&S Accounts. For orders in equity securities involving the C&S Accounts, purchases or sales will be allocated prior to trade placement, and orders that are only partially filled will be allocated across all accounts in proportion to the shares each account, including the C&S Accounts, was designated to receive prior to trading. As a result, it is expected that the C&S Accounts will receive the same average price as other accounts included in the aggregated order. Shares will not be allocated or re-allocated to the C&S Accounts after trade execution or after the average price is known. In the event a pro-rata allocation is not practical, a rotational system of allocation may be used; however, the C&S Accounts will not be part of that rotation or receive shares of a partially filled order other than on a pro-rata basis.

### Item 13: Review of Accounts

#### Account Review

The portfolio managers are responsible for reviewing the client accounts on a daily basis. The portfolio managers review the performance of client accounts relative to the account's pre-established benchmark and the portfolio's conformity with its investment objectives and restrictions.

In addition, all accounts are reviewed at least monthly by the investment administration department for the purpose of reconciling the firm's records with those of the respective accounts' custodians and by the client service team in connection with the client reporting described below.

#### Client Reporting

Separate account and sub-advised portfolio clients generally receive a monthly report within 15 days after month-end which includes performance, market values, attribution analysis, characteristics, largest holdings, largest overweight and underweight positions, and an investment commentary. In addition, clients also receive a monthly preliminary performance and market value report within five business days after month-end. Clients generally receive electronic notifications and can retrieve their reports through our web-based client reporting extranet. Hard copies can also be sent upon request. In addition to our standard reports, Cohen & Steers can provide additional reports upon request as needed. Investors in Funds typically receive the relevant Fund's financial statements.

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

Cohen & Steers Capital Management has entered into a contractual relationship with Ambassador Funds Management Services ("Ambassador") pursuant to which Ambassador markets the firm's separate account management services and interests in Cohen & Steers-sponsored Australian collective investment vehicles to institutional investors located in Australia and New Zealand. Pursuant to this relationship, Cohen & Steers Capital Management pays Ambassador an annual retainer, a success fee equal to the first year revenue associated with a new client relationship in the first year for which the firm enters into such a relationship with a referred client or investor, and an ongoing servicing fee, equal to the firm's revenue associated with such client or investor, in years two and after with respect to any continuing relationship.

Many Cohen & Steers clients work with pension or other institutional investment consultants (collectively, "Investment Consultants"). Investment Consultants provide a wide array of services to pension plans and other institutions, including assisting in the selection and monitoring of investment advisers such as Cohen & Steers. From time to time, Cohen & Steers and/or its affiliates may work with Investment Consultants and their affiliates to provide investment management and/or risk management services, creating possible conflicts of interest.

C&S Securities markets and engages in sales activity for the U.S. mutual funds and private placements of the private funds as described in Item 10 above.

### **Item 15: Custody**

Cohen & Steers does not maintain custody of client funds or securities. Separate account clients determine their own custodial arrangements. The firm works with a number of different custodian banks, including most of the major providers in this arena and several regional providers as well. Clients receive statements directly from the custodian banks and should carefully review and compare these statements with statements received from Cohen & Steers.

For the Funds, the firm has designated third party custodians to custody all assets of the Funds and to maintain the official books and records of the Funds.

### **Item 16: Investment Discretion**

Subject to pre-determined investment objectives, benchmarks, and guidelines and the execution of a written investment management agreement, Cohen & Steers has full discretionary authority to manage securities and cash held in accounts on behalf of its clients.

Decisions to buy and sell investments for clients advised by Cohen & Steers are made with a view to achieving each client's investment objectives, and so it is possible that a particular investment may be bought or sold for only one client or in different amounts and at different times for more than one but less than all clients, even though it could have been bought or sold for other clients at

the same time. Likewise, a particular investment may be bought for one or more clients when one or more other clients are selling the investment. In addition, purchases or sales of the same investment may be made for two or more clients on the same date. There can be no assurance that a client will not receive less (or more) of a certain investment than it would otherwise receive if Cohen & Steers did not have a conflict of interest among clients. In effecting transactions, it may not be possible, or consistent with the investment objectives of Cohen & Steers' various clients, to purchase or redeem securities at the same time or at the same prices.

