

## **Part 2 of Form ADV**

### **Item 1. Cover Page**

BNY Mellon ARX Investimentos Ltda.  
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### **Form ADV Part 2 (as of March 31, 2011)**

**This brochure provides information about the qualifications and business practices of BNY Mellon ARX Investimentos Ltda. If you have any questions about the contents of this brochure, please contact us at +55 21 3265-2139 or at [intlproducts@bnymellon.com.br](mailto:intlproducts@bnymellon.com.br). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

**Additional information about BNY Mellon ARX Investimentos Ltda. also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **Item 2. Summary of Material Changes**

Not applicable.

## **Item 3. Table of Contents**

<b><u>Item</u></b>	<b><u>Page</u></b>
1. Cover Page	1
2. Material Changes	N/A
3. Table of Contents	2
4. Advisory Business	3
5. Fees and Compensation	3
6. Performance-Based Fees and Side-by-Side Management	5
7. Types of Clients	8
8. Methods of Analysis, Investment Strategies and Risk of Loss	8
9. Disciplinary Information	24
10. Other Financial Industry Activities and Affiliations	24
11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	27
12. Brokerage Practices	32
13. Review of Accounts	34
14. Client Referrals and Other Compensation	35
15. Custody	36
16. Investment Discretion	37
17. Voting Client Securities	37
18. Financial Information	38

#### **Item 4. Advisory Business**

BNY Mellon ARX Investimentos Ltda. (the “Firm” or “We” or “Us”) is organized under the laws of Brazil. The Firm is a wholly-owned subsidiary of The Bank of New York Mellon Corporation (“BNY Mellon”). We were formed in January 2008, following the acquisition of ARX Capital Management by BNY Mellon. Prior to the acquisition, we operated as two independent entities: BNY Mellon Asset Management Brasil Ltda. and ARX Capital Management Ltda. BNY Mellon Asset Management Brasil Ltda. was organized and had been providing investment advisory services since 1997 and ARX Capital Management Ltda. since 2001. Our investment professionals focus on the Brazilian markets. We do not have a place of business in the United States.

We provide discretionary investment advisory services to pooled investment vehicles or “funds” as well as to individuals and institutions in the form of separate accounts. Our clients, by-and-large, are non-U.S. persons but we do advise a few U.S. persons as well. Furthermore, some investors in the funds that we manage are U.S. persons.

Generally, we offer investment advisory services of funds. One of our fund clients is a U.S. registered investment company but most of our funds are registered in Brazil and subject to Brazilian law. We also have funds domiciled in “offshore” jurisdictions like Bermuda and Cayman. Each fund has an investment objective and a set of investment policies and/or guidelines that we must follow. For this reason, we cannot tailor the investment advisory services we provide to our funds to meet individual investor needs. In addition, we cannot impose individual investment restrictions on our investment strategies for underlying investors in the funds.

We also offer investment advisory services to individual and institutions directly in the form of separate accounts. In such cases, we tailor our investment advisory services to meet the client’s individual investment goals. We work with clients to create investment guidelines mutually acceptable to the client and the Firm. When creating investment guidelines, clients may impose investment restrictions in certain individual securities or types of securities.

We manage \$7,084,001,259 on a discretionary basis as of December 31, 2010.

#### **Item 5. Fees and Compensation**

We provide investment advisory services for a fee. This fee is typically charged as a percentage of your assets under our management. While this fee is typically expressed as an annual

percentage, it is calculated based on average daily net assets and typically charged to your account on a monthly, quarterly or semi-annual basis in arrears. You may select whether you would like fees to be deducted automatically from your assets or billed separately.

Your management fee is generally based on the type of account that you have with us, which may be limited by local law. The following is schedule describes the management fees that we typically charge our clients:

<b>Funds (either domiciled or offered in US)</b>	<b>0.20 – 4.00% per year</b>
<b>Separate account (owned by US person)</b>	<b>0.12 – 3.00% per year</b>

Your account may also be charged performance fees charged on a quarterly or semi-annual basis in arrears. Please see Item 6 below for more information on our performance fees. Your investment advisory agreement or fund offering materials may also provide that you will incur fees and expenses in addition to our advisory fees such as custody, brokerage and other transaction costs, administrative and other expenses. Examples of other costs and expenses may include markups, mark-downs and other amounts included in the price of a security, odd-lot differentials, transfer taxes, wire transfer fees and electronic fund fees. Please review your investment advisory agreement or fund offering materials for further information about fees. Please also see Item 12 of this brochure for more information on our brokerage practices.

We reserve the right, in our sole discretion, to negotiate or modify (either up or down) the basic fee schedule(s) set forth above for any client due to a variety of factors, including but not limited to: the level of reporting and administrative operations required to service an account, the investment strategy or style, the number of portfolios or accounts involved, and/or the number and types of services provided to the client. Because our fees are negotiable, the actual fee paid by any client or group of clients may be different from the fees reflected in our basic fee schedule(s) set forth above.

The funds that we manage charge fees to the underlying investors. These are generally not negotiable, though they may be waived or deferred at the discretion of the fund in accordance with the fund's offering materials. Such waivers and deferrals will cause some clients or groups of clients to pay fees that are different from the basic fee schedules disclosed in fund offering

materials. Please see the applicable fund's offering materials for further information regarding fees.

We may invest your account in pooled investment vehicles such as cash funds or money market funds that themselves bear advisory fees and operational expenses such as transfer agent, distribution, shareholder servicing, networking, and recordkeeping fees. Please see Item 12 of this brochure for more information on brokerage. Your account will indirectly bear these fees and expenses as an investor in such pooled investment vehicles and, as a result, you will bear higher expenses than if you invested directly in the securities held by the pooled investment vehicle.

We do not charge or receive compensation in connection with the sale of funds or other investment products. However, certain employees of our affiliates accept compensation (also referred to as "commissions") for the sale of funds or other investment products. Accepting commissions for the sale of such products gives rise to a conflict of interest in that it may give employees of our affiliate an incentive to recommend investment products based on the compensation they will receive, rather than solely on a client's needs. Please refer to Item 6, below, for a discussion of these conflicts of interest. Our affiliates disclose its commissions to prospective clients before they invest.

#### **Item 6. Performance Fees and Side-by-Side Management**

We are subject to certain fiduciary standards (under U.S. & Brazilian law) and owe clients an affirmative duty of utmost good faith to act solely in the best interests of the client and to make full and fair disclosure of all material facts, particularly where the adviser's interests may conflict with the client's best interest. In this section, we describe our performance based fee arrangements and our side-by-side management activities and the inherent conflicts in such arrangements.

We have entered into performance based fee arrangements with some of our fund and separate account clients. Some of these arrangements provide for an asset based management fee (described in Item 5 above), plus a performance fee based on the portfolio's gross or net return in excess of a specified benchmark during a designated period of time. For more detailed information on how performance fees are calculated, please see your fund's offering materials or your investment advisory contract with us.

"Side-by-side management" refers to our simultaneous management of multiple types of client accounts/investment products. For example, we manage separate accounts and funds for clients

at the same time. Our clients have a variety investment objectives, policies, strategies, limitations and restrictions. Our affiliates likewise manage a variety of separate accounts and pooled investment vehicles.

Side-by-side management gives rise to a variety of potential and actual conflicts of interest for us, our employees and our supervised persons. Below we discuss the conflicts that we and our employees and supervised persons face when engaging in side-by-side management and how we deal with them. When we and our affiliates concurrently manage client accounts/ investment products, this presents the same conflicts as described below.

Note that we manage our accounts consistent with applicable law, and we follow procedures that are reasonably designed to treat our clients fairly and to prevent any client or group of clients from being systematically favored or disadvantaged. For example, we have Trade Allocation policies and procedures which are designed and implemented to ensure that all clients are treated fairly and equally, and to prevent these conflicts from influencing the allocation of investment opportunities among clients. Please see Item 12 for an explanation of our Trade Allocation policies and procedures.

### **Conflicts of Interest Relating to Performance Based Fees When Engaging in Side-by-Side Management**

We manage accounts that are charged a performance-based fee and other accounts that are charged a different type of fee, such as a flat asset-based fee. We have a financial incentive to favor accounts with performance-based fees because we (and indirectly our employees and supervised persons) may have an opportunity to earn greater fees on such accounts as compared to client accounts without performance-based fees. Thus, we have an incentive to direct our best investment ideas to client accounts that pay performance-based fees, and to allocate, aggregate or sequence trades in favor of such accounts. We also have an incentive to give accounts with performance-based fees better execution and better brokerage commissions. Please see Item 12 for an explanation of our Trade Allocation policies and procedures.

