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# Neuberger Berman Asia Limited

## Client Brochure

9<sup>th</sup> June, 2017

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Jardine House, 1 Connaught Place,  
Central, Hong Kong  
[www.nb.com](http://www.nb.com)

This Brochure provides information about the qualifications and business practices of Neuberger Berman Asia Limited (“**NBAL**”). If you have any questions about the contents of this Brochure, please contact us at (852) 3664-8800 or by email at: **NBALADVInfo@nb.com**.

NBAL is registered as an investment adviser under the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”). NBAL is subject to the Advisers Act rules and regulations adopted by the United States Securities and Exchange Commission (“**SEC**”). Registration as an investment adviser does not imply any particular level of skill or training. This Brochure provides information for NBAL’s U.S. clients. Most provisions of the Advisers Act and of this Brochure do not apply to NBAL’s non-U.S. clients.

Additional information about NBAL is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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The information in this Brochure has not been approved or verified by the SEC or by any state or foreign securities authority.

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## **Item 2: Material Changes**

This Brochure dated May 31, 2017 has been prepared in accordance with rules adopted by the SEC. This Brochure will be updated at least annually and we may further provide other ongoing disclosure information about material changes as necessary.

Greater China Investment Team led by Frank Yao established the business as an independent firm with Neuberger Berman maintaining a substantial minority ownership stake. As a result, NBAL ceased to act as the investment manager for the following funds:

- NB Greater China Long/Short Equity Fund LLC, NB Greater China Long/Short Equity Fund, Ltd. and NB Greater China Long/Short Equity Master Fund, Ltd.;
- Neuberger Berman Greater China Equity Fund Ltd. and Neuberger Berman Greater China Equity Master Fund Ltd.; and
- Neuberger Berman China A Share Fund and Neuberger Berman China Opportunity Fund.

There is also a new China equity investment team which joined NBAL on May 1, 2017. The team, led by Bin Yu, is responsible for managing the China equity strategy. The team currently manages the following funds:

- Neuberger Berman China Equity Master Fund (the “China Equity Master Fund”)
- Neuberger Berman China Equity Feeder Fund (the “China Equity Feeder Fund”)
- Neuberger Berman China Equity US Feeder Fund (the “China Equity US Feeder Fund”)

There is also a change of Chief Compliance Officer from Terry Stothard to Riki Chao, with effect from May 1, 2017.

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## Item 4: Advisory Business

### A. Description of Neuberger Berman Asia Limited (“NBAL”) and the Firm

#### NBAL

NBAL is a Hong Kong corporation that was formed in December 2007 and registered with the SEC in August 2010. It is also licensed with and regulated by the Hong Kong Securities and Futures Commission to undertake various investment management activities, including dealing in securities, advising on securities and asset management.

NBAL is directly owned by Neuberger Berman Asia Holdings II LLC, which is, in turn, owned by Neuberger Berman Holdings LLC. It is an indirect, wholly-owned subsidiary of Neuberger Berman Group LLC (“NBG”).

#### The Firm

NBG is a holding company, the subsidiaries of which (collectively referred to herein as the “Firm” or “Neuberger Berman”) provide a broad range of global investment solutions – equity, fixed income, multi-asset class and alternatives – to institutions and individuals through products including customized separately managed accounts, mutual funds and alternative investment funds. As of December 31, 2016, Neuberger Berman had approximately \$255 billion under management.<sup>1</sup>

NBG’s voting equity is wholly owned by NBSH Acquisition LLC (“NBSH”). NBSH is owned by current and former employees, directors, consultants and, in certain instances, their permitted transferees.

As of December 31, 2016, approximately 400 employees owned an equity stake in the Firm. Each of those employees has entered into an agreement that provides strong incentives to continue with the organization, and has a number of restrictive covenants in the event the employee leaves the Firm.

Neuberger Berman is headquartered in New York City. As of December 31, 2016, Neuberger Berman had approximately 1,900 employees in 28 cities around the world.

NBAL’s investment management services are further discussed below.

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<sup>1</sup> Firm assets under management figures reflect the collective assets for the various affiliated investment advisers that are subsidiaries of NBG.

## **B. Types of Advisory Services**

NBAL currently houses Neuberger Berman's China Equity Investment team (the "**NB China Investment team**"), which provides the following types of investment management services:

### **Separate Accounts**

NBAL may provide ongoing discretionary investment management services to institutional clients by way of separately managed accounts ("**Separate Accounts**"). These Separate Accounts may invest in the same strategies employed by one or more of the Funds described below, or in customized strategies based on those employed by one or more of the Funds. The investment strategies employed for Separate Accounts may differ from those for the Funds described below with respect to, among other things, use of leverage, use of concentration limits as to certain types of investments, information rights and other client-directed portfolio guidelines.

In addition, in order to meet the diverse investment objectives of its Separate Account clients, NBAL may invest in other strategies, which include, but are not limited to, commodities, diversified and sector-specific (domestic and international) equities, fixed income, global tactical asset allocation, fund of hedge funds, private equity, currency and credit arbitrage.

### **Funds**

NBAL currently provides discretionary investment management services to the following pooled investment vehicles (the "**Funds**"):

#### ***Private Funds***

NBAL acts as the investment manager to the following privately offered funds ("**Private Funds**"):

- Neuberger Berman China Equity Master Fund (the "China Equity Master Fund")
- Neuberger Berman China Equity Feeder Fund (the "China Equity Feeder Fund")
- Neuberger Berman China Equity US Feeder Fund (the "China Equity US Feeder Fund")  
(collectively "NB China Equity Funds")

The feeder funds and the Master Fund are exempted limited liability companies incorporated under the Companies Law.

The China Equity Feeder Fund has been established to facilitate investments by U.S. tax exempt and non-U.S. investors in the Master Fund and will invest substantially all of its assets in the Master Fund.

The China Equity U.S. Feeder Fund, has been established to facilitate investments by U.S. taxable

investors in the Master Fund and will also invest substantially all of its assets in the Master Fund.

The Manager may establish other feeder funds for the purpose of accommodating certain types of investors.

As a "feeder" in a "master-feeder" structure, the feeder funds will invest substantially all of its assets in the Master Fund and does not anticipate to make any direct investment. In return for its investment, the Feeder Fund will be issued non-voting shares in the Master Fund. It is intended that all investors of the Master Fund will invest either through one of the feeder funds.

#### NB China A Share Funds

The Neuberger Berman China A Share Fund is organized as a unit trust constituted by trust deed dated 1 August 2012 and authorized by the Central Bank of Ireland as a unit trust pursuant to the Unit Trusts Act 1990 to market solely to Qualifying Investors and Knowledgeable Investors.

NBAL's affiliate, NB Europe, is the appointed investment manager of the Neuberger Berman China A Share Fund and has engaged NBAL, as sub-investment manager, to provide investment management services for the Neuberger Berman China A Share Fund.

The Neuberger Berman China Opportunity Fund is organized as a unit trust constituted by trust deed dated 25 October 2013 and regulated by the Caymans Island Monetary Authority as a unit trust. NBAL is the investment manager of the Neuberger Berman China Opportunity Fund.

The Separate Accounts, Advisory Account, Sub-Advised Accounts and Funds to which NBAL provides investment management services are collectively referred to in this Brochure as "**Client Accounts.**"

NBAL may engage an affiliate or third-party to act as sub-adviser or sub-investment manager for a Client Account.

### **C. Client Tailored Services and Client Tailored Restrictions**

NBAL generally provides its investment management services, both in respect of Separate Accounts and Funds, pursuant to a discretionary investment management agreement.

For its Separate Account clients, the clients may impose restrictions on investing in certain securities, types of securities or financial instruments in accordance with their particular investment objectives and policies. NBAL may decide not to accommodate investment restrictions deemed to be unduly burdensome or incompatible with NBAL's investment approach.

For its Funds, NBAL's advisory services are performed in accordance with the terms of each investment management agreement. Each Fund may impose investment restrictions or

guidelines as it deems appropriate to achieve its particular investment objective. Such investment restrictions and/or guidelines are typically described in the respective private placement memorandum, prospectus or other offering document (the “**Offering Document**”) for each Fund.

#### **D. Wrap Programs**

NBAL does not sponsor or participate in wrap fee programs.

#### **E. Assets Under Management**

<b><u>Discretionary Amounts:</u></b>	<b><u>Non-Discretionary Amounts:</u></b>	<b><u>Date Calculated:</u></b>
\$ 683,108,235	\$0	04/30/2017



## Item 5: Fees and Compensation

### A. Fee Schedule

#### **Separate Accounts and Advisory Accounts**

Separate Accounts pay a management fee which may vary based on investment strategy, assets invested and level of customization. Some Separate Accounts may also pay a fee based on the performance of the account (a “**performance fee**”). Separate Accounts for U.S. clients that are charged a performance fee must be qualified clients (“**Qualified Clients**”) as defined under the Advisers Act.

Where applicable, fees are negotiable and are set forth in the investment management agreement with the client. There may be differences in fees paid by certain clients and some clients may pay more or less than others for the same or similar services depending on, for example, account inception dates, number or value of related accounts, total assets under management, fee negotiation, fee waiver or the manner in which NBAL services are obtained. NBG, its affiliates and employees are generally eligible for fee waivers or discounts on NBAL’s products.

#### **Funds**

##### ***NB China Equity Feeder Fund/NB China Equity US Feeder Fund***

Generally, the Feeder Funds may charge both a management fee and a performance fee. Detailed descriptions of the management and performance fees can be found in the respective Offering Documents of the NB China Equity Feeder Fund and the NB China Equity US Feeder Fund.

##### ***NB China A Share Funds***

NBAL is entitled to receive management fees, which are paid by NB Europe, as investment manager, out of the fees payable to NB Europe.

There is no performance fee charged for the NB China A Share Funds.

### B. Payment Method

#### **Calculation and Payment of Fees**

##### ***Separate Accounts***

Management fees are generally accrued and charged monthly in arrears. Performance fees or incentive allocations, where applicable, generally accrue on a monthly basis and are charged on

an annual basis as documented in the relevant investment management agreement. Performance fees or incentive allocations may be subject to high-water marks and/or hurdles.

NBAL will invoice clients for fees incurred. NBAL's fees may be directly deducted from the client's custodial account following the client's instruction to their custodian, or NBAL may invoice clients for fees incurred.

Where NBAL begins managing an account during the applicable fee calculation period, the fee charged for such period will be pro-rated based on the portion of the period that NBAL actually manages the account.

In the event the investment management agreement for a Separate Account is terminated, the client will be charged a pro-rated fee through the termination date. Termination of an agreement will not affect or preclude the consummation of any transaction initiated prior to termination and the client account may be subject to transaction-related costs associated with the unwinding of such transactions.

### ***Funds***

Management fees are accrued daily or monthly, depending on the particular requirements of each Fund, and generally charged monthly in arrears.

**For the NB China Equity Master Fund, management fees are calculated based on the net asset value ("NAV") of each series of the applicable class of shares of each Fund as of the Valuation date.** The Manager will not receive any management fee from the Feeder Funds.

The Master Fund will pay to the Manager an Incentive Allocation which is payable annually in arrears after the end of each Financial Year

The Incentive Allocation with respect to each Share for each Financial Year will be equal to: (i) the NAV of the applicable Class of Share as of the end of the prior Financial Year (after any Incentive Allocation has been taken); multiplied by: (ii) the applicable Incentive Allocation Percentage of the positive difference (if any) between: (1) the percentage change in the NAV of the applicable Class of Share (adjusted appropriately for any redemptions during such Financial Year); and (2) the percentage change of the Performance Benchmark, each such change being measured over the applicable Financial Year (such difference being the "Percentage Performance Difference").