Clients may restrict the firm from transacting in certain securities or with certain executing brokers. Such restrictions are typically reflected in the investment management agreement. In addition, for certain accounts, clients may instruct Cohen & Steers to execute foreign exchange ("FX") currency transactions to settle trades in the currency of local markets and repatriate the proceeds of such trades to the base currency of the account. Some clients may require that these FX currency transactions be executed by the clients' custodian bank, in which case Cohen & Steers assumes no responsibility for the execution or oversight of these transactions. The decision as to whether the custodian or Cohen & Steers will execute the FX transactions is at the discretion of the client and will be incorporated into the client's investment advisory agreement or amendments thereto.

Furthermore, certain investment and regulatory restrictions may limit Cohen & Steers' freedom of action with respect to an account and, as a result, the performance of accounts for which investment restrictions are imposed may differ from, and are often worse than, the performance of accounts within the same strategy that lack such restrictions.

### **Item 17: Voting of Client Securities**

Separate account clients may grant Cohen & Steers the authority to vote or not vote the proxies of securities held in client portfolios in the discretion of Cohen & Steers in accordance with the firm's proxy voting guidelines. If a client appoints Cohen & Steers to vote proxies on its behalf, this authority is complete and Cohen & Steers does not allow clients to direct votes in a particular situation. We also do not vote proxies in accordance with any client's own guidelines, unless such guidelines are substantially similar to the Cohen & Steers guidelines.

The firm maintains policies and controls to govern its proxy voting activities. It is our objective to vote proxies in the best interests of our clients. To this end, the firm maintains an internal proxy voting committee that is responsible for overseeing the proxy voting process and ensuring that the firm meets its regulatory and corporate governance obligations for voting proxies. The committee is composed of portfolio managers and research analysts from the firm's various investment teams, as well as members of the legal and compliance department. The firm also has a dedicated Proxy Administration Team that is responsible for communicating proxies to the respective portfolio manager and/or analyst for consideration and maintaining the required documentation.

Cohen & Steers has retained a proxy voting vendor, Institutional Shareholder Services ("ISS"), to assist in the voting of proxies. The proxy voting vendor is responsible for coordinating with client

custodians to ensure that all proxy materials received by the custodians relating to client portfolio securities are processed in a timely fashion. In addition, ISS is responsible for maintaining copies of all proxy statements received by issuers and promptly providing such materials to the firm upon request. Portfolio managers and analysts may review research reports provided by ISS or other vendors but all votes are cast in accordance with the firm's, not ISS's, guidelines.

The firm's proxy voting policy includes procedures that address material conflicts of interest that may arise between the investment advisor's interests and those of its clients. Examples of such material conflicts of interest that could arise include circumstances in which:

- (i) management of a client is soliciting proxies and failure to vote in favor of management may harm Cohen & Steers' relationship with the client and materially impact Cohen & Steers' business; or
- (ii) a personal or familial relationship between an employee or director at Cohen & Steers and management of an issuer could impact Cohen & Steers' voting decision.

When a potential material conflict is identified, the Proxy Committee will evaluate the situation and determine whether an actual material conflict of interest exists. In the event the Proxy Committee determines that a material conflict does exist, the Proxy Committee shall make a recommendation on how Cohen & Steers shall vote the proxy.

Depending on the nature of the material conflict of interest, the Proxy Committee, in the course of addressing the material conflict, may elect to take one or more of the following measures, or other appropriate action:

- removing certain Cohen & Steers personnel from the proxy voting process;
- "walling off" personnel with knowledge of the material conflict to ensure that such personnel do not influence the relevant proxy vote;
- voting in accordance with the applicable Guidelines, if any, if the application of the Guidelines would objectively result in the casting of a proxy vote in a predetermined manner; or
- deferring the vote to ISS which will vote in accordance with its own recommendation.