### **Conflicts of Interest Relating to Accounts with Different Strategies**

We and our affiliates manage numerous accounts with a variety of strategies, which may present conflicts of interest. For example, a long/short position in two client accounts simultaneously can result in a loss to one client based on a decision to take a gain in the other. Taking concurrent conflicting positions in certain derivative instruments can likewise cause a loss to one client and a gain to another. We also may face conflicts of interest when we have uncovered option strategies and significant positions in illiquid securities in side-by-side accounts. Please see Item 12 for an explanation of our Trade Allocation policies and procedures.

## **Conflicts of Interest Relating to Investment in Affiliated Accounts**

To the extent permissible under applicable law, we may decide to invest some or all of our temporary investments in money market accounts advised or managed by us or a BNY Mellon affiliate. In addition, we may invest client accounts in affiliated funds. We have an incentive to allocate investments to these types of affiliated accounts in order to generate additional fees for us or our affiliates. Please see Item 12 for an explanation of our Trade Allocation policies and procedures.

## **Conflicts of Interest Relating to “Proprietary Accounts”**

We, our affiliates, and our existing and future employees may from time to time manage and/or invest in products managed by the Firm (“Proprietary Accounts”). Investment by the Firm, our affiliates, or our employees in Proprietary Accounts may create conflicts of interest. We have an incentive to favor these Proprietary Accounts by, for example, directing our best investment ideas to these accounts or allocating, aggregating or sequencing trades in favor of such accounts, to the disadvantage of other accounts. We also have an incentive to dedicate more time and attention to our Proprietary Accounts and to give them better execution and brokerage commissions than our other client accounts.

## **Other Conflicts of Interest**

As noted previously, we and our affiliates manage numerous accounts with a variety of interests. This necessarily creates potential conflicts of interest for us. For example, we or an affiliate may cause multiple accounts to invest in the same investment. Such accounts may have conflicting interests and objectives in connection with such investment, including differing views on the operations or activities of the portfolio company, the targeted returns for the transaction and the timeframe for and method of exiting the investment. Conflicts may also arise in cases where multiple Firm and/or affiliate client accounts are invested in different parts of an issuer’s capital structure. For example, one of our client accounts could acquire debt obligations of a company while an affiliate’s client account acquires an equity investment. In negotiating the terms and conditions of any such investments, we may find that the interests of the debt-holding client accounts and the equity holding client accounts may conflict. If that issuer encounters financial problems, decisions over the terms of the workout could raise conflicts of interest (including, for example, conflicts over proposed waivers and amendments to debt covenants). For example, debt holding accounts may be better served by a liquidation of an issuer in which it could be paid in full, while equity holding accounts might prefer a reorganization of the issuer that would have the potential to retain value for the equity holders. As another example, holders of an issuer’s senior securities may be able to act to direct cash flows away from junior security holders, and

both the junior and senior security holders may be Firm client accounts. Any of the foregoing conflicts of interest will be discussed and resolved on a case-by-case basis by our Compliance department. Any such discussions will factor in the interests of the relevant parties and applicable laws. Please see Item 12 for an explanation of our Trade Allocation policies and procedures.

## **Item 7. Types of Clients**

Type of Clients: We provide advisory services to registered investment companies, funds regulated under Brazilian law, private funds and other “offshore” private investment funds as well as to high net worth individuals, institutions and non-U.S. persons in the form of separate accounts. We also provide advisory services to other investment advisers.

Account Requirements: We generally require our clients to execute a written investment management agreement with us, granting us authority to manage their assets. Client accounts are subject to minimum account sizes which vary depending upon the strategy of the account. Accounts may also be subject to minimum annual fees; please see Item 5 for more information.

<u>Account Strategy</u>	<u>Minimum Account Size</u>
Equity Long Only	\$100 million
Multi-strategy	\$20 million
Equity Long Short	\$25 million
Cash & Fixed Income	(negotiable)

We reserve the right to waive the above minimum account size requirements.

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

### **Investment Strategies & Methods of Analysis**

We offer the following investment strategies to our clients focused on Brazilian markets:

- Equity Long Only
- Multi-Strategy
- Equity Long-Short



- Cash & Fixed Income

### ***Equity Long Only***

We have three model portfolios for our Equity Long Only strategy, a more diversified version (the Value sub-strategy) and two concentrated versions (the Growth sub-strategy and the Small and Mid Cap sub-strategy).

#### ***Value***

The investment horizon is between three to four years. We do not look for short-term macro trends, but rather look for long term intrinsic value in our investments. For client accounts that follow the Value sub-strategy, the goal is to seek long-term capital appreciation. To pursue its goal, the strategy normally invests at least 80% of its assets in equity securities of companies: (i) that have their registered office in Brazil; (ii) whose principal trading market is in Brazil; or (iii) that have a majority of their assets, or that derive a significant portion of their revenue or profits from businesses, investments or sales in Brazil.

We seek investment opportunities in companies with sustainable earnings, attractive valuations and high dividend yields that indicate the potential for strong sustainable capital growth. We construct the fund's portfolio through a combination of quantitative and fundamental bottom-up research, and an understanding of local/regional macroeconomic trends.

In selecting securities for this model portfolio, we use a three-step method of analysis:

#### **Step 1: Quantitative Analysis**

The portfolio managers use a proprietary quantitative model to identify and analyze approximately 180 stocks listed on the BM&FBOVESPA (the Brazilian Stock, Commodities and Futures Exchanges).

#### **Step 2: Fundamental Analysis**

Based on their assessment of certain qualitative factors, the portfolio managers generally select approximately 25 to 40 stocks from the narrowed universe of stocks screened by the quantitative model. As part of this process, the portfolio managers use a discounted cash flow approach to valuing companies.

### Step 3: Portfolio Construction

The portfolio managers define exposure limits to each company and sector and weights to each stock selected in Step 2. During this phase of the process, the portfolio managers use a quantitative and multifactor model to seek to achieve portfolio optimization.

We seek to realize superior risk adjusted returns (although this cannot be guaranteed) through investment in a variety of instruments, including but not limited to stock on the BM&FBOVESPA (the Brazilian Stock, Commodities and Futures Exchanges), NYSE, or any other stock exchange, equity-related securities, bonds, currencies, interest rates transactions, derivatives such as futures, forwards, non-deliverable forwards, swaps, options and convertibles, commodities, warrants, notes and other fixed income or floating rate instruments issued by the Brazilian Federal Government or its agencies, all such assets denominated in Brazilian Reais, US Dollars or other currencies.

#### ***Growth***

Generally, the Growth sub-strategy has a more medium-to-long-term mandate however there are also short-term trades. The investment horizon is between one to two years, and we do not look for short-term macro trends, but rather long term intrinsic value in our investments. The idea generation may come from the portfolio manager or the equity analysts.

There are two main drivers in our method of analysis for this sub-strategy: top down analysis and bottom up. The top down approach uses microeconomic and macroeconomic factors (exchange rates, GDP, interest rates, inflation and politics) to identify the economy momentum and the scenarios that will identify the big themes or sectors. However the bottom-up process will ultimately select the company and the sectors.

For the Growth sub-strategy we focus on companies with attractive valuation both in absolute and relative terms, filtered by the long term competitive analysis and by value drivers. The stock selection also focus on other qualitative factors as regulation, legislation, and company management skills, interest alignment and information sources. In addition, the portfolio managers and equity analyst look at other quantitative factors such as: identify key drivers for the industry, analyze competitive structure of the industry, build a detailed model for the industry/company, translate industry view into detailed assumptions, validate assumption with relevant stakeholders/ competitors, compare results to expectations of the sell-side, benchmark with other investment ideas.

This long only portfolio contains approximately twenty equity investments representing our highest-conviction ideas. There is no currency hedging or leverage used for this strategy. This strategy will normally be fully invested with a maximum exposure of 100%. In this strategy the percentage of capital invested in any single position is considered high: 20%, Average: 10%, Low: 3%. The investment horizon is between 1 to 2 years; and we do not look for short-term macro trends, but rather long term intrinsic value in our investments.