### **Valuation of Assets**

#### ***Separate Accounts***

The market value of securities and other financial instruments may be valued by unaffiliated third-party service providers which may also serve as custodian and clearing agent for NBAL accounts. The market values of securities are ordinarily obtained from various quotation services or, in limited instances where pricing is not readily available or when the price provided by a pricing source does not, in our view, represent fair value, the security price may be based on fair-value as proposed in good faith by the NB Group Valuation Committee, but will ultimately be determined by the procedures/ agreements of the fund administrator of the separately managed Client Account.

### ***Funds***

The Directors have appointed the Administrator to calculate the NAV, subject to the overall supervision and direction of the Directors. The Administrator has in turn delegated the calculation of the NAVs to the Sub-Administrator, who will carry out such calculation in accordance with the valuation rules set out in the offering document at the close of business on each Valuation Day by subtracting from the total value of all of the assets of the Funds all the outstanding debts, liabilities, obligations of the Funds, as calculated generally in accordance with U.S. GAAP. The Directors may, in their discretion, permit any other method of valuation to be used if they consider that such method of valuation better reflects the NAV and is in accordance with good accounting practice. To the extent that the valuation rules adopted by the Funds deviates from U.S. GAAP, the Directors may be required to include a reconciliation note in the audited accounts of the Funds to reconcile values arrived at by applying U.S. GAAP and values arrived at by applying the Funds' valuation rules

For purposes of determining the NAVs, the Sub-Administrator is entitled to rely on, and will not be responsible for, the accuracy of, financial data furnished to it by the Prime Broker, market makers or independent third party pricing services. The Sub-Administrator may also use and rely on: (i) industry standard financial models or other financial models approved by the Directors in pricing any of the Funds' securities or other assets; and (ii) pricings of the Funds' portfolio securities or other assets calculated by the Manager and approved by the Directors, and in each case, the Sub-Administrator will not be liable to the Funds in so doing.

## **C. Other Fees and Expenses**

In addition to the management and performance fees paid to NBAL, Client Accounts are charged other fees associated with their accounts and investments. Such fees include the following:

### **Custodial Fees**

Typically, Separate Account clients elect to have account assets held in the custody of a bank, trust company or other entity selected by the client. The client will bear any custodial fees

associated with such account. To the extent that cash is held in such accounts and fees are charged by the provider of such service, the fees so incurred by the client will be in addition to the fee payable to NBAL on the overall value of the account. See Item 15.

Each Fund has generally engaged either a prime broker or custodian, depending on the specific requirements of the Fund, to hold the Fund's assets and will bear any custodial fees charged by such prime broker or custodian.

### ***Transaction-Related Fees***

Client Accounts generally must bear all transaction-related costs, including brokerage commissions, for transactions affected for the account. See Item 12.

### **Other Fees and Expenses**

Investors in the Funds will incur other fees and expenses associated with their investments in such funds. Fund expenses are described in the respective Fund's Offering Document. These expenses, in addition to brokerage and other transaction-related costs will generally include the fees and expenses of other service providers to the Fund, such as prime brokers, custodians, transfer agents, administrators, valuation agents, auditors and counsel.

The Funds may themselves invest in other funds as described in each Fund's Offering Document. To the extent a Fund invests in another fund, which may be affiliated or unaffiliated, it will bear the costs and expenses associated with an investment in that underlying fund.

## **D. Prepayment of Fees and Refunds**

### **Separate Accounts and Advisory Accounts**

As described in Item 5. B., Separate Account management fees are generally accrued on a monthly basis and paid in arrears. In the event the investment management agreement for a Separate Account is terminated, the client will be charged a pro-rata fee through the termination date.

### **Funds**

As described in Item 5, management fees are generally paid monthly in arrears. Certain Funds charge performance fees at the end of their fiscal year, or upon withdrawal by an investor from the Fund. Investors should refer to the applicable Offering Document for more information related to fees.

## **E. Sales Compensation**

NBAL may utilize placement agents ("**Placement Agent**") in offering Funds to investors. These Placement Agents may be registered as broker-dealers with the SEC and FINRA members, including NBAL's affiliate, Neuberger Berman BD LLC (formerly Neuberger Berman LLC) ("**NB**

**BD**) a registered broker-dealer and member of the Financial Industry Regulatory Authority (**FINRA**). The Placement Agent may be entitled to a sales commission or placement fee (**Placement Fee**) of up to 2% of the amount of subscriptions. Generally, a Placement Agent may receive a portion of NBAL's management fee with respect to shares placed by such Placement Agent, and in certain cases, may receive a portion of the performance fee earned by NBAL.

Each Placement Agent may enter into sub-placement agreements with affiliates and unaffiliated third parties that may charge an investor, on a fully disclosed basis, a fee in connection with the purchase of shares in the Fund. In the discretion of a Placement Agent, all or a portion of the Placement Fee may be allocated to such sub-placement agents. Each Placement Agent, in its sole discretion, may waive or reduce the Placement Fee for any investor, including any affiliate of such Placement Agent.

In addition, NBAL's products and strategies are marketed by the Firm's central sales force which also markets the products and strategies of NBAL's affiliates. Certain members of the sales force are registered representatives of NB BD and as such, with respect to the Funds offered by NBAL and other pooled investment vehicles offered by its affiliates (**Affiliated Funds**), may be entitled to sales compensation in connection with the introduction of investors to such funds. Given that the sales persons may market a wide range of products offered by NBAL and its affiliates, with differing sales compensation, the sales persons may have an incentive to promote or recommend certain products over others based on the compensation to be received and not on the specific requirements or investment objectives of the client.

NB BD trains its employees, including members of this sales force, regarding suitability and sales of securities products to investors. Salespersons are also required to undergo product specific training for all products that they market.

The Firm's central sales force also markets the investment management products and services of NBAL for which certain members may not receive any direct compensation. Certain Firm employees who are not members of the central sales force may be eligible to earn an account referral bonus for referring a client to NBAL.

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

“Performance-Based Fees” are fees that are based on a share of the capital gains or capital appreciation of the assets of an account. Examples of performance-based fees include, but are not necessarily limited to:

- an incentive fee, where the fee is calculated as a percentage of a fund’s profits, taking into consideration both realized and unrealized profits
- high water mark, where the manager receives performance fees only on increases in the net asset value of a fund in excess of the highest net asset value it has previously achieved
- hurdle rate, where a manager does not charge a performance fee until the fund’s annualized performance exceeds a benchmark rate, such as T-bill yield, LIBOR or a fixed percentage

As discussed above, NBAL charges performance fees in connection with the management of certain Client Accounts.

To the extent that NBAL and its portfolio managers manage accounts that charge both management fees and performance fees, NBAL and/or its portfolio managers may have a conflict of interest in that an account with a performance fee arrangement will offer the potential for higher profitability when compared to an account with management fee. Performance fee arrangements may create an incentive for NBAL and/or its portfolio managers to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Performance fee arrangements may also create an incentive to favor higher fee paying accounts over other accounts in the devotion of time, resources and allocation of investment opportunities.

To manage these conflicts, NBAL has adopted a number of compliance policies and procedures. These policies and procedures include (i) the Neuberger Berman Asia Code of Ethics (the “**Code**”) (see Item 11), (ii) the NBAL Compliance Manual, (iii) trade allocation and aggregation policies which seek to ensure that (a) investment opportunities are allocated fairly among clients and that all accounts are managed in accordance with their investment mandate, and (b) best execution and order allocation monitoring procedures are reasonably designed to identify unfair or unequal treatment of accounts. NBAL does not consider fee structures in allocating investment opportunities.

## Item 7: Types of Clients

NBAL offers investment management services to institutional clients, including pension and profit-sharing plans, pooled investment vehicles, charitable organizations, corporations, state or municipal government entities, sovereign wealth funds and collective investment schemes.

Set forth below are the minimum account requirements for NBAL's Client Accounts:

### **Separate Accounts**

In general, NBAL requires a commitment in excess of \$100 million in order to establish a Separate Account for a client, but may consider smaller-sized accounts. All Separate Accounts U.S. clients must be Qualified Purchasers and those that pay a performance fee must also be Qualified Clients. **The minimums may be reduced by NBAL in its exclusive discretion.**

### **Funds**

#### ***NB China Equity Funds***

Investors in the NB China Equity Funds must be "accredited investors" under Regulation D under the Securities Act, and Qualified Purchasers under the Investment Company Act.

The minimum investment required by an investor varies depending on the share class and in each case is subject to waiver by NBAL or the Fund's board of directors or managing member, as the case may be. Investors should review the Offering Document for the relevant Fund for further information with respect to minimum requirements for investment.

#### ***NB China A Share Funds***

Investors in the NB China A Share Funds must be Qualifying Investors and certain Knowledgeable Investors pursuant to the Unit Trust Act 1990 and all U.S. investors shall be limited to "accredited investors" under Regulation D of the Securities Act.

The minimum initial subscription and holding varies depending on the unit class of the relevant Fund. Investors should review the prospectus for the Fund for further information with respect to minimum requirements for investment.

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

### **A. Methods of Analyses**

The team runs a long only, high conviction, strategy that invests in Greater China equities:

- Long-term value oriented approach
- 3-5 year investment horizon
- Concentrated portfolio of high conviction ideas
- Focus on identifying and capitalizing on long term, sustainable trends

The team believes in maintaining an edge through original rigorous research. The team currently covers approximately 150 names.

They seek companies that are positioned to benefit from long term trends and meaningful changes. Investment thesis are validated through independent channel checks and data

NBAL may also rely on the research and portfolio management of its affiliates. See Item 10.C.3.

### **B. Investment Strategies**

#### ***NB China Equity Funds Strategy***

##### **Investment Objective**

The Feeder Funds will invest substantially all of its assets through the Master Fund in a "master-feeder" arrangement. The Master Fund's investment strategy seeks to generate absolute returns through a portfolio of long equity positions and cash. The investment universe consists of companies whose operations are mainly in, or who derive a material amount of earnings from Greater China, or foreign companies whose businesses are materially influenced by the economic developments in Greater China. These companies may be listed on a Greater China stock exchange or on another international stock exchange. The Manager believes that the Greater China equity universe offers a compelling opportunity for patient investors seeking long term capital appreciation. China is undergoing a generational change in economic development strategy, underlined by recognition that as growth drivers, urbanisation and investments will gradually give way to new needs of changing demographics and a growing middle class that is more sophisticated and financially secure. This new trend will create a growing number of new companies providing products and services that cater to those new demands, and profound changes to structure of existing industries and profitability of existing companies. The Manager



believes that investors are overly focused on the possible risks in this transition rather than the opportunities.

### Investment Strategy and Approach

The Master Fund intends to maintain a concentrated portfolio. The actual number of positions may vary, and will depend on the market conditions and available investment opportunities. The portfolio may also hold cash.

The Manager, through its investment process, looks for companies that over its investment horizon will undergo meaningful transformations and generate corresponding change in value. The investments should have management teams and corporate governance practices that are aligned with shareholder interests, and sufficient downside protection in through a reasonably valued core business. The Manager believes that its China-based investment team, with its combined experience and investment expertise, gives it the insights necessary to identify such opportunities, and generate superior returns while managing risk.

The Manager's investment process is a combination of bottom-up security analysis and a qualitative due diligence process focused on understanding of long term businesses trends and the company's ability to respond to such changes. Security analysis consists of in-depth modeling of financials utilising publicly available information. The Master Fund's due diligence efforts are generally focused on interviews with management, conversations with competitors and value chain partners, and supplementary information from related industry, government and academic sources. The investments are made with a view on possible changes to a company's prospects, the impact on quality of its business and long term earnings potential, and associated upside and downside should such scenarios be realised. The Manager believes that a local investment team and proprietary network is important in idea generation and timely adjustment of views on existing investments.