Clients that grant Cohen & Steers authority to vote proxies on the client's behalf may request periodic reports from the firm detailing their proxy record and how such votes were cast. In addition, a copy of the firm's proxy voting policy is available upon request by contacting Cohen & Steers in writing at Avenue 1202 Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong, or by calling +1 852 36670080

### Item 18: Financial Information

As discussed in Item 5 above, Cohen & Steers does not require pre-payment of client fees and therefore is not required to include a balance sheet herein. Furthermore, no current financial

condition exists at the firm that is reasonably likely to impair our ability to meet contractual commitments to clients. Cohen & Steers has never been the subject of a bankruptcy petition.

### Appendix A

#### Risks

##### *Investment Risk*

A client's investment represents an investment in the securities of companies. The value of these securities, like other investments, may move up or down, sometimes rapidly and unpredictably, as a result of market volatility. Your investment at any point in time may be worth less than the amount invested. A client's portfolio is subject to investment risk, including the possible loss of the entire principal amount of the investment.

##### *Real Estate Market Risk*

Accounts in the real estate strategies concentrate their assets in the real estate industry so investments in these strategies will be closely linked to the performance of the real estate markets. To a more limited extent, other strategies may invest in real estate securities, exposing these strategies to similar risks on a lesser scale. Property values may fall due to increasing vacancies or declining rents resulting from unanticipated economic, legal, cultural or technological developments. Real estate company prices also may drop because of the failure of borrowers to pay their loans and poor management.

##### *REIT Risk*

REITs are dependent upon management skills and generally may not be diversified. REITs are also subject to heavy cash flow dependency, defaults by borrowers and self-liquidation. In addition, REITs could possibly fail to qualify for pass-through of income under the Internal Revenue Code of 1986, as amended. Other factors may also adversely affect a borrower's or a lessee's ability to meet its obligations to the REIT. In the event of a default by a borrower or lessee, the REIT may experience delays in enforcing its rights as a mortgagee or lessor and may incur substantial costs associated with protecting its investments which may have a negative impact on the share price of the security.

##### *Foreign (Non-U.S.) Securities Risk*

Risks of investing in foreign securities include currency risks, future political and economic developments and possible imposition of foreign withholding taxes on income payable on the securities. In addition, there may be less publicly available information about a foreign issuer than about a domestic issuer, and foreign issuers may not be subject to the same accounting, auditing and financial recordkeeping standards and requirements as domestic issuers.

##### *Foreign Currency Risk*

A strategy may invest in securities that are denominated in currencies other than the U.S. dollar. The value of that particular currency may change in relation to the U.S. dollar. Among the factors that may affect currency values are political events, trade balances, the level of short-term interest



rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation. Changes in currency values may affect the net asset value of the account and the account's value could decline as a result.

### *Emerging Markets Risk*

Securities of companies in emerging markets may be more volatile than those of companies in more developed markets. Emerging market countries generally have less developed markets and economies and, in some countries, less mature governments and governmental institutions. Investing in securities of companies in emerging markets may entail special risks relating to potential economic, political or social instability and the risks of expropriation, nationalization, confiscation or the imposition of restrictions on foreign investment, the lack of hedging instruments, and on repatriation of capital invested.

### *Common Stock Risk*

While common stock has historically generated higher average returns than fixed-income securities, common stock has also experienced significantly more volatility in those returns. Common stock prices fluctuate for many reasons, including changes in investors' perceptions of the financial condition of an issuer or the general condition of the relevant stock market, or the occurrence of political or economic events affecting issuers. In addition, common stock prices may be sensitive to interest rate fluctuations which affect the cost of capital and borrowing costs. An adverse event, such as an unfavorable earnings report, may depress the value of common stock held by the account. Also, the price of common stock is sensitive to general movements in the stock market. A drop in the stock market may depress the price of common stock held by the account.

### *General Risks of Investing in Infrastructure Companies*

Securities and instruments of infrastructure companies are more susceptible to adverse economic or regulatory occurrences affecting their industries. Infrastructure companies may be subject to a variety of factors that may adversely affect their business or operations, including high interest costs in connection with capital construction programs, high leverage, costs associated with environmental and other regulations, the effects of economic slowdown, surplus capacity, increased competition from other providers of services, uncertainties concerning the availability of fuel at reasonable prices, the effects of energy conservation policies and other factors. Infrastructure companies may also be affected by or subject to:

- regulation by various government authorities;
- government regulation of rates charged to customers;
- service interruption due to environmental, operational or other mishaps;
- the imposition of special tariffs and changes in tax laws, regulatory policies and accounting standards; and
- general changes in market sentiment towards infrastructure and utilities assets.