### ***Small & Mid Cap***

The Small & Mid Cap Strategy is composed primarily by small/mid-cap equities around 20-30 names in portfolio on average. A combination of top-down macro and fundamental research analysis with a long term investment horizon with focus to invest in Brazilian companies with lower liquidity. The strategy seeks disruption between the stock intrinsic value and their market prices driven by their low liquidity. The investment decision is based primarily on fundamental analysis, focused in companies with a good level of transparency and corporate governance and in which controllers and administrators are aligned with sustainable competitive advantage and attractive price of the markets. We tend to benefit from markets players short term view of the industries; investing with a considerable safety margin. The higher risk to be compensated by superior target returns; gradually in and out of positions; higher Beta-Strategy; focus on more Brazilian domestic and infrastructure companies.

### ***Multi-Strategy***

Client accounts that follow our Multi-Strategy model portfolio are managed based on macroeconomic fundamentals, as well as on many variables in the local and international economies. Typically we focus on opportunities in interest rate, foreign exchange, stock and international markets through direct investments and through placing position hedges. We jointly develop the strategies and positions of the funds, backed by the macroeconomic team. Our Multi-Strategy team is comprised of portfolio managers and macroeconomists.

This strategy seeks absolute returns that are not directly linked to any particular market within Brazil, maintaining its freedom in allocating assets broadly. Given most of our client's constant concern with preserving capital, we seek inexpensive hedges for client accounts that follow this model portfolio. The allocation strategies include directional, arbitrage and volatility positions.

Some of the financial instruments held in client accounts that follow this strategy include:

- Equities
- Brazilian inflation linked bonds

- FX (BRL)
- Brazilian external debt
- Currencies
- Global interest rates swaps
- Global equities

### ***Equity Long Short***

The Equity Long Short strategy seeks capital appreciation uncorrelated with market indexes from relative value, event-driven and directional long or short positions in equities. We trade primarily, but not limited to, Brazilian equities listed on the Brazilian Stock, Commodities and Futures Exchanges (“BM&FBOVESPA”) as well as other international exchanges. Accounts following this strategy also contain short positions in the index future contracts listed on BM&FBOVESPA and other index futures listed on other exchanges.

The strategy is composed of a long stock portfolio versus a portfolio of shorts stocks, in addition to the sale of index futures beyond the pair trades strategy (stock class, capital structure, and risk arbitrage). Short positions are typically taken in the following ways: by directly shorting stocks, as part of a pair strategy or as a short position against the market via futures. Pair trades are used when one stock appears overvalued relative to another according to our fundamental analysis.

The style is largely fundamental bottom-up following the investment process. Investments are selected after significant fundamental research undertaken by portfolio managers and analysts. The portfolio managers and the equities research team meet daily to discuss market scenarios and specific bottom-up ideas based on fundamental analysis in a continuous and dynamic investment decision-making process. Internal spreadsheets containing valuation of all companies are shared between analysts and portfolio managers. The equities research team actively covers industry trends, utilize detailed valuation models and frequently visit the companies they research. All companies are visited on a regular basis mainly by the equity analysts. This approach, together with the portfolio managers’ strong backgrounds in equity and macro research gives the trading advisor a significant edge.

The macroeconomists give a top-down analysis focusing on the macro environment, liquidity and market sentiment as well as a view on risks associated with political and economic risks. The Fund takes into consideration long-term political and economic scenarios before investing in any asset. The trends for local currency, interest rates and gross domestic product growth are thoroughly analyzed before any investment is made.

The trading strategy has a medium-to-long-term horizon yet it is constantly re-evaluated and questioned and short-term trades are implemented to take advantage of daily trading opportunities and to maximize the return of the adopted trading strategy.

### ***Cash & Fixed Income***

The portfolio managers of this strategy buy Brazilian government bonds and similar instruments, according to the limits imposed by Brazilian law. Some client accounts following this strategy seek long capital appreciation while others seek daily returns close the Brazilian overnight interest rate (the “Selic”). The methods of analysis are the same as our Multi-strategy portfolio described immediately above.

### **Risk of Loss**

Each investment strategy we offer invests in a variety of securities and employs a number of investment techniques that involve certain risks. Investing in securities involves risk of loss that you should be prepared to bear. The table below and section that follows sets forth information concerning the material risks involved with each strategy. An “X” in the table indicates that the strategy involves the corresponding risk. An empty box indicates that the strategy does not involve the corresponding risk in a material way. **However, an empty box does not guarantee that the strategy will not be subject to the corresponding risk.**

The risks set forth below represent a general summary of the material risks involved in the investment strategies we offer. If applicable, please refer to the “Risk Factors” section in the offering documents for a more detailed discussion of the risks involved in an investment in a fund.

<b>Risk Type</b>	<b>Equity Long</b>	<b>Equity Long Short</b>	<b>Multi-strategy</b>	<b>Cash &amp; Fixed Income</b>
General risks	X	X	X	X
Clearance and settlement risk	X	X	X	X
Counterparty risk			X	
Interest rate risk			X	X

Credit risk			X	X
Depository Receipt Risk	X	X		
Derivatives risk		X	X	
Exchange-traded fund (ETF) risk	X	X		
Country and sector allocation risk	X	X	X	
Country, industry and market sector risk	X	X	X	
Emerging market risk - equities	X	X	X	
Emerging market risk – fixed income			X	X
Concentrating investments in Brazil risk.	X	X	X	X
Foreign investment risk	X	X	X	X
Foreign currency risk	X	X	X	X
Foreign government obligation risk			X	X
Government			X	X

securities risk				
Growth and Value stock risk	X	X		
Issuer risk	X	X	X	X
IPO Risk	X	X		
Leverage risk		X	X	
Liquidity risk	X	X	X	X
Market risk	X	X	X	X
Market sector risk	X	X		
Large cap stock risk	X	X		
Small and midsize company risk	X	X		
Value stock risk	X			
Warrants and rights risk	X	X		
Preferred stock risk	X	X		
Short Sale Risk		X		
Stock investing risk	X	X	X	
Stock selection risk	X	X	X	
Non-diversification	X	X		

risk				
Other potential risks	X	X	X	X

**General risks.** Investing in securities involves risk of loss that you should be prepared to bear. We do not guarantee or represent that our investment program will be successful. Our past results are not necessarily indicative of our future performance and our investment results may vary over time. We cannot assure you that our investments of your money will be profitable, and in fact, you could incur substantial losses. Your investments with us are not a bank deposit and are not insured or guaranteed by the FDIC or any other government agency.

**Clearance and settlement risk.** Many emerging market countries have different clearance and settlement procedures from developed countries. There may be no central clearing mechanism of settling trades and no central depository or custodian for the safe keeping of securities. The registration, record-keeping and transfer of instruments may be carried out manually, which may cause delays in the recording of ownership. Increased settlement risk may increase counterparty and other risk. Certain markets have experienced periods when settlement dates are extended, and during the interim, the market value of an instrument may change. Moreover, certain markets have experienced periods when settlements did not keep pace with the volume of transactions resulting in settlement difficulties. Because of the lack of standardized settlement procedures, settlement risk in emerging markets is more prominent than in more mature markets.

**Counterparty risk.** The risk that a counterparty in a repurchase agreement or other derivative investment could fail to honor the terms of its agreement.

**Interest rate risk.** Prices of debt securities tend to move inversely with changes in interest rates. Typically, a rise in rates will adversely affect the prices of these securities and, accordingly, the value of your investment. The longer the effective maturity and duration of the strategy's portfolio, the more the value of your investment is likely to react to interest rates. Mortgage-related securities can have a different interest rate sensitivity than other bonds, however, because of prepayments and other factors, and may carry additional risks and be more volatile than other types of debt securities due to unexpected changes in interest rates.

**Credit risk.** Failure of an issuer to make timely interest or principal payments, or a decline or perception of a decline in the credit quality of a bond, can cause a bond's price to fall. See also "High yield bond risk."



**Depository receipts risk.** DRs generally represent securities of non-U.S. issuers and may include sponsored or unsponsored DR programs. In an unsponsored facility, the depository issues the DRs without an agreement with the company that issues the underlying securities. Holders of unsponsored DRs generally bear all the costs of such facility, and the depository of an unsponsored facility frequently is under no obligation to distribute shareholder communications received from the company that issues the underlying securities or to pass through voting rights to the holders of the DRs with respect to the underlying securities. Therefore, sponsored DR facilities may provide holders with more information about the issuer of the underlying security.