The Master Fund's investment portfolio is a combination of best available investment ideas and cash. Each investment idea is judged on individual assessment of risk reward potential, and sized based on the Manager's conviction level and available liquidity. While the Manager intends to maintain concentrated position in single companies, it also seeks to avoid being overly concentrated to a single industry or thematic idea on a look-through basis.

Investment risks are managed through a rigorous research process and sell discipline. The

biggest risk in the investment process is failure to identify changes. To that end, the investment thesis is constantly checked against new developments, and position sizing will be adjusted when necessary. The Master Fund will maintain a flexible cash position when the Manager believes that cash offers better short term risk reward trade-off than the available investment ideas. While a principally long portfolio is inherently exposed to short term volatilities of the markets in which these securities are listed, the Manager believes that over time the portfolio returns will primarily be driven by the availability of investment ideas and quality of its research given its absolute return approach.

### Investment Philosophy

Long investment horizon. The Manager believes that value is created by companies that can take advantage of long term, sustainable trends over time, and the best investment returns come from identifying trends early on, and stay invested with companies that could benefit as long term winners.

Fundamental investment approach. With a long investment horizon, the Manager believes that stocks should be analysed as businesses, and the Manager should understand well the industry dynamics, company's business models, and long term strategy, in addition to financial metrics and projections. Research efforts should be focused on looking for long term trends and meaningful changes, and companies that are both capable and well positioned to benefit. In addition, the Manager believes it is important to find companies with high quality of management teams, and strong corporate governance practices that align management and major shareholder interests with that of public shareholders.

Rigorous research process. The Manager believes a patient research process and a strong value discipline is critical to generating attractive risk-adjusted returns. The Manager seeks to find an edge through original research, and a differentiated focus on long term trends and potential changes to a company's business prospects. Once an investment is made, the investment thesis and financial models will be updated and revalidated based on new developments, and investment size adjusted accordingly if necessary.

Any of the above strategies may be customized in accordance with, among other things, the Separate Account's investment objectives, performance expectations and risk tolerance. The detailed strategies applicable to Separate Accounts are documented in the respective investment management agreements.

The above referenced investment strategies are a summary only. Clients should look to their investment management agreements with NBAL and other client materials provided by NBAL in its presentation of the particular strategy for a more complete description of each strategy and its associated risks.

The investment strategy for each Fund is more particularly described in the Fund's Offering Document. Investors should carefully read each Fund's Offering Document and consult with their own counsel and advisers as to all matters concerning an investment in the respective Fund. Investors should not rely solely on the descriptions provided herein.

### **C. Material Risks**

***Investments in securities and other financial instruments involve risk of loss that investors must be prepared to bear.***

The following is a summary of the principal risks associated with the investment strategies employed by NBAL, as discussed in Item 8.B. This is a summary only and not every strategy may invest in each type of security or other asset discussed below nor will all accounts be subject to all the risks below. Each client should review the investment strategy associated with its particular account and should contact its client representative for more information about the strategies and risks present in the account. Private Fund investors should review the applicable Offering Memorandum and other offering documents for further information relating to the strategies and risks associated with the particular fund.

#### **General Risks Across All Strategies**

The following is a summary of material risks that may apply to NBAL's various investment strategies. Please note that certain risks, other than *Risk of Loss*, may not apply to all NBAL strategies or apply to a material degree.

**Risk of Loss.** Clients should understand that all investment strategies and the investments made pursuant to such strategies involve risk of loss, including the potential loss of the entire investment in the Client Accounts, which clients should be prepared to bear. The investment performance and the success of any investment strategy or particular investment can never be predicted or guaranteed, and the value of a client's investments will fluctuate due to market conditions and other factors. The investment decisions made and the actions taken for Client Accounts will be subject to various market, liquidity, currency, economic, political and other risks, and will not necessarily be profitable and may lose value. Past performance of Client Accounts is not indicative of future performance.

In addition to the risks listed here, there may be additional material risks associated with the types of products in which a Client Account invests. Clients should refer to the prospectus or other applicable offering documents of those particular products for a discussion of applicable risk factors for that particular investment.

**Absence of Regulatory Oversight for Private Funds.** The Private Funds are not registered as investment companies under the Investment Company Act, and, accordingly, the significant investor protection provisions of the Investment Company Act (which provides certain regulatory safeguards to investors in registered investment companies), will not apply to investments in the Private Funds.

**Bankruptcy of a Custodian or Broker.** Assets of a Client Account held by a custodian or broker may be held in the name of the custodian or broker in a securities depository, clearing agency or omnibus customer account of such custodian or broker. To the extent that assets are held in the United States by a custodian in a segregated account or by a broker in a customer account, such assets may be entitled to certain protections from the claims of creditors of the custodian or broker. However, a Client Account with assets held in a segregated account by a custodian may experience delays and expense in receiving a distribution of such assets in the case of a bankruptcy, receivership or other insolvency proceeding of such custodian. Assets held by brokers in a customer account are entitled to certain protections from the claims of creditors of the broker but may not have the same level of protection applicable to segregated accounts held by a non-broker custodian and thus may not be sufficient to satisfy the full amount of customer claims. Assets held by non-U.S. brokers or custodians may not be subject to the same regulations regarding the segregation of customer assets from the assets of the broker or custodian, or from assets held on behalf of other customers of the broker or custodian, and accordingly assets held by a non-U.S. broker or custodian may not be protected from the claims of creditors of the broker or custodian to the same extent as assets held by a U.S. broker or custodian.

**Counterparty Risk.** To the extent that a Client Account enters into transactions on a principal-to-principal basis, the Client Account is subject to a range of counterparty risks, including the credit risk of its counterparty (i.e., counterparty default), the risk of the counterparty delaying the return of or losing collateral relating to the transaction, or the bankruptcy of the counterparty.

**Currency Risk.** Currency fluctuations could negatively impact investment gains or add to investment losses. The value of Client Accounts invested in currencies may rise and fall due to exchange rate fluctuations in respect of the relevant currencies. Adverse movements in currency exchange rates can result in a decrease in return and a loss of capital. The investments may be hedged utilizing foreign currency forwards, foreign currency futures, options on foreign currency and other currency related instruments. However, currency hedging transactions, while potentially reducing the currency risks to which a Client Account would otherwise be exposed, involve certain other risks, including the risk of a default by a counterparty. Where a Client Account engages in foreign exchange transactions which alter the currency exposure characteristics of its investments, the performance of such Client Account may be strongly influenced by movements in exchange rates as currency positions held by the Client Account may not correspond with the securities positions held. Where a Client Account enters into “cross hedging” transactions (e.g., utilizing currency different than the currency in which the security being hedged is denominated), the Client Account will be exposed to the risk that changes in the value of the currency used to hedge may not correlate with changes in the value of the currency in which the securities are denominated, which could result in losses in both the hedging transaction and the Client Account securities.

**Dependence on NBAL.** The performance of a Client Account depends on the skill of NBAL and its portfolio manager(s) in making appropriate investment decisions. Any Client Account's success depends upon NBAL's ability to develop and implement investment strategies and to apply investment techniques and risk analyses that achieve the account's investment objectives. Subjective decisions made by NBAL may cause the account to incur losses or to miss profit opportunities on which it may otherwise have capitalized.

**Derivatives Risk.** Derivatives are financial contracts whose value depend on, or are derived from, the value of an underlying asset, reference or index. In implementing certain of its investment strategies, NBAL may use derivatives, such as options, forward contracts and swaps, as part of a strategy designed to reduce exposure to other risks or to take a position in an underlying asset. Derivatives may involve risks different from, or greater than, those associated with more traditional investments. Derivatives can be highly complex, can create investment leverage and may be highly volatile, which could result in the strategy losing more than the amount it invests. Derivatives may be difficult to value and highly illiquid, and NBAL may not be able to close out or sell a derivative position at a particular time or at an anticipated price. NBAL is not required to engage in derivative transactions, even when doing so would be beneficial to the Client Account

Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Dodd-Frank Act**") provided for a sweeping overhaul of the regulation of privately negotiated derivatives. The U.S. Commodities Futures Trading Commission ("**CFTC**") has been granted broad regulatory authority over "swaps," which term has been defined in the Dodd-Frank Act and related CFTC rules to include derivatives. Title VII may affect a Client Account's ability to enter into derivative transactions, may increase the costs in entering into such transactions, or may result in Client Accounts entering into such transactions on less favorable terms than prior to effectiveness of the Dodd-Frank Act.

In addition, NBAL may take advantage of opportunities with respect to derivative instruments that are not currently contemplated for use or that are currently not available, but that may be developed, to the extent such opportunities are both consistent with the Client Account's investment objectives and guidelines and legally permissible. Special risks may apply to such instruments that cannot be determined until such instruments are developed or invested in by the Client Account.

*Derivative Counterparty Risk.* Derivatives are subject to counterparty risk, which is the risk that the other party to the derivative contract will fail to make required payments or otherwise to comply with the terms of the contract. This risk is generally regarded as greater in privately negotiated, over the counter (OTC) transactions, in which the counterparty is a single bank or broker-dealer, than in cleared transaction, in which the counterparty is a clearing organization comprised of many bank and broker-dealer members, but some level of counterparty risk exists in all derivative transactions.

If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, the Client Account could lose any gains that have accrued to it in the transaction and could miss investment opportunities or be required to hold

investments it would prefer to sell, resulting in losses for the Client Account. If the counterparty defaults, a Client Account will have contractual remedies, but there can be no assurance that the counterparty will be able to meet its contractual obligations or that the Client Account will be able to enforce its rights. For example, the Client Account may be delayed or limited in enforcing its rights against any margin or collateral posted by the counterparty, which may result in the value of that collateral becoming insufficient. Also, because OTC derivatives transactions are individually negotiated with a specific counterparty, a Client Account is subject to the risk that a counterparty may interpret contractual terms (*e.g.*, the amount payable to or by the Client Account upon a default or other early termination) in a manner adverse to the Client Account. The cost and unpredictability of the legal proceedings required to enforce a Client Account's contractual rights may lead the Client Account to decide not to pursue its claims against the counterparty.

Counterparty risk is greater for derivatives with longer maturities where events may intervene that prevent required payments from being made. Counterparty risk is also greater when a Client Account has concentrated its derivatives with a single or small group of counterparties. To the extent a Client Account has significant exposure to a single counterparty, this risk will be particularly pronounced for the Client Account. The Client Account, therefore, assumes the risk that it may be unable to obtain payments that NBAL believes are owed under an OTC derivatives contract or that those payments may be delayed or made only after the Client Account has incurred the costs of litigation. In addition, counterparty risk is pronounced during unusually adverse market conditions and is particularly acute in environments in which financial services firms are exposed to systemic risks. A Client Account may obtain only a limited recovery or may obtain no recovery upon a counterparty default.

*Bankruptcy of a Clearing Organization or Clearing Member.* A party to a cleared derivatives transaction is subject to the credit risk of the clearing organization that becomes the counterparty to the transaction and that of the clearing member through which it holds its cleared position, rather than the credit risk of its original counterparty to the derivatives transaction. Credit risk of market participants with respect to derivatives that are centrally cleared is concentrated in a few clearing organizations. It is not clear how an insolvency proceeding of a clearing organization would be conducted or what impact an insolvency of a clearing organization would have on the financial system.

A clearing member is obligated by contract and by applicable regulation to segregate all funds received from customers with respect to cleared derivatives positions from the clearing member's proprietary assets. However, all funds and other property received by a clearing member from its customers with respect to cleared derivatives are generally held by the clearing member on a commingled basis in an omnibus account, and the clearing member may invest those funds in instruments permitted under the applicable regulations. Therefore, a Client Account might not be fully protected in the event of the bankruptcy of a Client Account's clearing member because the Client Account would be limited to recovering only a pro rata share of the funds held in the omnibus account for the relevant account class.