### *Master Limited Partnership (MLP) Risk*

An investment in MLP units involves some risks that differ from an investment in the common stock of a corporation. Holders of MLP units have limited control on matters affecting the partnership. Investing in MLPs involves certain risks related to investing in the underlying assets of the MLPs and risks associated with pooled investment vehicles. MLPs holding credit-related investments are subject to interest rate risk and the risk of default on payment obligations by debt issuers. MLPs that concentrate in a particular industry or a particular geographic region are subject to risks associated with such industry or region. The benefit derived from the account's investment in MLPs is largely dependent on the MLPs being treated as partnerships for Federal income tax purposes.

### *Preferred Securities Risk*

There are various risks associated with investing in preferred securities, including credit risk, interest rate risk, deferral and omission of distributions, subordination to bonds and other debt securities in a company's capital structure, limited liquidity, limited voting rights and special redemption rights.

- *Deferral and Omission Risk.* Preferred securities may include provisions that permit the issuer, at its discretion, to defer or omit distributions for a stated period without any adverse consequences to the issuer.
- *Credit and Subordination Risk.* Credit risk is the risk that a security in the account's portfolio will decline in price or the issuer of the security will fail to make dividend, interest or principal payments when due because the issuer experiences a decline in its financial status. Preferred securities are generally subordinated to bonds and other debt instruments in a company's capital structure in terms of having priority to corporate income, claims to corporate assets and liquidation payments, and therefore will be subject to greater credit risk than more senior debt instruments.
- *Interest Rate Risk.* Interest rate risk is the risk that preferred securities will decline in value because of changes in market interest rates. When market interest rates rise, the market value of such securities generally will fall. Preferred securities with longer periods before maturity may be more sensitive to interest rate changes.
- *Call, Reinvestment and Income Risk.* During periods of declining interest rates, an issuer may be able to exercise an option to redeem its issue at par earlier than scheduled which is generally known as call risk. If this occurs, the account may be forced to reinvest in lower yielding securities. This is known as reinvestment risk. Another risk associated with a declining interest rate environment is that the income from the account's portfolio may decline over time when the account invests the proceeds from new share sales at market interest rates that are below the portfolio's current earnings rate.
- *Liquidity Risk.* Certain preferred securities may be substantially less liquid than many other securities, such as common stocks or U.S. Government securities. Illiquid securities involve the risk that the securities will not be able to be sold at the time desired by the account or at prices approximating the value at which the account is carrying the securities on its books.
- *Limited Voting Rights Risk.* Generally, traditional preferred securities offer no voting rights with respect to the issuer unless preferred dividends have been in arrears for a specified number of periods, at which time the preferred security holders may elect a number of directors to the

issuer's board. Generally, once all the arrearages have been paid, the preferred security holders no longer have voting rights. Hybrid-preferred security holders generally have no voting rights.

- *Special Redemption Rights.* In certain varying circumstances, an issuer of preferred securities may redeem the securities prior to a specified date. For instance, for certain types of preferred securities, a redemption may be triggered by a change in U.S. federal income tax or securities laws. As with call provisions, a redemption by the issuer may negatively impact the return of the security held by the account.

### *Debt Securities Risk*

Debt securities generally present two types of risk—interest rate risk, which is the risk that bond prices will decline because of rising interest rates, and credit risk, which is the chance that a bond issuer will fail to timely pay interest and principal or that a bond's price declines because of negative perceptions of an issuer's ability to pay interest and principal.

### *Below Investment Grade Securities Risk*

Below investment grade securities, or equivalent unrated securities, generally involve greater volatility of price and risk of loss of income and principal, and may be more susceptible to real or perceived adverse economic and competitive industry conditions than higher grade securities. It is reasonable to expect that any adverse economic conditions could disrupt the market for below investment grade securities, have an adverse impact on the value of those securities and adversely affect the ability of the issuers of those securities to repay principal and interest on those securities.