**Derivatives risk.** A small investment in derivatives could have a potentially large impact on the strategy's performance. The use of derivatives involves risks different from, or possibly greater than, the risks associated with investing directly in the underlying assets. Derivatives can be highly volatile, illiquid and difficult to value, and there is the risk that changes in the value of a derivative held by the strategy will not correlate with the underlying instruments or the strategy's other investments. Derivative instruments also involve the risk that a loss may be sustained as a result of the failure of the counterparty to the derivative instruments to make required payments or otherwise comply with the derivative instruments' terms. Certain types of derivatives involve greater risks than the underlying obligations because, in addition to general market risks, they are subject to illiquidity risk, counterparty risk and credit risk. Additionally, some derivatives involve economic leverage, which could increase the volatility of these investments as they may fluctuate in value more than the underlying instrument. See also "Leverage risk."

**Exchange-traded fund (ETF) risk.** ETFs in which the strategy may invest involve certain inherent risks generally associated with investments in a portfolio of common stocks, including the risk that the general level of stock prices may decline, thereby adversely affecting the value of each unit of the ETF. Moreover, an ETF may not fully replicate the performance of its benchmark index because of the temporary unavailability of certain index securities in the secondary market or discrepancies between the ETF and the index with respect to the weighting of securities or the number of stocks held. Investing in ETFs, which are investment companies, may involve duplication of advisory fees and certain other expenses.

**Country and sector allocation risk.** While the portfolio managers use the country and sector weightings of the strategy's benchmark index as a guide in structuring the strategy's portfolio, they may overweight or underweight certain countries or sectors relative to the index. This may cause the strategy's performance to be more or less sensitive to developments affecting those countries or sectors.

**Country, industry and market sector risk.** The strategy may be overweighted or underweighted, relative to the benchmark index, in companies in certain countries, industries or market sectors, which may cause the strategy's performance to be more or less sensitive to positive or negative developments affecting these countries, industries or sectors.

**Emerging market risk.** Emerging markets tend to be more volatile and less liquid than the markets of more mature economies, and generally have less diverse and less mature economic structures and less stable political systems than those of developed countries. The securities of issuers located or doing substantial business in emerging markets are often subject to rapid and large changes in price. In particular, emerging markets may have relatively unstable governments, present the risk of sudden adverse government or regulatory action and even nationalization of businesses, restrictions on foreign ownership or prohibitions of repatriation of assets, and may have less protection of property rights than more developed countries. The economies of emerging market countries may be based predominantly on only a few industries and may be highly vulnerable to changes in local or global trade conditions, and may suffer from extreme debt burdens or volatile inflation rates. Local securities markets may trade a small number of securities and may be unable to respond effectively to increases in trading volume, potentially making prompt liquidation of substantial holdings difficult. Transaction settlement and dividend collection procedures also may be less reliable in emerging markets than in developed markets.

**Emerging market risk – equities.** The securities of issuers located in emerging markets tend to be more volatile and less liquid than securities of issuers located in the markets of more mature economies, and generally have less diverse and less mature economic structures and less stable political systems than those of developed countries. These securities are often subject to rapid and large changes in price.

**Emerging market risk – fixed income.** The securities of issuers located in emerging markets tend to be more volatile and less liquid than securities of issuers located in the markets of more mature economies, and generally have less diverse and less mature economic structures and less stable political systems than those of developed countries. The fixed income securities of issuers located in emerging markets can be more volatile and less liquid than those of issuers in more mature economies. In addition, such securities often are considered to be below investment grade credit quality and predominantly speculative.

**Concentrating investments in Brazil risk.** Certain political, economic, legal and currency risks have contributed to a high level of price volatility in the Brazilian equity and currency markets and could adversely affect your investment. Brazil is dependent upon commodity prices and international trade and suffers from high inflation rates. Brazil continues to suffer from chronic

structural public sector deficits. Disparities of wealth, the pace and success of democratization and capital market development, and ethnic and racial disaffection have led to social and labor unrest, and violence. Unanticipated political or social developments may result in sudden and significant investment losses. The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy, which may have significant effects on Brazilian companies and on market conditions and prices of Brazilian securities. The Brazilian government has often changed monetary, taxation, credit, tariff and other policies to influence the core of Brazil's economy. The Brazilian government's actions to control inflation and affect other economic policies have often involved, among others, the setting of wage and price controls, blocking access to bank accounts, fluctuation of the base interest rates, imposing exchange controls and limiting imports into Brazil. Brazil has historically experienced high rates of inflation and may continue to do so in the future. An increase in prices for commodities, the depreciation of the Brazilian currency (the real) and future government measures seeking to maintain the value of the real in relation to the U.S. dollar may trigger increases in inflation in Brazil and may slow the rate of growth of the Brazilian economy. Inflationary pressures also may limit the ability of certain Brazilian issuers to access foreign financial markets and may lead to further government intervention in the economy, including the introduction of government policies that may adversely affect the overall performance of the Brazilian economy, which in turn could adversely affect your investment. Furthermore, appreciation of the real relative to the U.S. dollar may lead to the deterioration of Brazil's current account and balance of payments as well as limit the growth of exports. The market for Brazilian securities is influenced by the flow of international capital, and economic and market conditions of certain countries, especially emerging market countries in Central and South America. Adverse economic conditions or developments in other emerging market countries have at times significantly affected the availability of credit in the Brazilian economy and resulted in considerable outflows of funds and declines in the amount of foreign currency invested in Brazil. Investments in Brazilian securities may be subject to certain restrictions on foreign investment. Brazilian law provides that whenever a serious imbalance in Brazil's balance of payments exists or is anticipated, the Brazilian government may impose temporary restrictions on the remittance to foreign investors of the proceeds of their investment in Brazil and on the conversion of Brazilian currency into foreign currency. The likelihood of such restrictions may be affected by the extent of Brazil's foreign currency reserves, the availability of sufficient foreign currency in the foreign exchange markets on the date a payment is due, the size of Brazil's debt service burden relative to the economy as a whole and political constraints to which Brazil may be subject.

**Foreign investment risk.** Special risks associated with investments in foreign companies include exposure to currency fluctuations, less liquidity, less developed or less efficient trading markets, lack of comprehensive company information, political or economic instability, seizure or nationalization of assets, imposition of taxes or repatriation restrictions and differing auditing and legal standards. The securities of issuers located in emerging markets can be more volatile and less liquid than those of issuers in more mature economies.

**Foreign currency risk.** Investments in foreign currencies are subject to the risk that those currencies will decline in value relative to the U.S. dollar, or in the case of hedged positions, that the U.S. dollar will decline relative to the currency being hedged. Currency exchange rates may fluctuate significantly over short periods of time. A decline in the value of foreign currencies relative to the U.S. dollar will reduce the value of securities held by the strategy and denominated in those currencies. Foreign currencies are also subject to risks caused by inflation, interest rates, budget deficits and low savings rates, political factors and government controls.

**Foreign government obligations and securities of supranational entities risk.** Investing in the sovereign debt of emerging market countries creates exposure to the direct or indirect consequences of political, social or economic changes in the countries that issue the securities or in which the issuers are located. The ability and willingness of sovereign obligors in emerging market countries or the governmental authorities that control repayment of their debt to pay principal and interest on such debt when due may depend on general economic and political conditions within the relevant country. Certain countries in which the strategy may invest have historically experienced, and may continue to experience, high rates of inflation, high interest rates and extreme poverty and unemployment. Some of these countries also characterized by political uncertainty or instability. Additional factors which may influence the ability or willingness to service debt include a country's cash flow situation, the availability of sufficient foreign exchange on the date a payment is due, the relative size of its debt service burden to the economy as a whole and its government's policy towards the International Monetary Fund, the International Bank for Reconstruction and Development and other international agencies. The ability of a foreign sovereign obligor to make timely payments on its external debt obligations also will be strongly influenced by the obligor's balance of payments, including export performance, its access to international credits and investments, fluctuations in interest rates and the extent of its foreign reserves. A governmental obligor may default on its obligations. Some sovereign obligors in emerging market countries have been among the world's largest debtors to commercial banks, other governments, international financial organizations and other financial institutions. These obligors, in the past, have experienced substantial difficulties in servicing their external debt obligations, which led to defaults on certain obligations and the restructuring of certain indebtedness.