*Risk of Failure of a Clearing Broker to Comply with Margin Requirements.* The clearing member is required to transfer to the clearing organization the amount of margin required by the clearing

organization for the cleared derivatives. Such amounts are generally held in an omnibus account at the clearing organization for all customers of the clearing member. Regulations promulgated by the CFTC require that the clearing member notify the clearing organization of the portion of the aggregate initial margin provided by the clearing member to the clearing organization that is attributable to each customer. However, if the clearing member does not accurately report a Client Account's initial margin, the Client Account would be subject to the risk that the clearing organization will use Client Account's assets held in an omnibus account at the clearing organization to satisfy payment obligations of a defaulting customer of the clearing member to the clearing organization. In addition, clearing members generally provide the clearing organization the net amount of variation margin required for cleared swaps for all of its customers in the aggregate, rather than individually for each customer. The Client Accounts are therefore subject to the risk that a clearing organization will not make variation margin payments owed to them if another customer of the clearing member has suffered a loss or is in default, and the risk that Client Accounts will be required to provide additional variation margin to the clearing organization before the clearing organization will move the Client Account's cleared derivatives positions to another clearing member. In addition, if a clearing member does not comply with the applicable regulations or its agreement with the Client Accounts, or in the event of fraud or misappropriation of customer assets by a clearing member, Client Accounts could have only an unsecured creditor claim in an insolvency of the clearing member with respect to the margin held by the clearing member. Client Accounts also would have only an unsecured claim for the return of any margin held by the clearing member that is in excess of the amounts owed to the Client Accounts on their derivative contracts cleared through that clearing member.

*Additional Risk Factors in Cleared Derivatives Transactions.* Transactions in some types of swaps (including interest rate swaps and credit default swaps on North American and European indices) are required to be centrally cleared. In a transaction involving those swaps, a Client Account's counterparty is a clearing organization, rather than a bank or broker. Since the Client Accounts are not members of clearing organizations and only members of a clearing organization can participate directly in the clearing organization, the Client Accounts will hold cleared derivatives through accounts at clearing members. In cleared derivatives positions, the Client Accounts will make payments (including margin payments) to and receive payments from a clearing organization through their accounts at clearing members. Clearing members guarantee performance of their clients' obligations to the clearing organization.

In many ways, cleared derivative arrangements are less favorable to Client Accounts than bilateral arrangements. For example, the Client Accounts may be required to provide more margin for cleared derivatives positions than for bilateral derivatives positions. Also, in contrast to a bilateral derivatives position, following a period of notice to a Client Account, a clearing member generally can require termination of an existing cleared derivatives position at any time or an increase in margin requirements above the margin that the clearing member required at the beginning of a transaction. Clearing organizations also have broad rights to increase margin requirements for existing positions or to terminate those positions at any time. Any increase in margin requirements or termination of existing cleared derivatives positions by the clearing member or the clearing organization could interfere with the ability of a Client Account to pursue its investment strategy. Further, any increase in margin requirements by a clearing

member could expose a Client Account to greater credit risk to its clearing member because margin for cleared derivatives positions in excess of a clearing organization's margin requirements typically is held by the clearing member.

A Client Account is subject to risk if it enters into a derivatives transaction that is required to be cleared (or that NBAL expects to be cleared), and no clearing member is willing or able to clear the transaction on the Client Account's behalf. While the documentation in place between the Client Accounts and their clearing members generally provides that the clearing members will accept for clearing all cleared derivatives transactions that are within specified credit limits for each Client Account, the Client Accounts are still subject to the risk that no clearing member will be willing or able to clear a transaction. In those cases, the position would be terminated, and the Client Account could lose some or all of the benefit of the position, including loss of an increase in the value of the position or loss of hedging protection.

The documentation governing the relationship between the Client Accounts and clearing members is drafted by the clearing members and generally is less favorable to the Client Accounts than typical bilateral derivatives documentation. For example, documentation relating to cleared derivatives generally includes a one-way indemnity by the Client Accounts in favor of the clearing member for losses the clearing member incurs as the Client Accounts' clearing member and typically does not provide the Client Accounts any remedies if the clearing member defaults or becomes insolvent. While futures contracts entail similar risks, the risks likely are more pronounced for cleared swaps due to their more limited liquidity and market history.

**Diversification Risk.** Client Accounts may not be diversified across a wide range of asset classes or issuers could increase the risk of loss and volatility than would be the case if the Client Account were diversified across asset classes because the value of issue holdings would be more susceptible to adverse events affecting that asset class or issuer.

**Emerging Markets Risk.** Non-U.S. securities involve risks in addition to those associated with comparable U.S. securities and can be more volatile and experience more rapid and extreme changes in price than U.S. securities. Additional risks include exposure to less developed or less efficient trading markets; social, political or economic instability; fluctuations in non-U.S. currencies; nationalization or expropriation of assets; settlement, custodial or other operational risks; and less stringent auditing, accounting, financial reporting and legal standards. As a result, non-U.S. securities can fluctuate more widely in price, and may also be less liquid, than comparable U.S. securities. Securities markets of countries other than the U.S. are generally smaller than U.S. securities markets with a limited number of issuers representing fewer industries. In many countries, there is less publicly available and lower quality information about issuers than is available in the reports and ratings published about issuers in the U.S. Many non-U.S. securities may be less liquid than U.S. securities, which could affect the investments under a strategy that utilizes these types of securities. For example, with respect to Client Accounts that invest in China A-shares through the Shanghai-Hong Kong Stock Connect program ("**Connect Program**"), the Connect Program is subject to quota limitations and an investor cannot purchase and sell the same security on the same trading day, which may restrict a Client Account's ability to invest in China A-shares through the Connect Program and to enter into or exit trades on a timely basis. Under the Connect Program, investors are not the registered



owners of shares. Rather shares are held by Hong Kong Exchanges and Clearing Limited in an omnibus account, with investors as beneficial owners. There may be ambiguity in the ownership status as a result. A Client Account may suffer delay in recovering or may not be able to fully recover its entitlements to shares in default circumstances. Further, trades on the Connect Program are subject to certain requirements prior to trading. If those requirements are not completed prior to the market opening, a Client Account cannot sell the shares on that trading day.

Emerging markets are those of countries with immature economic and political structures. Investing in emerging markets may involve heightened and significant risks and special considerations not typically associated with investing in other more established economies or securities markets. Such risks may include, but are not limited to: (i) greater social, economic and political uncertainty including war; (ii) higher dependence on exports and the corresponding importance of international trade; (iii) greater risk of inflation; (iv) increased likelihood of governmental involvement in and control over the economies; (v) governmental decisions to cease support of economic reform programs or to impose centrally planned economies; (vi) the possibility of nationalization, expropriation, confiscatory tax policies and social instability; and (vii) considerations regarding the maintenance of a Client Account's securities and cash with non-U.S. brokers and custodians.

Companies in emerging markets are generally subject to less stringent and less uniform accounting, auditing and financial reporting standards, practices and disclosure requirements than those applicable to companies in developed countries. Securities markets in emerging market countries may have substantially less volume of trading and are generally more volatile than securities markets of developed countries. In certain periods, there may be little liquidity in such markets. There is often less government regulation of stock exchanges, brokers and listed companies in emerging market countries than in developed market countries. Commissions for trading on emerging markets stock exchanges are generally higher than commissions for trading on developed market exchanges. Settlement of trades in some non-U.S. markets is much slower and more subject to failure than in U.S. markets. In addition, custodial or settlement systems may not be fully developed in emerging market countries, thereby exposing a Client Account to the risk of a sub-custodian's failure with no recourse against the custodian.

Many of the laws that govern private and foreign investment, securities transactions and other contractual relationships in emerging markets are new and largely untested. As a result, investing in emerging markets involves a number of unusual risks, including inadequate investor protection, contradictory legislation, incomplete, unclear and changing laws, ignorance or breaches of regulations on the part of other market participants, lack of established or effective avenues for legal redress, lack of standard practices and confidentiality customs characteristic of developed markets and lack of enforcement of existing regulations. Furthermore, it may be difficult to obtain and enforce a judgment in certain emerging markets.

Emerging market securities also will be affected by general economic and market conditions, such as exchange rates, interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, trade barriers, currency exchange controls and national and international

political circumstances. These factors may affect the level and volatility of securities' prices and the liquidity of the Client Account's investments. Volatility or illiquidity could impair a Client Account's profitability or result in losses.

**Forward Contracts.** If Client Account investment guidelines permit, NBAL may enter into forward contracts and options thereon which are not traded on exchanges and are generally not regulated on behalf of such account. There are no limitations on daily price moves of forward contracts. Banks and other dealers with which a Client Account may maintain accounts normally require the Client Account to deposit margin with respect to such trading. The counterparties are not required to continue to make markets in such contracts and these contracts can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain counterparties have refused to continue to quote prices for forward contracts or have quoted prices with an unusually wide spread (the price at which the counterparty is prepared to buy and that at which it is prepared to sell). Arrangements to trade forward contracts may be made with only one or a few counterparties, and liquidity problems therefore might be greater than if such arrangements were made with numerous counterparties. The imposition of credit controls by governmental authorities might limit such forward trading to less than that which NBAL would otherwise recommend, to the possible detriment of a Client Account. Market illiquidity or disruption could result in major losses to a Client Account. In addition, a Client Account may be exposed to credit risks with regard to counterparties with which it trades as well as risks relating to settlement default. Such risks could result in substantial losses to a Client Account.

**Geographic Risk.** From time to time, based on market or economic conditions, the Client Account may invest a significant portion of its assets in one country or geographic region. If the Client Account does so, there is a greater risk that economic, political, social and environmental conditions in that particular country or geographic region may have a significant impact on the Client Account's performance and that the Client Account's performance will be more volatile than the performance of more geographically diversified funds. The economies and financial markets of certain regions can be highly interdependent and may decline all at the same time. In addition, certain areas are prone to natural disasters such as earthquakes, volcanoes, droughts or tsunamis and are economically sensitive to environmental events. Alternatively, the lack of exposure to one or more countries or geographic regions may adversely affect performance.

**Hedging.** Hedging techniques involve one or more of the following risks: (i) imperfect correlation between the performance and value of the hedging instrument and the Client Account's position being hedged; (ii) possible lack of a secondary market for closing out a position in such instruments; (iii) losses resulting from interest rate, spread or other market movements not anticipated by NBAL; (iv) the possible obligation to meet additional margin or other payment requirements, all of which could worsen the Client Account's position; and (v) default or refusal to perform on the part of the counterparty with which the Client Account trades. Furthermore, to the extent that any hedging strategy involves the use of derivative instruments, such a strategy will be subject to the risks applicable to such instruments, as described herein.

**Investment Company Risk.** To the extent a Client Account invests in ETFs or other investment companies, its performance will be affected by the performance of those other investment companies. Investments in ETFs and other investment companies are subject to the risks of the investment companies' investments, as well as to the investment companies' expenses. If a Client Account invests in other investment companies, the Client Account may receive distributions of taxable gains from portfolio transactions by that investment company and may recognize taxable gains from transactions in shares of that investment company, which would be taxable when distributed.

**Investment Strategy and Portfolio Management Risk.** There can be no assurance that an investment strategy will produce an intended result, which would result in losses to an investor, including, potentially, a complete loss of principal. The performance of a strategy depends on the skill of NBAL and its portfolio manager(s) in making appropriate investment decisions.