### *Short Sales Risk*

In a short sale, the seller sells a security that it does not own, typically a security borrowed from a broker or dealer. Because the seller remains liable to return the underlying security that it borrowed from the broker or dealer, the seller must purchase the security prior to the date on which delivery to the broker or dealer is required. The making of short sales exposes the account to the risk of liability for the market value of the security that is sold, which is an unlimited risk due to the lack of an upper limit on the price to which a security may rise. In addition, there can be no assurance that securities necessary to cover a short position will be available for purchase or that securities will be available to be borrowed by the account at reasonable costs. If a request for return of borrowed securities occurs at a time when other short sellers of the security are receiving similar requests, a "short squeeze" can occur, and the account may be compelled to replace borrowed securities previously sold short with purchases on the open market at the most disadvantageous time, possibly at prices significantly in excess of the proceeds received in originally selling the securities short.

### *Derivatives Risks*

Many of the risks applicable to trading an underlying asset are also applicable to derivatives trading. However, there are a number of additional risks associated with derivatives trading.

Transactions in certain derivatives are subject to clearance on a U.S. national exchange and to regulatory oversight, while other derivatives are subject to risks of trading in the over-the-counter (OTC) markets or on non-U.S. exchanges. Additional risks associated with derivatives trading include:

- *Counterparty Risk.* Because derivative transactions may involve instruments that are not traded on an exchange but are instead traded between counterparties based on contractual relationships, an account is subject to the risk that a counterparty will not perform its obligations under the related contracts. Although the firm intends to enter into transactions only with counterparties which we believe to be creditworthy, there can be no assurance that a counterparty will not default and that an account will not sustain a loss on a transaction as a result. In the event of the counterparty's bankruptcy or insolvency, the account's collateral may be subject to the conflicting claims of the counterparty's creditors, and the account may be exposed to the risk of a court treating the investment as a general unsecured creditor of the counterparty, rather than as the owner of the collateral.
- *Liquidity Risk.* The market for many derivatives is, or suddenly can become, illiquid. Changes in liquidity may result in significant, rapid and unpredictable changes in the prices for derivatives transactions. An account could experience losses if it were unable to liquidate its position because of an illiquid secondary market. In addition, daily limits on price fluctuations and speculative position limits on exchanges on which the firm may conduct its transactions in derivative instruments may prevent profitable liquidation of positions, subjecting the account to the potential of greater losses.
- *Financial Leverage Risk.* Trading in certain derivative instruments can result in large amounts of financial leverage. Thus, the leverage offered by trading in derivative instruments will magnify the gains and losses experienced by an account and could cause the value of the account's net assets to be subject to wider fluctuations than would be the case if the account did not use the leverage feature of derivative instruments. In certain types of derivatives transactions the account could lose the entire amount of its investment; in other types of derivatives transactions the potential loss is theoretically unlimited.
- *Over-the-Counter Trading Risk.* Derivative instruments, such as swap agreements and participatory notes that may be purchased or sold may include instruments not traded on an exchange. The risk of nonperformance by the counterparty to an instrument may be greater than, and the ease with which the account can dispose of or enter into closing transactions with respect to an instrument may be less than, the risk associated with an exchange traded instrument. In addition, significant disparities may exist between "bid" and "asked" prices for derivative instruments that are not traded on an exchange. Derivative instruments not traded on exchanges also are not subject to the same type of government regulation as exchange traded instruments, and many of the protections afforded to participants in a regulated environment may not be available in connection with the transactions.
- *Tracking and Replication Risks.* When used for hedging purposes, an imperfect or variable degree of correlation between price movements of the derivative instrument and the underlying investment sought to be hedged may prevent an account from achieving the intended hedging effect or expose the account to risk of loss. When used as an alternative means of accessing the securities markets, there is the risk that derivatives transactions may not replicate exactly the performance of the security, securities or securities markets that they seek to replicate. The use of derivatives transactions may result in losses greater than if they had not been used, may require the account to sell or purchase portfolio securities at inopportune times or for prices

other than current market values, may limit the amount of appreciation the account can realize on an investment, or may cause the account to hold a security that it might otherwise sell. Amounts paid by accounts in strategies using derivative premiums and cash or other assets held as collateral with respect to derivatives transactions may not otherwise be available these accounts for investment purposes.