**Government securities risk.** Not all obligations of the U.S. government's agencies and instrumentalities are backed by the full faith and credit of the U.S. Treasury. Some obligations are backed only by the credit of the issuing agency or instrumentality, and in some cases there may be some risk of default by the issuer. Any guarantee by the U.S. government or its agencies or instrumentalities of a security held by the strategy does not apply to the market value of such security. A security backed by the U.S. Treasury or the full faith and credit of the United States is guaranteed only as to the timely payment of interest and principal when held to maturity. In addition, because many types of U.S. government securities trade actively outside the United States, their prices may rise and fall as changes in global economic conditions affect the demand for these securities.

**Growth and value stock risk.** By investing in a mix of growth and value companies, the strategy assumes the risks of both. Investors often expect growth companies to increase their earnings at a certain rate. If these expectations are not met, investors can punish the stocks inordinately, even if earnings do increase. In addition, growth stocks typically lack the dividend yield that can cushion stock prices in market downturns. Value stocks involve the risk that they may never reach their expected full market value, either because the market fails to recognize the stock's intrinsic worth, or the expected value was misgauged. They also may decline in price even though in theory they are already undervalued.

**Issuer risk.** The value of a security may decline for a number of reasons which directly relate to the issuer, such as management performance, financial leverage and reduced demand for the issuer's products or services.

**IPO risk.** The prices of securities purchased in IPOs can be very volatile. The effect of IPOs on the strategy's performance depends on a variety of factors, including the number of IPOs the strategy invests in relative to the size of the strategy and whether and to what extent a security purchased in an IPO appreciates or depreciates in value. Therefore, IPO investments may magnify the returns of the strategy.

**Leverage risk.** The use of leverage, such as engaging in reverse repurchase agreements, lending portfolio securities, entering into futures contracts or forward currency contracts, investing in inverse floaters, entering into short sales, the use of portfolio leverage or margin and engaging in forward commitment transactions, may magnify the strategy's gains or losses. Because many derivatives have a leverage component, adverse changes in the value or level of the underlying asset, reference rate or index can result in a loss substantially greater than the amount invested in the derivative itself. Certain derivatives have the potential for unlimited loss, regardless of the size of the initial investment.

**Liquidity risk.** When there is little or no active trading market for specific types of securities, it can become more difficult to sell the securities at or near their perceived value. In such a market, the value of such securities and the value of your investment may fall dramatically, even during periods of declining interest rates. Liquidity risk also exists when a particular derivative instrument is difficult to purchase or sell. If a derivative transaction is particularly large or if the relevant market is illiquid (as is the case with many privately negotiated derivatives), it may not be possible to initiate a transaction or liquidate a position at an advantageous time or price. The secondary market for certain municipal bonds tends to be less well developed or liquid than many other securities markets, which may adversely affect the strategy's ability to sell such municipal bonds at attractive prices.

**Market risk.** The market value of a security may decline due to general market conditions that are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the outlook for corporate earnings, changes in interest or currency rates or adverse investor sentiment generally. A security's market value also may decline because of factors that affect a particular industry or industries, such as labor shortages or increased production costs and competitive conditions within an industry.

**Market sector risk.** The strategy may significantly overweight or underweight certain companies, industries or market sectors, which may cause the strategy's performance to be more or less sensitive to developments affecting those companies, industries or sectors.

**Large cap stock risk.** To the extent the strategy invests in large capitalization stocks, the strategy may underperform strategies that invest primarily in the stocks of lower quality, smaller capitalization companies during periods when the stocks of such companies are in favor.

**Small and midsize company risk.** Small and midsize companies carry additional risks because the operating histories of these companies tend to be more limited, their earnings and revenues less predictable (and some companies may be experiencing significant losses), and their share prices more volatile than those of larger, more established companies. The shares of smaller companies tend to trade less frequently than those of larger, more established companies, which can adversely affect the pricing of these securities and the strategy's ability to sell these securities. These companies may have limited product lines, markets or financial resources, or may depend on a limited management group. Some of the strategy's investments will rise and fall based on investor perception rather than economic factors. Other investments are made in anticipation of future products, services or events whose delay or cancellation could cause the stock price to drop.

**Value stock risk.** Value stocks involve the risk that they may never reach their expected market value, either because the market fails to recognize the stock's intrinsic worth or the expected value was misgauged. They also may decline in price even though in theory they are already undervalued.

**Warrants and rights risk.** Warrants and rights may become worthless if the price of the stock does not rise above the exercise price by the expiration date. This increases the market risks of warrants as compared to the underlying security.

**Preferred stock risk.** Preferred stock is a class of a capital stock that typically pays dividends at a specified rate. Preferred stock is generally senior to common stock, but subordinate to debt securities, with respect to the payment of dividends and on liquidation of the issuer. The market value of preferred stock generally decreases when interest rates rise and is also affected by the issuer's ability to make payments on the preferred stock.

**Short sale risk.** The strategy may make short sales, which involves selling a security it does not own in anticipation that the security's price will decline. Short sales expose the strategy to the risk that it will be required to buy the security sold short (also known as "covering" the short position) at a time when the security has appreciated in value, thus resulting in a loss to the strategy. Short positions in stocks involve more risk than long positions in stocks because the maximum sustainable loss on a stock purchased is limited to the amount paid for the stock plus the transaction costs, whereas there is no maximum attainable price on the shorted stock. In theory, stocks sold short have unlimited risk. The strategy may not always be able to close out a short position at a particular time or at an acceptable price. The strategy may not always be able to borrow a security the strategy seeks to sell short at a particular time or at an acceptable price. Thus, there is a risk that the strategy may be unable to fully implement its investment strategy due to a lack of available stocks or for some other reason. It is possible that the market value of the securities the strategy holds in long positions will decline at the same time that the market value of the securities the strategy has sold short increases, thereby increasing the strategy's potential volatility.

**Stock investing risk.** Stocks generally fluctuate more in value than bonds and may decline significantly over short time periods. There is the chance that stock prices overall will decline because stock markets tend to move in cycles, with periods of rising prices and falling prices. The market value of a stock may decline due to general market conditions that are not related to the particular company, such as real or perceived adverse economic conditions, changes in the outlook for corporate earnings, changes in interest or currency rates, or adverse investor sentiment generally. A security's market value also may decline because of factors that affect a particular industry, such as labor shortages or increased production costs and competitive

conditions within an industry, or factors that affect a particular company, such as management performance, financial leverage, and reduced demand for the company's products or services.

**Stock selection risk.** Although the strategy seeks to manage risk by broadly diversifying among industries and by maintaining a risk profile generally similar to the relevant index, the strategy is expected to hold fewer securities than the index. Owning fewer securities and having the ability to purchase companies not listed in the index can cause the strategy to underperform the index.

**Non-diversification risk.** Certain strategies that we offer are non-diversified, which means that a relatively high percentage of your assets may be invested in a limited number of issuers. Therefore, the performance of your investments may be more vulnerable to changes in the market value of a single issuer or group of issuers and more susceptible to risks associated with a single economic, political or regulatory occurrence than a diversified investment.

**Other potential risks.** Under adverse market conditions, the fund could invest some or all of its assets in the securities of U.S. issuers only, U.S. Treasury securities and money market securities, or hold cash. Although the fund would do this for temporary defensive purposes, it could reduce the benefit from any upswing in the market. During such periods, the fund may not achieve its investment objective. The fund may lend its portfolio securities to brokers, dealers and other financial institutions. In connection with such loans, the fund will receive collateral from the borrower equal to at least 100% of the value of the loaned securities. If the borrower of the securities fails financially, there could be delays in recovering the loaned securities or exercising rights to the collateral. At times, the fund may engage in short-term trading, which could produce higher transaction costs and taxable distributions and lower the after-tax performance of your investment.

## **Item 9. Disciplinary Information**

The Firm has no information applicable to this Item.

## **Item 10. Other Financial Industry Activities and Affiliations**

### **BNY Mellon**

BNY Mellon is a global financial services company providing a comprehensive array of financial services (including asset management, wealth management, asset servicing, clearing and execution services, issuer services and treasury services) through a world-wide client



focused team that enables institutions and individuals to manage and service their financial assets. BNY Mellon Asset Management is the umbrella designation for BNY Mellon's affiliated investment management firms and global distribution companies and is responsible, through various subsidiaries, for U.S. and non-U.S. retail, intermediary and institutional distribution of investment management and related services.

We may enter into transactions with unaffiliated counterparties or third party service providers who then use affiliates of the Firm to execute such transactions. These services may include, for example, clearance of trades, purchases or sales of ADRs, or other transactions not contemplated by us. Although one of our affiliates may receive compensation for engaging in these transactions, the decision to use or not use an affiliate of ours is made by the unaffiliated counterparty or third party service provider. Further, we will likely be unaware that the affiliate is being used to enter into such transaction.