**Leverage Risk.** Certain Client Accounts in accordance with their investment guidelines may seek to enhance returns through the use of leverage, which can be described as exposure to changes in price at a ratio greater than 1:1 in reference to the amount invested. Additionally, leverage may involve borrowing by a Client Account to buy securities on margin or make other investments. Leverage magnifies both the favorable and unfavorable effects of price movements in the investments made by a Client Account, which may subject it to substantial risk of loss. In the event of a sudden, precipitous drop in value of a Client Account's assets occasioned by a sudden market decline, it might not be able to liquidate assets quickly enough to meet its margin or borrowing obligations. Also, because acquiring and maintaining positions on margin allows a Client Account to control positions worth significantly more than its investment in those positions, the amount that it stands to lose in the event of adverse price movements is higher in relation to the amount of its investment. In addition, since margin interest will be one of the Client Account's expenses and margin interest rates tend to fluctuate with interest rates generally, it is at risk that interest rates generally, and hence margin interest rates, will increase, thereby increasing its expenses.

Similarly, investments may be made in companies whose capital structures may have significant leverage. To the extent a company in which a Client Account invests is leveraged, its leveraged capital structure will increase the exposure of the company to adverse economic factors such as rising interest rates, downturns in the economy or deteriorations in the condition of the company or its industry sector, which could result in the account experiencing a loss in its investment in that company.

**Liquidity Risk.** Illiquid securities are securities that are not readily marketable, and, as a result, may be more difficult to purchase or sell at an advantageous price or time. A Client Account could lose money if it cannot sell a security at the time and price that would be most beneficial to it. Further, the lack of an established secondary market may make it more difficult to value illiquid securities, which could vary from the amount the Client Account could realize upon disposition. Judgment plays a greater role in pricing these investments than it does in pricing investments having more active markets, and there is a greater risk that the investments may not be sold for the price at which they are carried. The sale of some illiquid securities may be subject to legal restrictions, which could be costly to the Client Account.

A strategy may hold securities that are illiquid and cannot be transferred or redeemed for a substantial period of time, and there may be little or no near-term cash flow available to investors in the interim. Likewise, a portfolio may not receive any distributions representing the return of capital on an illiquid security for an indefinite period of time.

**Litigation.** Foreclosures and reorganizations are contentious and adversarial. It is by no means unusual for participants to use the threat of, as well as actual, litigation as a negotiating technique. NBAL anticipates that the Firm or Client Accounts that invest in distressed debt or the residential loan modification strategies may be named as defendants in civil proceedings relating to certain of such accounts' investments. The expense of defending against such claims and paying any resulting settlements or judgments will generally be borne by the relevant Client Account. Any indemnification obligations would adversely affect such Client Account's returns. With respect to Private Funds, indemnification obligations will generally survive the dissolution of the Private Fund, and may cause NBAL to retain a material reserve from the winding-up proceeds distributed to investors.

**Market Volatility.** Markets may at times be volatile and values of individual securities and other investments may decline significantly, and sometimes rapidly, in response to adverse issuer, political, regulatory, market, economic or other developments that may cause broad changes in market value, public perceptions concerning these developments, and adverse investor sentiment. Changes in the financial condition of a single issuer may impact a market as a whole. If a Client Account sells a portfolio position before it reaches its market peak, it may miss out on opportunities for better performance.

**Non-U.S. Securities.** Non-U.S. securities can be more volatile and experience more rapid and extreme changes in price than U.S. securities. Securities markets of countries other than the U.S. are generally smaller than U.S. securities markets with a limited number of issuers representing fewer industries. In many countries, there is less publicly available and lower quality information about issuers than is available in the reports and ratings published about issuers in the U.S. and non-U.S. issuers may not be subject to uniform accounting, auditing and financial reporting standards. Many non-U.S. securities may be less liquid than U.S. securities, which could affect the investments under a strategy that utilizes these types of securities. The exchange rates between U.S. dollar and non-U.S. currencies might fluctuate, which could negatively affect the value of the strategy's investments.

Non-U.S. securities may also be subject to higher political, social and economic risks. These risks include, but are not limited to, a downturn in the country's economy, excessive taxation, political instability, exchange control regulations and expropriation of assets by non-U.S. governments. Adverse conditions in a particular region could negatively affect securities of countries whose economies appear to be unrelated or not interdependent. Compared to the United States, non-U.S. governments and markets often have less stringent accounting, disclosure and financial reporting requirements.

**Characteristics of Greater China Region Securities Markets.** NBAL generally will buy and sell securities on the principal stock exchange or OTC market of the country in which the principal offices of the issuer of the security are located. Many Greater China Region and other

non-developed stock markets are not as developed or efficient as those in developed markets and may be more volatile. There is generally less government supervision and regulation of Greater China Region exchanges, brokers, and listed companies than in developed markets. Furthermore, trading volumes in Greater China Region markets are usually lower than in developed markets, resulting in reduced liquidity and potentially rapid and erratic price fluctuations. Commissions for trades on Greater China Region stock exchanges are generally higher than negotiated commissions on developed market exchanges and custody expenses are generally higher as well. Settlement practices for transactions in Greater China Region markets may involve delays beyond periods customary in developed markets.

***Less Company Information and Regulation.*** Generally, there is less publicly available information about Greater China Region companies than about companies operating in developed markets. This may make it more difficult for NBAL to stay informed of corporate action that may affect the price of a particular security. Further, many countries lack uniform accounting, auditing, and financial reporting standards, practices, and requirements. These factors can make it difficult to analyze and compare the performance of certain Greater China Region companies.

***Restrictions on Investment and Repatriation.*** Some countries impose restrictions and controls regarding investment by foreigners. Among other things, they may require prior governmental approvals, impose limits on the amount or types of securities that may be held by foreigners or impose limits on the types of companies in which foreigners may invest. These restrictions may at times limit or preclude NBAL's investment in certain countries and may increase the Client's costs and expenses. Because of the limited number of authorizations granted in such countries, however, units or shares in most of the investment funds authorized in those countries may at times trade at a substantial premium over the value of their underlying assets. In addition, certain countries may impose restrictions and controls on repatriation of investment income and capital. As a result the Client's assets may be restricted from being repatriated indefinitely. Dividend and interest payments on some securities the Client may own may be subject to withholding taxes, which would reduce net proceeds.

***Political and Economic Instability.*** The economies of many countries are less stable than developed market economies, due to, among other things, volatile internal political environments, less stable monetary systems and/or external political risks. The governments of such countries may participate in their economies through ownership or regulation in ways that can have a significant effect on securities prices. The economies of certain countries depend heavily on international trade and can be adversely affected by the enactment of trade barriers or changes in the economic conditions of their trading partners. In some countries, especially developing or emerging countries, political or diplomatic developments could lead to programs that would adversely affect investments, such as confiscatory taxation or expropriation.

***Additional Risks in Investing in China.*** Investments in Chinese companies involve certain risks and special considerations not typically associated with developed markets, such as greater government control over the economy, political and legal uncertainty, currency fluctuations or blockage, confiscatory taxation, armed conflict, the risk that the Chinese government may decide not to continue to support economic reform programs, the risk of nationalization or

expropriation of assets, lack of uniform auditing and accounting standards, less publicly available financial and other information, less hedging instruments available, potential difficulties in enforcing contractual obligations, potential fewer opportunities for capital appreciation than other emerging market and limitations on the ability to distribute dividends due to currency exchange issues, which may result in risk of loss of favorable tax treatment.

The Shanghai Stock Exchange and Shenzhen Stock Exchange may have lower trading volumes when compared to exchanges in developed markets and the market capitalizations of many listed companies are small compared to those on exchanges in developed markets. Government supervision and regulation of China's securities markets and of quoted companies is also less developed than in many member countries of the Organization for Economic Co-operation and Development. The above factors could negatively affect a Client Account's NAV, the ability to redeem shares in a Fund and the price at which such shares may be redeemed.

These risks may be more pronounced for the China A-share market than for Chinese securities markets, generally, because the China A-share market is subject to greater governmental restrictions and control.

China A-shares are traded in renminbi on the Shenzhen and Shanghai Stock Exchanges. China A-shares are issued by companies incorporated in mainland China and can be purchased by Chinese domestic investors and qualified foreign institutional investors ("**QFII**") and certain China A-Shares are also available via the Connect Program.

An investment in the China A-shares for a Client Account may be made and held through a QFII quota. However, neither NBAL nor any of the Funds has exclusive use of a QFII quota through which to invest. China's QFII Investment Regulations apply to each QFII quota as a whole, and not simply to investments made on behalf of a Client Account. Thus investors should be aware that violations of China's QFII Investment Regulations arising out of activities related to portions of the relevant QFII quota other than those which are utilized by a Client Account could result in the revocation of or other regulatory action in respect of the QFII quota as a whole, including any portion utilized by the Client Account.

Likewise, limits on investment in China A-shares, and the regulations relating to the repatriation of capital and profits are applied in relation to the QFII quota as a whole. Hence the ability of a Client Account to make investments and/or repatriate monies from the relevant QFII quota may be affected adversely by the investments, performance and/or repatriation of monies invested by other investors utilizing the relevant QFII quota. NBAL may invest through additional QFIIs with which it or a Client Account may enter into an arrangement.

China A-shares dealt on the Shanghai and Shenzhen stock exchanges are dealt and held in dematerialized form through the CSDCC. The securities trading account, to which securities purchased by a Client Account are recorded by the CSDCC as credited, may be a securities trading account maintained in the name of an intermediary and not directly in the name of the Client Account. The Client Account's interest in such investments will not be recognized by the CSDCC, the relevant licensed custodian bank or any China legal or regulatory body. Accordingly the Client Account's assets may not be as well protected as they would be if it were possible for

them to be registered and held directly in the name of the Client Account or by a custodian or nominee of the Client Account.

The evidence of title of exchange-traded securities in China consists only of electronic book entries in the depository and/or registry associated with the exchange. These arrangements of the depositories and registries are new and not fully tested in regard to their efficiency, accuracy and security.

***Taxation in China.*** The taxation regulations in China are subject to change, possibly with retroactive effect. Changes in Chinese tax regulations could have a significant adverse effect on a Client Account and its investments, including reducing returns, reducing the value of the Client Account's investments and possibly impairing capital invested by the Client Account.

In addition, a Client Account's investment in China A-shares through the Connect Program or any QFII quota will be affected by taxation levied against the investment held using the Connect Program, the relevant QFII or in respect of investments held in the relevant QFII quotas. China's taxation regime that will apply to investments made through the Connect Program, QFIIs and investments made in or through QFII quotas is evolving and remains to be unclear in certain aspects. Under circular of Caishui [2014] no. 81 and Caishui [2014] no. 79 jointly issued by the Ministry of Finance, State Administration of Tax and China Securities Regulatory Commission on 14 November 2014, effective from 17 November 2014, generally investments made through the Connect Program and QFIIs shall be temporary exempted from the PRC enterprise income tax on the capital gains derived from the trading of China A-shares and other PRC equity interest investments. It is uncertain how long the temporary exemption will last, and whether it will be replaced and re-imposed retrospectively, which could have significant adverse effect on investment held using the Connect Program, QFIIs and investments made in or through QFII quotas. Until such time as the China taxation position is further clarified, NBAL will arrange for all subscription and redemption requests to be processed based upon NAV calculations, determined through making a provision for China withholding tax of 10% on all dividend income received.

**Operational Risk:** NBAL uses service providers from time to time in connection with its products. A Client Account's ability to transact with NBAL may be negatively impacted due to operational risks arising from, among other problems, systems and technology disruptions or failures, or cybersecurity incidents. The occurrence of any of these problems could result in a loss of information, regulatory scrutiny, reputational damage and other consequences, any of which could have a material adverse effect on NBAL or its clients. NBAL, through its monitoring and oversight of its service providers, endeavors to determine that service providers take appropriate precautions to avoid and mitigate risks that could lead to such problems. However, it is not possible for NBAL or its service providers to identify all of the operational risks that may affect NBAL or to develop processes and controls to completely eliminate or mitigate their occurrence or effects.