### *Availability of Investment Strategies*

Identification and exploitation of the investment strategies to be pursued by certain strategies involve a high degree of uncertainty. No assurance can be given that the firm will be able to identify suitable investment opportunities in which to deploy capital. A reduction in overall market volatility and liquidity, as well as other market factors, such as interest rate fluctuations, may reduce the pool of profitable investment strategies.

### *Quantitative Model Risks*

Quantitatively-based financial/analytical models are employed to aid in the selection of investments and to determine the risk profile of the strategy. The success of the strategy's investment and trading activities depends, to some degree, on the viability of these analytical models. There can be no assurance that the models are currently viable, or, if the models are currently viable, that they will remain viable during the term of the strategy. Also, there can be no assurance that the investment professionals utilizing the models will be able to (i) determine that any model is or will remain fully or partially viable, or (ii) notice, predict or adequately react to any change in the viability of a model. The use of a model that is not viable or not completely viable could, at any time, have a material adverse effect on the performance of the account.

### *Concentration Risk*

A strategy that invests at least 25% of its net assets in a particular sector or industry will be more susceptible to adverse economic or regulatory occurrences affecting this sector or industry, such as changes in interest rates, loan concentration and competition. Accordingly, a negative development in the particular sector or industry could adversely impact the strategy because it is not diversified across asset classes.

### *Lack of Liquidity in Markets*

The markets for some securities and instruments have limited liquidity and depth. This limited liquidity and lack of depth could be a disadvantage to the strategy, both in the realization of the prices which are quoted and in the execution of orders at desired prices.

### *Illiquid Credit Markets*

There is no guarantee that the credit markets will not experience a lack of liquidity or increased volatility in the future. Further, there can be no assurance that the markets will, in the future, continue to be more liquid. It is also possible that illiquidity in the market could cause prices to decline further, which may have the result of forcing the strategy or its underlying investments to sell assets to satisfy requirements under borrowing arrangements or to meet margin calls, which

could, in turn, create further downward price pressure. If there is a substantial decline in the market value of the strategy's portfolio of investments, investments may need to be liquidated quickly, and perhaps not at fair value. Upheavals in the credit markets may cause margin borrowing costs and securities borrowing costs to increase. Such increases in borrowing costs may impact the strategy's ability to generate returns.

### *Suspensions of Trading*

Each securities exchange or commodities (including futures) contract market typically has the right to suspend or limit trading in all securities or commodities which it lists. Such a suspension would render it impossible for the strategy to liquidate positions and, accordingly, expose the strategy to losses and delays in its ability to effect withdrawals by Investors. Individual securities can also face trading suspensions prior to significant news events or when that security is subject to significant market fluctuations.

### *Securities Believed to be Undervalued or Incorrectly Valued*

Securities which the strategy believes are fundamentally undervalued or incorrectly valued may not ultimately be correctly valued in the opinion of the portfolio manager at prices within the time frame the strategy anticipates. As a result, the strategy may lose all or substantially all of its investment in any particular instance.

### *Hedging Risk*

Certain investment strategies may involve hedging certain risks, such as market risk, interest rate risk and real estate market risk, through the use of various derivative instruments. However, it is generally not possible to eliminate all risk of adverse market movement. Suitable hedging transactions may not be available in all circumstances, and there can be no assurance that the account will engage in these transactions to reduce exposure to risks when that would be beneficial. The use of hedging instruments may enable the account to increase its profits from favorable market price movements and diminish its exposure to market volatility. However, any reduction or increase in the hedge from the theoretical neutral hedge also increases the exposure of the account to adverse market price movements, and at times could present material risk to the capital of the account.

### *Frequent Trading Risk*

Frequent trading of securities in an account or portfolio can affect performance, particularly through increased brokerage and other transaction costs and taxes.