BNY Mellon and/or its other affiliates may gather data from us about our investment activities, including information about holdings within client portfolios, which is required for regulatory filings to be made by us or BNY Mellon or other affiliates (e.g., reporting beneficial ownership of equity securities) or for other compliance, legal or risk management purposes, pursuant to policies and procedures of the Firm, BNY Mellon or other affiliates. This data is deemed confidential and procedures are followed to ensure that any information is utilized solely for the purposes intended.

### **BNY Mellon Referral Incentive Compensation Plan**

BNY Mellon has adopted an incentive compensation program ("Program") designed to reward internal referrals of business and opportunities, and:

- 1) Help clients understand and gain access to the full range of products and services offered by BNY Mellon and its subsidiaries; and
- 2) Expand and develop client relationships.

The Program promotes BNY Mellon's corporate values of Client Focus, Trust, Teamwork and Outperformance by encouraging the cross-selling of BNY Mellon's broad array of services and products throughout the organization to better meet a current or prospective client's full range of needs for financial products and services, and to expand customer relationships. The Program seeks to financially reward (via bonus or referral fee) eligible employees who offer a business lead that results in a sale of certain affiliated products or services to existing clients and prospects. These bonuses and referral fees may be paid to us and our employees for referring business (services or products) to our affiliates, and our affiliates and their employees may

receive bonuses and referral fees for referring business to us. The bonuses and referral fees may be based on the number of referrals made and/or the revenue generated by the referral. Certain types of regulated entities, employees and referrals may be ineligible for the Program or subject to restrictions under applicable law or internal procedures governing the earning of such rewards. These referral fees and bonuses may create conflicts of interest for us and our employees because we have an incentive to encourage our clients to engage in transactions with our affiliates, based on the compensation that we will receive for these referrals, rather than our clients' needs.

### **Affiliated Placement Agents**

We have affiliated "placement agents", including MBSC Securities Corporation and BNY Mellon Asset Management International Limited, who solicit persons to invest in various private funds that we manage as well as our separate account products and may also provide other administrative services. The Firm has entered into agreements with these placement agents to pay them fees for such solicitations however this does not increase the fees paid by the private fund's investors. These financial incentives may cause the placement agents and their employees and/or salespersons to steer investors toward those private funds that will generate higher fees. Please see Item 14 for more information on the compensation arrangements related to client referrals.

### **Affiliated Service Providers**

In addition, to the extent permitted by law, placement agents and their respective affiliates may provide brokerage and certain other financial and securities services to us, our affiliates or related private funds. Such services, if any, will be provided at competitive rates. BNY Mellon is also affiliated with service providers, distributors and consultants that may provide services and may receive fees from BNY Mellon in connection with such services, which may incentivize such persons to distribute interests in a private fund or other BNY Mellon products.

### **Other Relationships**

In addition, BNY Mellon personnel, including certain of our employees, may have board, advisory, or other relationships with issuers, distributors, consultants and others that may have investments in a private fund and/or related funds or may recommend investments in a private fund or distribute interests in a private fund. To the extent permitted by applicable law, BNY Mellon and its affiliates, including us and our personnel, may make charitable contributions to institutions, including those that have relationships with investors or personnel of investors. As a result of the relationships and arrangements described in this paragraph, placement agents, consultants, distributors and other parties may have conflicts associated with their promotion of a

private fund or other dealings with a private fund that create incentives for them to promote a private fund.

### **Affiliated Broker-Dealers and Investment Advisers**

We are affiliated with a significant number of advisers and broker/dealers. Please see Form ADV, Part I - Schedule D, Section 7.A for a list of our affiliated advisers and broker-dealers. Where we select the broker to effect purchases or sales of securities for client accounts, we may use either an affiliated or unaffiliated broker (unless otherwise restricted by an agreement, law or regulation). We may have an incentive to enter into transactions with an affiliated broker-dealer, in an effort to direct more commission dollars to its affiliate.

We have broker selection policies in place that require our selection of a broker-dealer to be consistent with its duties of best execution, and subject to any client and regulatory proscriptions. Please see Item 12 for more information on our broker selection process.

We may be prohibited or limited from effecting transactions for you because of rules in the marketplace, foreign laws or our own policies and procedures. In certain cases, we may face further limitations because of aggregation issues due to our relationship with affiliated investment management firms. Please also refer to Item 12, below, for a discussion of trade aggregation issues.

### **Affiliated Underwriters**

Our broker-dealer affiliates occasionally act as underwriter or as a member of the underwriting syndicate for certain new issue securities, which may create an incentive for us to purchase these new issue securities, in an effort to provide additional fees to the broker-dealer affiliate.

BNY Mellon has established a policy regarding purchases of securities in an offering in which an affiliate acts as an underwriter or as a member of the underwriting syndicate. In compliance with applicable banking, securities and ERISA regulations, we may purchase on behalf of our clients securities in an offering in which an affiliate is acting as an underwriter or as a member of the underwriting syndicate during the syndication period, so long as requirements of the policy, including written approval and compliance with certain investment criteria are met. The policy prohibits direct purchases from an affiliate for any fiduciary account under any circumstances.

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

We have adopted a Code of Ethics that is made up of two parts:

- 1) BNY Mellon Code of Conduct and Interpretive Guidance (the “BNY Mellon Code”); and
- 2) BNY Mellon Personal Securities Trading Policy (the “PSTP”).

The BNY Mellon Code provides to employees the framework and sets the expectations for business conduct. In addition, it clarifies our responsibilities to clients, suppliers, government officials, competitors and the communities we serve and outlines important legal and ethical issues:

Conflicts of Interest: gifts, entertainment and other payments; personal conflicts of interest; fiduciary appointments and bequests; outside affiliations, outside employment and certain outside compensation issues; and disclosure of relationships and transactions;

Proper Use and Care of Information and Proper Recordkeeping: proprietary information and intellectual property; data integrity and corporate information; use of e-mail and internet; accurate accounting and internal controls; use of non-public or “inside” information; talking to the media; and document retention;

Dealing with Customers, Prospects, Suppliers, and Competitors: business relationships with customers, prospects, suppliers, and competitors; business decisions; exploitation of relationships and use of the company’s name, letterhead or facilities; knowing your customer; and recognizing and reporting illegal, suspicious, or unusual activities;

Doing Business With the Government: complying with government contracts, government contracting laws and regulations; integrity in the sales and marketing process; truthful, accurate statements and recordkeeping; safeguarding government information and property; cooperating with government audits and investigations; and meeting employment and labor obligations;

Personal Finances: personal investments; personal brokerage accounts; political campaign contributions; contributions to not-for-profit entities; and individual employees’ regulatory requirements; and

Compliance with the Law: among other matters illegal or criminal activities; investigations; and protection of company assets.

The PSTP is designed to reinforce our reputation for integrity by avoiding even the appearance of impropriety and to ensure compliance with applicable laws in the conduct of our business. The PSTP sets forth procedures and limitations that govern the personal securities transactions of our employees in accounts held in their own names as well as accounts in which they have indirect ownership. We, and our related persons and employees, may, under certain

circumstances and consistent with the PSTP, purchase or sell for their own accounts securities that we also recommend to clients.

The PSTP imposes different requirements and limitations on employees based on the nature of their business activities for the Firm. Each of our employees is classified as one of the following:

- 1) Investment Employee (“IE”): IEs are employees who, as part of their responsibilities, have access to nonpublic information regarding any advisory client’s purchase or sale of securities or nonpublic information regarding the portfolio holdings of any Proprietary Account, or are involved in making securities recommendations to advisory clients or have access to such recommendations before they are public.
- 2) Access Decision Maker (“ADM”): ADMs (generally portfolio managers and research analysts who make recommendations or decisions regarding the purchase or sale of equity, convertible debt and non-investment grade debt securities for mutual funds and other managed accounts) are subject to the most extensive procedures under the PSTP.
- 3) Other Employee (“OE”): Our employees are considered OEs if they are not an IE or ADM.