Specifically, since the use of technology has become more prevalent in the course of managing Client Accounts, NBAL and the Client Accounts it manages may be more susceptible to operational risks through breaches in cybersecurity. A cybersecurity incident may refer to either

intentional or unintentional events that allow an unauthorized party to gain access to client assets, customer data, or proprietary information, or cause NBAL to suffer data corruption or lose operational functionality. A cybersecurity incident could, among other things, result in the loss or theft of Client Account data or funds, clients or employees being unable to access electronic systems (“denial of services”), loss or theft of proprietary information or corporate data, physical damage to a computer or network system, or remediation costs associated with system repairs. Any of these results could have a substantial impact on Client Accounts. For example, if a cybersecurity incident results in a denial of service, service providers for a particular Client Account could be unable to access electronic systems to perform critical duties for such Client Account, such as trading, net asset value calculation or other accounting functions. Further, Client Accounts could also be exposed to losses resulting from unauthorized use of their personal information. Cybersecurity incidents could cause NBAL or one of its service providers to incur regulatory penalties, reputational damage, additional compliance costs associated with corrective measures, or financial loss of a significant magnitude. Cybersecurity incidents may also cause NBAL to violate applicable privacy and other laws. NBAL has established risk management systems that seek to reduce the risks associated with cybersecurity, and business continuity plans in the event there is a cybersecurity breach. However, there is no guarantee that such efforts will succeed, and NBAL does not directly control the cybersecurity systems of the issuers of securities in which Client Accounts invest or NBAL’s service providers.

**Options.** NBAL may invest in options on behalf of a Client Account. Purchasing put and call options, as well as writing such options, are highly specialized activities and entail greater than ordinary investment risks. Although an option buyer’s risk is limited to the amount of the original investment for the purchase of the option, an investment in an option may be subject to greater fluctuation than is an investment in the underlying securities. In theory, the writer (seller) of an uncovered call is subject to unlimited losses, but as a practical matter, the amount of potential loss is likely to be limited by reason of the option having only a limited term. The risk for a writer of a put option is that the price of the underlying securities may fall below the exercise price. The ability to trade in or exercise options may be restricted in the event that trading in the underlying securities interest becomes restricted.

Unlike exchange-traded options, which are standardized with respect to the underlying instrument, expiration date, contract size, and strike price, the terms of OTC options (options not traded on exchanges) are generally established through negotiation with the other party to the option contract. While this type of arrangement allows a Client Account greater flexibility to tailor an option to its needs, OTC options generally involve greater credit risk than exchange-traded options, in which the counterparty is a clearing organization.

*Risk Factors in Options Transactions.* The market price of options written by a Client Account will be affected by many factors, including changes in the market price or dividend rates of underlying securities (or in the case of indices, the securities comprising such indices); changes in interest rates or exchange rates; changes in the actual or perceived volatility of the relevant stock market and underlying securities; and the time remaining before an option’s expiration. The market price of an option also may be adversely affected if the market for the option becomes less liquid. In addition, since an American-style option allows the holder to exercise its



rights any time prior to the option's expiration, the writer of an American-style option has no control over when it may be required to fulfill its obligations as a writer of the option. (This risk is not present when writing a European-style option since the holder may only exercise the option on its expiration date.) There is also a risk of loss associated with the inability to close out of existing positions if those options were to become unavailable. In addition, regulatory agencies may impose exercise restrictions that may prevent the holder of an option from realizing value.

**Projections.** NBAL will make investments relying, in part, upon projections it has developed concerning an issuer or its securities or other assets' future performance, cash flow, recovery value and other factors. Projections are inherently uncertain and subject to factors beyond the control of NBAL. The inaccuracy of certain assumptions, the failure of an issuer to satisfy certain financial requirements and the occurrence of unforeseen events could cause any such projection to be materially inaccurate. Investors should therefore carefully examine the assumptions behind a particular projection or targeted return.

**Recent Market Conditions.** Since the financial crisis that started in 2008, the U.S. and many foreign economies continue to experience its after-effects, which have resulted, and may continue to result, in an unusually high degree of volatility in the financial markets, both domestic and foreign. Reduced liquidity in fixed income and credit markets may negatively affect many issuers worldwide, which may have an adverse effect on Client Accounts.

In addition, global economies and financial markets are becoming increasingly interconnected, which increases the possibilities that conditions in one country or region might adversely impact issuers in a different country or region. In the summer of 2015, stock markets in China suffered a significant downturn. The Chinese government attempted to combat the descent by implementing measures such as cutting interest rates, altering regulation to increase liquidity flows, and temporarily suspending trade. While these measures led to the Chinese markets returning to a comfortable level, they have been unable to recoup the losses suffered in 2015.

As a result to the crisis, the U.S. and other governments and the Federal Reserve and certain non-U.S. central banks took steps to support financial markets. In some countries where economic conditions have somewhat recovered, they are nevertheless perceived as still fragile. Withdrawal of government support, failure of efforts in response to the crisis, or investor perception that such efforts have not succeeded could adversely impact the value and liquidity of certain securities. The severity or duration of adverse economic conditions may also be affected by policy changes made by governments or quasigovernmental organizations, including changes in tax laws. The impact of new financial regulation legislation on the markets and the practical implications for market participants may not be fully known for some time. Regulatory changes are causing some financial services companies to exit long-standing lines of business, resulting in dislocations for other market participants. In addition, political events within the U.S. and abroad, such as the U.S. government's recent inability to agree on a long-term budget and deficit reduction plan, threats not to increase the U.S. government's debt limit, may affect investor and consumer confidence and may adversely impact financial markets and the broader

economy, perhaps suddenly and to a significant degree. High public debt in a number of countries creates ongoing systemic and market risks and policymaking uncertainty. The numerous countries struggling under such public debt has brought to the forefront tension within the European economic structure that, if not handled skillfully, could result in economic disruption in the Eurozone, which could occur abruptly.

These events and the potential for continuing market turbulence may have an adverse effect on Client Accounts. Because the impact on the markets has been widespread, it may be difficult to identify both risks and opportunities using past models of the interplay of market forces, or to predict the duration of these market conditions. Changes in market conditions will not have the same impact on all types of securities. Interest rates have been unusually low in recent years in the U.S. and abroad. However, in December 2015, the Federal Reserve raised the target range for the federal funds rate to between 0.25% and 0.50%, and in December 2016, the Federal Reserve further raised the target range to between 0.50% and 0.75%. In addition, there is a risk that the prices of goods and services in the U.S. and many non-U.S. economies may decline over time, known as deflation (the opposite of inflation). Deflation may have an adverse effect on stock prices and creditworthiness and may make defaults on debt more likely. If a country's economy slips into a deflationary pattern, it could last for a prolonged period and may be difficult to reverse.

**Recent Regulatory Events and Government Intervention.** The situation in the financial markets has resulted in increased regulation, and the need of many financial institutions for government help has given lawmakers and regulators increased leverage. The Dodd-Frank Act, among other things, granted regulatory authorities broad rulemaking and enforcement authority to implement and oversee various provisions of the Dodd-Frank Act, including comprehensive regulation of the over-the-counter derivatives and consumer credit markets. The Dodd-Frank Act covers a broad range of topics, including (among many others) a reorganization of federal financial regulators; a process intended to improve financial systemic stability and the resolution of potentially insolvent financial firms; new rules for derivatives trading; the creation of a consumer financial protection watchdog; the registration and additional regulation of hedge and private equity fund managers; and new federal requirements for residential mortgage loans. The U.S. Government or its agencies may also acquire distressed assets from financial institutions and acquire ownership interests in such institutions. The implications of government ownership and disposition of these assets are unclear and such a program may have positive or negative effects on liquidity, valuations and performance of Client Accounts. Instruments in which Client Accounts may invest, or the issuers of such instruments, may be affected in ways that are unforeseeable. Accordingly, the consequences of the extensive changes to the regulation of various markets and market participants contemplated by the Dodd-Frank Act and increased regulation arising out of the recent financial crisis are difficult to predict or measure with certainty. Other G-20 countries are also in the process of adopting implementing regulations to govern swap transactions, and particular transactions may be subject to the laws and regulations of other jurisdictions depending upon whether the client and/or the counterparty are deemed to be "U.S. persons." The results of the recent U.S.

presidential election appear to herald significant changes in certain policies, which may result in less stringent prudential regulation of certain players in the financial markets.

Client Accounts are also subject to the risk of local, national and global economic disturbances based on unknown conditions in the market in which an account invests. In the event of such disturbances, issuers of securities held by a Client Account may suffer significant declines in the value of these assets and even terminate operations. Such issuers also may receive government assistance accompanied by increased control and restrictions or other government intervention. It is not clear whether the U.S. Government will intervene in response to such disturbances and effect of any such intervention is unpredictable.

**Redemption Risk.** A Client Account may experience periods of heavy redemptions that could cause a Client Account to sell assets at inopportune times or at a loss or depressed value. Redemption risk is greater to the extent that one or more investors or intermediaries control a large percentage of investments in a Client Account, have short investment horizons, or have unpredictable cash flow needs. In addition, redemption risk is heightened during periods of declining or illiquid markets. Heavy redemptions, whether by a few large investors or many smaller investors, could hurt a Client Account's performance.

**Reliance on Corporate Management and Financial Reporting.** NBAL will select investments for Client Accounts in part on the basis of information and data filed by issuers of securities with various government regulators, publicly available or made directly available to NBAL by such issuers or third parties. Although NBAL will evaluate all such information and data and seek independent corroboration when it considers it appropriate and reasonably available, NBAL will not always be in a position to confirm the completeness, genuineness or accuracy of such information and data. NBAL is dependent upon the integrity of the management of such issuers and of such third parties as well as the financial reporting process in general. Client Accounts may incur material losses as a result of corporate mismanagement, fraud and accounting irregularities relating to issuers of securities or other assets they hold.

**Sector Risk.** To the extent a Client Account invests more heavily in particular sectors, industries, or sub-sectors of the market, its performance will be especially sensitive to developments that significantly affect those sectors, industries, or sub-sectors. An individual sector, industry, or sub-sector of the market may be more volatile, and may perform differently, than the broader market. The several industries that constitute a sector may all react in the same way to economic, political or regulatory events. A Client Account's performance could be affected if the sectors, industries, or sub-sectors do not perform as expected. Alternatively, the lack of exposure to one or more sectors or industries may adversely affect performance.

**Social Investing Risk.** A strategy managed in accordance with social policy guidelines could underperform similar accounts that do not have a social policy. Among the reasons for this are: the social policy could cause the portfolio manager to sell or avoid stocks that subsequently perform well; undervalued stocks that do not meet the social criteria could outperform those that do; or economic or political changes could make certain companies less attractive for investment.

**Swaps.** NBAL may utilize swaps where it believes it will further the objectives of a Client Account that permits such instruments. Swap agreements historically have been OTC, two-party contracts entered into primarily by institutional investors for periods typically ranging from a few weeks to more than one year. In a standard swap transaction, two parties agree to exchange the returns (or differentials in rates of return) earned or realized on particular predetermined investments or instruments, which may be adjusted for an interest factor. There are various types of swaps, including but not limited to, total return swaps, credit default swaps and interest rate swaps; all of these and other swaps are derivatives and as such, each is subject to the general risks relating to derivatives described herein.

The Dodd-Frank Act has created an evolving regulatory framework for trading swaps in the United States. Standardized swaps will be required to be executed on or subject to the rules of designated contract markets or swap execution facilities and cleared by a central counterparty, a derivatives clearing organization. Central clearing is intended to reduce the risk of default by the counterparty. However, central clearing exposes Client Accounts to the clearing organization and clearing broker risks referenced above. Central clearing also may increase the costs of swap transactions by requiring the posting of larger amounts of initial and variation margin than are required in OTC transactions. There may also be risks introduced of a possible default by the clearing organization or by a clearing member or futures commission merchant through which a swap is submitted for clearing. The regulations to implement the Dodd-Frank Act are still being developed so there may be further changes to the rules governing swap transactions.

*Total Return Swaps.* NBAL may enter into total return swaps (“**TRS**”) to obtain exposure to a security or market without owning or taking physical custody of such security or market. Thus, a Client Account may be either a total return receiver or a total return payer. Generally, the total return payer sells to the total return receiver an amount equal to all cash flows and price appreciation on a defined security or asset payable at periodic times during the swap term (i.e., credit risk) in return for a periodic payment from the total return receiver based on a designated index (e.g., the London Interbank Offered Rate, known as LIBOR) and spread, plus the amount of any price depreciation on the reference security or asset. The total return payer does not need to own the underlying security or asset to enter into a total return swap. The final payment at the end of the swap term includes final settlement of the current market price of the underlying reference security or asset, and payment by the applicable party for any appreciation or depreciation in value. Usually, collateral must be posted by the total return receiver to secure the periodic interest-based and market price depreciation payments depending on the credit quality of the underlying reference security and creditworthiness of the total return receiver, and the collateral amount is marked-to-market daily equal to the market price of the underlying reference security or asset between periodic payment dates.

TRS agreements may be used to obtain exposure to a security or market without owning or taking physical custody of such security or market. TRS may effectively add leverage to a Client Account because, in addition to the net assets of the Client Account, the Client Account would be subject to investment exposure on the notional amount of the swap. If a Client Account is the total return receiver in a TRS, then the credit risk for an underlying asset is transferred to the Client Account in exchange for its receipt of the return (appreciation) on that asset. If a Client

Account is the total return payer, it is hedging the downside risk of an underlying asset but it is obligated to pay the amount of any appreciation on that asset.

*Contracts for Differences.* Certain non-U.S. Client Accounts may enter into contracts for differences. In these transactions, the Client Account and another party assume price positions in reference to an underlying security or other financial instrument. The “difference” is determined by comparing each party’s original position with the market price of such securities or financial instruments at a pre-determined closing date. Each party will then either receive or pay the difference, depending on the success of its investment.

Financial markets for the securities or instruments that form the subject of a contract for differences can fluctuate significantly. Parties to a contract for differences assume the risk that the markets for the underlying securities will move in a direction unfavorable to their original positions. In addition, these contracts often involve considerable economic leverage. As a result, such contracts can lead to disproportionately large losses as well as gains and relatively small market movements can have large impacts on the value of the investment.

**Systemic Risk General.** Credit risk may arise through a default by one of several large institutions that are dependent on one another to meet their liquidity or operational needs, so that a default by one institution causes a series of defaults by the other institutions. This is sometimes referred to as a “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which NBAL interacts on a daily basis.

**Tax Risk.** Tax laws and regulations applicable to a Client Account are subject to change, and unanticipated tax liabilities could be incurred by investors as a result of such changes. A strategy’s U.S. federal income tax liability with respect to income and gains on an investment may exceed its overall return for such a year. Further, a strategy may face limitations with respect to its ability to use its allocable share of deductions and losses from its investments in certain securities. The tax treatment of some strategies is uncertain. Investors should consult their own tax advisors to determine the potential tax-related consequences of investing in a Client Account.

**Terrorism Risk.** Terrorist attacks may lead to increased short-term market volatility and may have long-term effects on United States and world economies and markets. Terrorist attacks also may adversely impact interest rates, auctions, secondary trading, ratings, credit risk, inflation and other factors relating to a Client Account’s securities and adversely affect such account’s service providers and operations.

**Valuation Risk.** The price at which a Client Account could sell any particular investment may differ from the Client Account’s valuation of the investment. Such differences could be significant, particularly for illiquid securities and securities that trade in relatively thin markets or markets that experience extreme volatility. If market or other conditions make it difficult to value some investments, the Client Account may value these investments using more subjective methods, such as fair value methodologies. The value of foreign securities, certain futures and fixed income securities, and currencies, as applicable, may be materially affected by events after

the close of the markets on which they are traded but before the Client Account determines its net asset value. A Client Account's ability to value its investments in an accurate and timely manner may be impacted by technological issues or errors by third party service providers, such as pricing services or accounting agents.

### **Additional Risks for Equity Strategies**

NBAL's equity strategies involve various material risks, including the risks associated with certain market caps categories (*i.e.*, mid-cap and small-cap) and certain specialty strategies (*i.e.*, Socially Responsive Investing). The following is a summary of material risks specific to NBAL equity strategies that should be considered along with the general risks listed above. These risks also apply to alternative and Multi-Asset Mandate strategies that incorporate equity strategies. Please note that certain risks may not apply to all NBAL equity strategies or apply to a material degree.

- **Brokerage Commissions/Transaction Costs/High Portfolio Turnover Risk.** With respect to those accounts which pay separate commissions, a high portfolio turnover rate increases a strategy's transaction costs, including brokerage commissions and dealer costs). Further, higher portfolio turnover may result in the realization of more short-term capital gains than if the strategy had lower portfolio turnover.
- **Correlation Risk.** There can be no assurance that the underlying equity portfolio will correlate to or track closely the selected benchmark (which may be an index, ETF or basket) on which the options positions are based, and as a result, the option strategy performance may vary substantially from the performance of the portfolio for any period of time. For example, when writing options on an index, the value of the index may appreciate while the value of the equity portfolio declines in value. This may result in losses on both the option positions and the equity portfolio.
- **Equity Market Risk.** Investments in equity securities (e.g., common stocks, preferred stocks, convertible securities, rights, warrants and Depositary Receipts ("DRs")) are subject to market risks that may cause their prices to fluctuate over time. Historically, the equity markets have moved in cycles and the value of the strategy's securities may fluctuate substantially from day to day. Investments in income-producing equity securities are also subject to the risk that the issuer may discontinue paying dividends.
- **Growth Stock Risk.** Because the prices of most growth stocks are based on future expectations, these stocks tend to be more sensitive than value stocks to bad economic news and negative earnings surprises. Bad economic news or changing investor perceptions can negatively affect growth stocks across several industries and sectors simultaneously.
- **Issuer-Specific Risk.** The value of an individual security or particular type of security can be more volatile than the market as a whole and can perform differently from the value of the market as a whole.

- **Market Capitalization Risk (Small-, Mid- and Large-Cap Stocks Risk).** To the extent a strategy emphasizes small-, mid-, or large-cap stocks, it takes on the associated risks. Compared to small- and mid-cap companies, large-cap companies may be less responsive to changes and opportunities. At times, the stocks of larger companies may lag other types of stocks in performance. The stocks of small- and mid-cap companies are often more volatile and less liquid than the stocks of larger companies and may be more affected than other types of stocks by the underperformance of a sector or during market downturns. Compared to large-cap companies, small and mid-cap companies may have a shorter history of operations, and may have limited product lines, markets or financial resources.
- **Value Stock Risk.** Value stocks may remain undervalued during a given period or may not ever realize their full value. This may happen, among other reasons, because of a failure to anticipate which stocks or industries would benefit from changing market or economic conditions.

### **Additional Risks for Alternative Strategies**

The following is a summary of material risks specific to NBAL alternative investment strategies that should be considered along with the general risks listed above. In addition, the risks listed above relating to fixed income and equity strategies may also apply to alternative strategies that invest in fixed income or equity investments, respectively. Please note that certain risks may not apply to all NBAL alternative investment strategies or apply to a material degree.

- **Absolute Return Risk.** A Client Account's returns may deviate from overall market returns to a greater degree than the returns of other Client Accounts that do not employ an absolute return focus. Thus, during periods of strong market performance, a Client Account invested in an absolute return strategy may underperform other strategies. Investment strategies and investment advisers whose performance has historically been non-correlated or demonstrated low correlations to one another or to major world financial market indices may become correlated at certain times. During these circumstances, a Client Account's absolute return focus may not function as anticipated.
- **Market Direction Risk.** If a Client Account typically holds both long and short positions, an investment in such a product will involve market risks associated with different types of investment decisions than those made for a typical "long only" fund. A Client Account's returns could suffer when there is a general market advance and the product holds significant "short" positions, or when there is a general market decline and the product holds significant "long" positions. The markets may have considerable volatility from day to day and even in intra-day trading.
- **Special Situations Risk.** A Client Account's use of event-driven and arbitrage strategies will cause it to invest in actual or anticipated special situations – i.e., acquisitions, spin-offs, reorganizations and liquidations, tender offers and bankruptcies. These transactions may not be completed as anticipated or may take an excessive amount of time to be completed. They may also be completed on different terms than anticipated.

Some special situations are sufficiently uncertain that the product may lose its entire investment in the situation. A Client Account may receive illiquid securities as a result of its investment in certain special situations. It also may be difficult to obtain complete financial information about companies involved in certain situations and management of such companies may be addressing a situation with which it has little experience.

**Clients should look to their investment advisory agreements with NBAL and other client materials provided. Fund investors should look to the Offering Document for a more complete description of the risks involved with the strategies offered by NBAL. Clients should not rely solely on the descriptions provided above.**

**Acquiring interests in the Funds is intended for sophisticated investors who can accept a high degree of risk in their portfolio, do not need regular current income from their investment with NBAL and can accept a potential loss of their entire investment.**



## **Item 9: Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's or potential client's evaluation of the firm or the integrity of the firm's management in this item. NBAL has no items to disclose.

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

### **A. Registration as a Broker-Dealer or Registered Representative**

NBAL is not a registered broker-dealer. Some of NBAL's management personnel are registered representatives of NB BD, a FINRA member broker-dealer.

### **B. Registration as a Futures Commission Merchant, Commodity Pool Operator, Commodity Trading Advisor or Associated Person**

NBAL is exempt from registration as a futures commission merchant, commodity pool operator ("CPO") and commodity trading advisor. With respect to the operation of certain Funds, NBAL operates as if it were exempt from registration as a CPO pursuant to the exemptions under CFTC rule 4.13(a)(3).

Several of NBAL's management personnel may be associated persons with the NFA through their affiliation with affiliates of NBAL.

### **C. Material Relationships**

NBAL currently has certain relationships or arrangements that are material to its advisory business or its clients. Below is a discussion of such relationships/arrangements and any conflicts that arise from them.

#### **1. Broker-dealer, municipal securities dealer, or government securities dealer or broker**

NBAL is affiliated with NB BD, a US registered broker-dealer.

In providing services to its clients, NBAL draws upon the operational and administrative resources of NB BD and other affiliates. NBAL may use security analysis and research reports prepared by NB BD's dedicated research staff or of other affiliated entities.

Registered representatives of NB BD may solicit investors for the Funds for NBAL. See Item 14.

In addition, NBAL advisory personnel may also be registered representatives of NB BD. In such capacity, they may sell or provide similar services as the services offered by NBAL. The existence of these relationships may create a conflict of interest. See Item 11.B.7.

NBAL may utilize placement agents in offering the Funds to investors. These placement agents may include NB BD or unaffiliated registered broker-dealers. See Item 5.

The Firm has established policies and procedures ("Procedures") reasonably designed to prevent the misuse by the Firm and its personnel of material information regarding issuers of

securities that has not been publicly disseminated (“**material non-public information**”). See Item 11.D.1.

## **2. Investment Company or other pooled investment vehicle**

NBAL provides investment management services to the Funds listed in Item 4.B.

Neither NBAL nor its related persons are obligated to allocate any specific amount of time or investment opportunities to a particular Fund. NBAL and its related persons intend to devote as much time as they deem necessary for the management of each Fund.