#### PSTP Overview:

- 1) IEs and ADMs are subject to preclearance and personal securities reporting requirements, with respect to discretionary accounts in which they have direct or indirect ownership;
- 2) Transaction reporting is not required for non-discretionary accounts, transactions in exempt securities or certain other transactions that are not deemed to present any potential conflicts of interest;
- 3) Preclearance is not required for transactions involving certain exempt securities (such as open-end investment company securities that are not Proprietary Funds or money market funds and short-term instruments, non-financial commodities; transactions in non-discretionary accounts (approved accounts over which the employee has no direct or indirect influence or control over the investment decision-making process); transactions done pursuant to automatic investment plans; and certain other transactions detailed in the PSTP which are either involuntary or deemed not to present any potential conflict of interest;
- 4) We have a “Preclearance Compliance Officer” who maintains a “restricted list” of companies whose securities are subject to trading restrictions. This list is used by the

Preclearance Compliance Officer to determine whether or not to grant trading authorization;

5) The acquisition of any securities in a private placement requires prior written approvals;

6) With respect to transactions involving BNYMC securities, all employees are also prohibited from engaging in short sales, purchases on margin, option transactions (other than employee option plans), and short-term trading (i.e., purchasing and selling, or selling and purchasing BNYMC securities within any 60 calendar day period);

7) With respect to non-BNYMC securities purchasing and selling, or selling and purchasing the same or equivalent security within 60 calendar days is discouraged, and any profits must be disgorged; and

8) No covered employee should knowingly participate in or facilitate late trading, market timing or any other activity with respect to any fund in violation of applicable law or the provisions of such fund's disclosure documents.

A copy of our Code of Ethics will be provided upon request.

### **Interest in Client Transactions**

Note that while each of the following types of transactions present conflicts of interest for us, as described below, we manage our accounts consistent with applicable law, and we follow procedures that are reasonably designed to treat our clients fairly and to prevent any client or group of clients from being systematically favored or disadvantaged.

“Principal transactions” are generally defined as transactions where an adviser, acting as principal for its own account or the account of an affiliated broker-dealer, buys any security from or sells any security to any client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated pooled investment vehicle and another client account. We do not engage in principal transactions.

To the extent permissible under applicable law, from time to time securities to be sold on behalf of a client may be suitable for purchase by another client. In such instances, if we determine in good faith that the transaction is in the best interest of each client, then we may arrange for the securities to be transferred between the client accounts at an independently determined fair market value (a “cross trade”). Cross trades present conflicts of interest, as there may be an incentive for us to favor one client to the cross trade over the other. For example, if one client account pays performance fees to the Firm, while the other client account pays only asset-based

fees, we would have a financial incentive to favor the performance fee paying account in the cross-trade. However, note that cross trades are subject to Advisers Act restrictions, and will only be undertaken by us as permitted under applicable law. We do not receive fees or commissions when making these trades. The cross trades on stocks are effected through an unaffiliated broker at an electronic public auction on the BM&FBOVESPA market facility. BM&FBOVESPA has established multiple controls and monitors the transactions to ensure that no price-fixing will occur on the electronic auction. Those controls encompass liquidity, bid-ask spread and transactions history, among other criteria.

We or our affiliates may invest in the same securities that we or our affiliates recommend to clients. When we or an affiliate currently holds for our own benefit the same securities as a client, we could be viewed as having a potential conflict of interest. For example, we or our affiliate could be seen as harming the performance of the client's account for our own benefit if we short-sell the securities in our own account while holding the same securities long in the client account, causing the market value of the securities to move lower. If our portfolio managers make inconsistent trading decisions, the basis for those decisions must be documented, and may be reviewed periodically by our compliance department and operational risk department to determine whether they were made on an appropriate basis. Employees must notify the operational risk department of any errors immediately upon discovery, regardless of monetary impact. All errors must be corrected promptly, and If corrective action is delayed for any reason, a member of senior management must be brought into the decision making process immediately.

We or our affiliates may recommend securities to clients, or buy or sell securities for client accounts, at or about the same time that we or one of our affiliates buys or sells the same securities for the our (or the affiliate's) own account. This practice may give rise to a variety of potential conflicts of interest, particularly with respect to aggregating, allocating and sequencing securities being purchased on both our (or its affiliate's) behalf and our clients' behalf. For example, we could have an incentive to cause a client or clients to participate in an offering because we desire to participate in the offering on our own behalf, and would otherwise be unable to meet the minimum purchase requirements. Likewise, we could have an incentive to cause our clients to participate in an offering to increase our overall allocation of securities in that offering, or to increase our ability to participate in future offerings by the same underwriter or issuer. On the other hand, we could have an incentive to cause our clients to minimize their participation in an offering that has limited availability so that we do not have to share a proportionately greater amount of the offering to the client. Allocations of aggregated trades might likewise raise a potential conflict of interest as we may have an incentive to allocate securities that are expected to increase in value to ourselves. See Item 12 for a discussion of our brokerage and allocations practices and policies. Further, a potential conflict of interest could be

viewed as arising if a transaction in our own account closely precedes a transaction in related securities in a client account, such as when a subsequent purchase by a client account increases the value of securities that were previously purchased for us. Our compliance personnel review periodic transaction reports and holdings reports on our accounts to evaluate the nature of sequenced transactions and to assess potential harm caused by trades in our account to client accounts.

## **Item 12. Brokerage Practices**

Broker Selection: We have the authority to direct securities transactions on behalf of our clients to broker-dealers we select. In doing so, we seek best execution of such transactions. When seeking best execution, we consider the full range and quality of a broker-dealer's services including, among other things, commission rates, a broker's trading expertise, reputation and integrity, facilities, financial services offered, willingness and ability to commit capital, access to under-written offerings and secondary markets, reliability both in executing trades and keeping records, fairness in resolving disputes, value provided, execution capability, financial responsibility and responsiveness to the Firm. We may also consider other brokerage and research services provided by the broker-dealer.

We may cause client accounts to pay a broker or dealer executing securities transactions a commission higher than the commission another broker or dealer would have charged for executing that securities transaction, where we determine in good faith that the commission is reasonable in relation to the value of the research services and products provided by such broker-dealer.

Section 28(e) of the Securities Exchange Act of 1934 provides a safe harbor that allows an adviser to use dollars generated from brokerage commissions from client transactions ("soft dollars") to pay for brokerage and research services provided by broker-dealers or third parties. In the selection of qualified brokers to execute certain transactions, a broker or dealer may be selected that provides, along with trade execution services, proprietary or third party brokerage and research services and products. Such services and products may include:

- 1) models and research databases;
- 2) company, industry and market analysis;
- 3) market data;
- 4) security exchange pricing and news services; and



- 5) independent or proprietary research.

The use of client commissions to obtain research services and products benefits us because we will not have to produce or pay for the research itself.

Further, certain research services and products received may benefit:

- 1) certain other accounts also under our management;
- 2) accounts of affiliates managed by our employees who are also employees of such affiliates; or
- 3) nondiscretionary accounts of affiliates over which we retain investment discretion.

Our clients may pay commissions higher than those obtainable from brokers that provide execution service only in return for these products and services. Although these higher commissions may also be related to the execution services, as we recognize this is a potential conflict of interest and it has established procedures to mitigate this potential conflict.

All soft dollar arrangements must be approved and monitored by our compliance department and the “Asset Management Compliance and Risk Committee”. Services and products obtained by us may not necessarily benefit a client whose commission credits are used to pay for the services and products. Certain of the services and products received may benefit other accounts also under the management of us.

Other Brokerage Practices Conflicts of Interest: In addition to conflicts of interest associated with soft dollars, the following brokerage practices may lead to an actual or potential conflict of interest when selecting broker-dealers to execute client trades:

- 1) receiving client referrals from a broker-dealer;
- 2) acting on a client’s direction to use a particular broker-dealer; and
- 3) using affiliated broker-dealers.

Compensation for Client Referrals: We do not receive compensation from any broker-dealer in exchange for referral of investment management clients.

Brokerage for Client Referrals: We do not direct securities transactions to any broker-dealer in exchange for referral of investment management clients.

Directed Brokerage: We may accept direction from a client to place trades for a client's account with a particular broker-dealer. At times, a client will instruct us to direct a portion of its commissions to a specified broker-dealer. In the event that such direction occurs, we may have limited capability to negotiate commission levels or obtain volume discounts. In addition, in meeting the client's brokerage directive, we may not be able to aggregate these transactions with transactions we effects for other accounts we manages and we may delay placing the orders for directed accounts until our orders for other accounts have been completed. As a result, the net price paid or received by the directed account may be different than the price paid or received by our other accounts. Directing brokerage may cost clients more money.

Due to the directed brokerage arrangements that a number of our clients have in place, the overall Firm-wide commission rates may be higher than they otherwise would be if we did not participate in any client-directed brokerage programs.

Trade Aggregation: In order to lower transactions costs and achieve better operational efficiency, we will seek to aggregate orders that are placed by a portfolio manager or multiple portfolio managers for our client accounts concurrently. We will never aggregate client account orders with our own account orders.

Trade Allocation: The orders placed for one or more clients will be allocated on a pro-rata basis. The pro-rata allocation is based on the volume and the average price of the transactions. The allocation will be performed with each account involved receiving approximately a percentage of the executed portion of the order based upon each account's percentage of the entire order. Transaction costs, including brokerage expenses, are shared based on each client's participation in the transaction. The allocations will generally be performed by the end of day, based on the pro-rata methodology.

With regard to initial public offerings ("IPO"), however, the following guidelines exist: a) Indications of interest with the account breakdown are provided to the equity trader by the portfolio manager prior to the pricing of the offering; and b) if the allocation is a partial fill, it will be allocated on a pro rata basis, according to the asset size of the accounts.

### **Item 13. Review of Accounts**

Portfolio managers review the portfolios daily, as research analysts conduct their periodic reviews once a week. Portfolio managers and research analysts also review the performance of the sectors in which the portfolios are invested, and this review is conducted on a monthly basis. In addition, portfolio managers meet daily with the team of research analysts to discuss market

scenarios, including performance contribution. Notwithstanding the regular scheduled meetings, as well as constant interaction between portfolio managers and equity research analysts, extraordinary meetings are held if a certain event triggers the need of discussion prior to the following meeting.

The reports provided to clients include the funds' factsheets, a monthly management report on the performance of all strategies, as well as a monthly presentation made by the team of macro economists, via conference call, focusing on the macro economic scenarios, both local and international.

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

Unaffiliated Solicitors and Placement Agents. We may hire third parties to solicit new investment advisory clients. The commissions or fees, if any, payable to such solicitors (also referred to as placement agents) with respect to solicitation of investments with us will be paid solely by us. Clients will not pay fees for these solicitations. These solicitors have an incentive for the client to hire us because we will pay the solicitor for the referral. The prospect of receiving solicitation/placement fees may provide such placement agents and/or their salespersons with an incentive to favor these sales over the sale of interests of other investments with respect to which the placement agent does not receive such compensation, or receives lower levels of compensation. In addition, to the extent permitted by law, certain placement agents and their respective affiliates may provide brokerage and certain other financial and securities services to us or our affiliates. Such services, if any, will be provided at competitive rates.

Affiliated Solicitors and Placement Agents. We may pay referral fees to our affiliates (and/or their employees) for referrals that result in additional investment management business. Please see the discussion of affiliated placement agents in Item 10, above.

Our ultimate parent, BNY Mellon, has organized its lines of business into four groups: Asset Management, Asset Servicing, Payment Solutions & Investor Services and Private Wealth Management (collectively "Groups"). We are part of the Asset Management Group. A sales force has been created to focus on developing new customer relationships and developing and coordinating large complex existing customer relationships within those Groups.

In certain circumstances, Asset Management sales representatives are paid fees for sales. The fees may be based on revenues and may be a one-time payment or paid out over a number of years. In addition, our sales representatives and sales representatives of its affiliates within the Asset Management Group are paid for intra-Group referrals to their counterparts. Those fees are

based on the first year's revenue for the new Group.

Sales of any alternative investment products (such as private funds) may be made through a broker-dealer affiliate. Only registered representatives of such broker-dealer receive compensation for sales of alternative investments.

We may pay a fee to an affiliate (or directly to employees of the affiliate) that has a pre-existing relationship with a new client in one of the three other Groups. The fees may be based on revenues and may provide for a one-time payment or payments over a number of years.

We and our affiliates also participate in the BNY Mellon Incentive Compensation Plan, which presents certain conflicts of interest, all as described in Item 10, above.

Although permitted to do so in certain circumstances under applicable DOL rules, we do not intend to use affiliates for transactions involving any fund that is a Plan assets fund under ERISA.

### **Item 15. Custody**

Rule 206(4)-2 under the Advisers Act (the "Custody Rule") defines "custody" to include a situation in which an adviser or a related person holds, directly or indirectly, client funds or securities or has any authority to obtain possession of them, in connection with advisory services provided by the adviser.

For purposes of the Custody Rule, we are deemed to have "custody" of certain client assets when we have the ability to deduct fees from client accounts, client funds or securities are held by The Bank of New York Mellon (a related person of the Firm) and we serve as general partner/managing member/trustee (or similar capacity) of investment funds organized as limited partnership/limited liability company/trust.

Generally, an adviser that is deemed to have custody of a client's funds or securities, among other things, is required to arrange for an annual independent verification of such funds or securities in accordance with the Custody Rule (the "Surprise Exam Requirement"). However, the Custody Rule contains the following exceptions from the Surprise Exam Requirement:

- 1) Ability to Deduct Fees: advisers deemed to have custody of client assets solely because of their ability to deduct fees from client accounts are not subject to the Surprise Exam Requirement. We will rely upon this exemption to avoid a surprise audit for certain clients.

2) Related Person & Operational Independence: advisers deemed to have custody of client assets solely because a related person holds client assets will not be subject to the Surprise Exam Requirement, provided the adviser and the related person are “operationally independent.”

3) Pooled Investment Vehicles: advisers deemed to have custody of the assets of clients formed as pooled investment vehicles will not be subject to the Surprise Exam Requirement, provided the pool has audited financial statements that are prepared in accordance with generally accepted accounting principles and such statements are distributed to investors in the pool within 120 days (or 180 days for funds of funds) at the end of the fiscal year.

Certain clients, including US separate accounts owners and private funds offered to US persons, will receive from their bank, broker-dealer or other qualified custodian an account statement, at least quarterly, identifying the amount of funds and each security in the account at the end of the period and setting forth all transactions in the account during that period. Please review these statements carefully. You will also receive account statements separately from us. You are strongly urged to compare the account statements you receive from us with those that you receive from your qualified custodian.

#### **Item 16. Investment Discretion**

We typically accept discretionary investment authority over client assets, and clients must grant this discretionary authority to us in writing via a contract, power of attorney and/or through an appointment to become the investment adviser of a private fund. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives and guidelines for the particular client account.

Clients must deliver their investment guidelines and restrictions to us in writing, and we will adhere to such guidelines and restrictions when making investment decisions.

#### **Item 17. Voting Client Securities**

We have adopted a Proxy Voting Policy, related procedures, and voting guidelines. We are exclusively responsible for the control and performance of the Proxy Voting Policy.

We recognize that an investment adviser play a fiduciary role of owing our clients the duty of utmost good faith and full and fair disclosure of all materials facts. Our duty of loyalty precludes us from subrogating our clients' interests to our own. We seek to act solely in the best financial and economic interest of the client.

We will carefully review proposals that would limit shareholder control or could affect the value of a client's investment. We generally will oppose proposals designed to protect a company's management unnecessarily from the wishes of a majority of shareholders. However, we will generally support proposals designed to provide management with short-term protection from outside influences so as to allow management to achieve long-term goals. We will try to ensure that company's management reasonably responds to social issues, in particular where it is not likely to affect economic performance.

We will attend all general meetings for issuers of securities and titles granting voting rights to separate accounts and funds under our management, under the hypotheses set forth in their respective by-laws and when their call notices' agenda include the mandatory relevant matters described in our Voting Policy.

In the case where the call notice or summon notice does not include enough information, we shall exert its best efforts to obtain the necessary clarifications directly with the issuers of the securities and titles or with their agents.

Conflicts of interest may arise between our interests and our clients' interests when voting client securities. A conflict of interest may exist, for example, if BNY Mellon or any of its affiliates has a business relationship with either the company soliciting the proxy or a third party that has a material interest in the outcome of a proxy vote. We do not permit clients to direct us on how to vote in a particular solicitation.

We will furnish a copy of our Proxy Voting Policy, any related procedures, to each client upon request. Upon request, we will also disclose to a client the proxy voting history for its account after the shareholder meeting has concluded.

## **Item 18. Financial Information**

In certain circumstances, registered investment advisers are required to provide you with financial information or disclosures about their financial condition in this Item. We have no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has never been the subject of a bankruptcy proceeding.