## **3. Other investment adviser or financial planner**

NBAL has relationships that are material to its advisory business with the following affiliates:

### ***SEC-Registered Advisers***

Neuberger Berman Investment Advisor LLC (“**NBIA**”)

NB Alternative Advisers LLC

Neuberger Berman AFIM Limited (Exempt Reporting Adviser)

Neuberger Berman Europe Ltd. (“**NB Europe**”)

Neuberger Berman Singapore Pte. Limited

Neuberger Berman Loan Advisers LLC

### ***Non-SEC-Registered Advisers***

Neuberger Berman BD LLC (“**NB BD**”)

Neuberger Berman Australia Pty Limited (“**NB Aus**”)

Neuberger Berman East Asia Limited (“**NBEA**”)

Neuberger Berman Taiwan (SITE) Limited

Neuberger Berman Taiwan Limited

In providing services to its Client Accounts, NBAL may draw upon the portfolio management, trading, research, operational and administrative resources of the affiliates.

The views and opinions of NBAL, and those of these affiliates and their research departments, may differ from one another, as well as from their respective Chief Investment Officers and the Investment Strategy Group. As a result, products managed by NBAL or its affiliates may hold securities or pursue strategies that reflect differing investment opinions or outlooks at the time of their acquisition or subsequent thereto. See Item 11.B.7.

The Firm has established Procedures reasonably designed to prevent the misuse by the Firm and its personnel of material non-public information. See Item 11.D.1.

Certain employees of our affiliates may provide marketing and/or other client-related services in connection with NBAL's investment strategies.

**4. Futures commission merchant, commodity pool operator, or commodity trading adviser**

NB BD is registered as a Commodity Trading Adviser ("CTA") and an introducing broker with the CFTC. NBIA is registered as CTA and CPO. NBAIM is registered as a CPO.

**5. Banking or thrift institution**

None.

**6. Accountant or accounting firm**

None.

**7. Lawyer or law firm**

None.

**8. Insurance company or agency**

None.

**9. Pension consultant**

None.

**10. Real estate broker or dealer**

None.

**11. Sponsor or syndicator of limited partnerships**

None.

**D. Selection of Other Investment Advisers**

From time to time, NBAL may engage other advisers, including its affiliates, to act as sub-advisers or managers for its Client Accounts. NBAL performs detailed due diligence on third-party potential sub-advisers before selecting them, including, but not limited to, analysis of the adviser's investment process and results, including the length of their track record,

consideration of the amount of assets under management, and interviews with members of the adviser's senior management and investment teams. NBAL's decision to continue to use a sub-adviser depends upon various factors which may include, but not be limited to, the sub-adviser's performance record, management style, number and continuity of investment professionals, and client servicing capabilities.

Where NBAL has delegated the discretionary day-to-day management of certain strategies to its affiliates, the due diligence conducted may not include all components of the standard due diligence program.

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

### **A. Code of Ethics**

NBAL has adopted a Code of Ethics (the “**Code**”), which governs the activities of all NBAL employees. Employees are required not only to comply with this Code but with all applicable laws and regulations.

The Code contains certain policies on (1) Personal Investment Policy and Procedures, (2) Gifts and Entertainment, (3) Outside Business Activity (4) Prohibition Regarding the Use of Material Non-Public Information, and (5) Whistleblowing Policy, which support NBAL’s fiduciary duty to place the interests of the Firm’s clients before the interests of the Firm and its employees. Each employee must avoid any activity or relationship that may reflect unfavorably on the Firm as a result of a possible conflict of interest, the appearance of such a conflict, the improper use of confidential information or the appearance of any impropriety.

In managing assets for clients, NBAL has a fiduciary responsibility to treat all clients fairly. This duty requires a course of conduct, consistent with other statutory obligations, that seeks to be prudent and in the client’s best interest. The nature of NBAL’s fiduciary obligations necessarily requires some restrictions on the investment activities of its employees and their domestic dependents.

#### **Amendments to the Code**

If amendments are made to the Code other than on an annual basis and determined to be material, employees will be required to submit a written acknowledgement that they have received, read and understood the amendments.

#### **Administration of the Code**

Compliance will receive and review all reports submitted pursuant to the Code and determine whether the investment or business activities of employees are consistent with requirements and restrictions set forth in the Code and do not otherwise indicate any improper activities. Compliance will also ensure that all books and records relating to the Code are properly maintained. NBAL will maintain the following records in a readily accessible place:

- A copy of each Code that has been in effect at any time during the past five years;
- A record of all written acknowledgements of receipt, review and understanding of the Code and amendments for each person who is currently, or within the past five years was, an employee;
- A record of each report made by an employee, including any brokerage confirmations and brokerage account statements obtained from employees;

- A list of the names of persons who are currently, or within the past five years were, employees; and
- A record of any decision for approving the acquisition of securities by employees in private placements and hedge funds for at least five years after the end of the fiscal year in which approval was granted.

### **Reporting Violations**

Employees must immediately report any violation of the Code to Compliance. All reports will be treated confidentially and investigated promptly and appropriately. Compliance will keep records of any violation of the Code, and of any action taken as a result of the violation. Violations of the Code may lead to disgorgement of profits, suspension of trading privileges for the particular employee, or disciplinary action up to and including termination.

A copy of the Code is available upon request.

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

NBAL may participate or have an interest in client transactions as described below. NBAL makes all investment management decisions in its clients' best interests.

### **1. Principal and Agency Transactions**

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 from or sells any security to an advisory client. A principal transaction would occur if NBAL or its affiliated broker-dealer, NB BD, bought securities for its own inventory from a NBAL advisory client or sold securities from its inventory to a NBAL advisory client. NB BD, however, does not have its own inventory of securities and therefore will not engage directly in principal transactions with NBAL clients.

Where NBAL, its affiliates or principals own a substantial equity interest in a Client Account, transactions involving such Client Account may be characterized as principal. For example, where such Client Account "crosses" with another Client Account, the transaction may be considered a principal transaction.

A principal transaction presents conflicts of interest which may include the adviser or affiliate earning a fee or earning (or losing) money as a result of the transaction.

Generally, NBAL does not engage in principal transactions with Client Accounts.

An "agency cross transaction" is defined as a transaction where a person acts as an investment adviser in relation to a transaction in which the investment adviser, or any person controlled by or under common control with the investment adviser, acts as broker for both the advisory client and for another person on the other side of the transaction. For example, an agency cross trade would occur if securities are purchased or sold between one of NBAL's Client Accounts

through NB BD and a non-discretionary account client for which NB LLC acts as broker. NB LLC and NBAL do not intend to engage in agency cross transactions with any NBAL Client Account.

## **2. Cross Transactions**

Generally, with the exceptions set forth below, NBAL does not intend to engage in buying or selling of securities from one Client Account to another (typically referred to as a “cross trade”). NBAL may, however, engage in a cross transaction, where permissible, if it determines that such action would be favorable to both Client Accounts and the conditions for the transaction, fair to both parties. In such circumstances, NBAL will not receive any compensation for the transaction.

## **3. Affiliated Brokers**

NBAL is affiliated with NB BD, but does not effect any transactions in securities or other instruments for Client Accounts through NB BD. See Item 12.

## **4. Financial Interests in Securities or Investment Products**

From time to time, employees of NBAL and its related persons who are registered representatives of NB BD, a registered investment adviser and broker-dealer, may recommend to NBAL’s clients that they buy or sell securities in which NBAL or a related person has a financial interest or may recommend they make an investment in an Affiliated Fund.

Furthermore, NBAL may invest Client Accounts in securities or other assets of companies with which NBAL or its affiliates have a business relationship, whether client, broker, vendor or investment consultant.

## **5. Employee Investment in NBAL Products**

NBAL advisory personnel may be investors in the Funds and/or the Affiliated Funds. Any employee investments are made in conformity with the Code, which includes procedures governing the use of confidential information and personal investing.

## **6. Buying and Selling Securities That Are Recommended to Clients**

NBAL may recommend to clients investments in which NBAL, its affiliates or advisory personnel of either are also invested. These transactions may include co-investment opportunities offered to some but not all NBAL clients, NBAL and/or its affiliates. Key personnel of NBAL may also be invested directly in the Funds, subject to applicable law, and the performance fee distributions and management fee payable by such Funds may be separately negotiated by NBAL. Certain Funds may elect to waive management or performance fees/allocations for employees of the Firm who invest in the Fund pursuant to the Firm’s employee investment program.

NBAL may recommend to clients securities or financial instruments, in which a related person has established an interest independent of NBAL.



## **7. Other Interests in Client Transactions**

NBAL advisory personnel may also be officers, employees and/or registered representatives of NB BD or any of its affiliates. In such capacity, they may sell or provide similar services as the services offered by NBAL. The views and opinions of NBAL, NB BD or any of its affiliates and their research staff, may differ from one another. As a result, Client Accounts may hold securities or other investment products for which each of these entities may have a different investment opinion or outlook at the time of their acquisition or subsequent thereto.

### **C. Personal Trading**

The Code contains NBAL's Personal Investment Transaction Procedures ("PIP"). Key aspects of the PIP include:

#### **Pre-Approval of Personal Investment Accounts and Transactions**

Employees and their Immediate Family<sup>2</sup>, or other parties named in an employee-related account must obtain prior approval from Compliance before opening an outside brokerage account and subsequently, before placing an order for a covered transaction. Transaction approvals are valid for 24 hours.

#### **Holding Periods**

Employee, employee-related accounts and accounts of Immediate Family members must hold investments in securities positions for a minimum of thirty (30) calendar days after purchase and must hold investments in Affiliated Investment Companies<sup>3</sup> for a minimum of sixty (60) calendar days after purchase.

#### **Specific Investment Restrictions**

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<sup>2</sup> Any of the following relatives **sharing the same household and/or (who) are financially dependent on an Access Person**: child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, sister-in-law, including adoptive relationships and/or any other person deemed to be an Immediate Family member by the Compliance Department.

<sup>3</sup> Each U.S. Registered Investment Company and series thereof for which NB Management is the investment manager, investment adviser, sub-adviser, administrator or distributor, or for which an affiliate of NB Management is the investment adviser or sub-adviser.

- Short sales are permitted, but are strongly discouraged.
- Receiving allocations of initial equity public offerings is prohibited.
- Any employee or their Immediate Family<sup>2</sup> who wishes to invest in a hedge fund, limited partnership, closely held corporation or other outside private investment must obtain pre-approval from Compliance.

## **Reporting and Certification Requirements**

### ***Initial***

On commencing employment at NBAL, employees are required to read the Code of Ethics, disclose their outside broker accounts on the Employee Account Information Form (“EAIF”) and complete the relevant broker letters. The broker letter is prepared by Compliance instructing the brokers to send duplicate confirmations and/or monthly statements to Compliance. The EAIF and signed broker letters (if applicable) should be completed and returned to Compliance within 10 days (of which the information contained therein must be current as of a date no more than 45 days prior to the date of commencement of employment) of the employee commencing employment at NBAL.

### ***Approval to open new outside brokerage accounts***

When an existing employee wishes to open a new outside brokerage account, it is compulsory for the employee to obtain pre-approval from Compliance. Upon approval, the employee receives a copy of a letter informing the outside broker that the employee has been approved to open the account with them, and requesting duplicate monthly statements and confirmations to be sent directly to Compliance.

### ***Annual***

Employees are required to declare annually on or before January 30 of each year that: they have read, understand, and complied with the Code; they have reported all employee and employee-related accounts to Compliance; the transactions executed in these accounts have been approved as necessary; and, they have obtained the required approval and submitted the required reporting for any Outside Business Activities. Such information must be current as of a date no more than 45 days before the report is submitted.

## **D. Other Conflicts of Interests**

### **1. Non Public Material Inside Information/Insider Trading**

The Firm has implemented policies and procedures, including certain information barriers within the Firm, (the “**MNPI Procedures**”) reasonably designed to prevent the misuse by the Firm and its personnel of material information regarding issuers of securities that has not been publicly disseminated (“**material non-public information**”). The MNPI Procedures are designed to be in accordance with the requirements of the Advisers Act and other federal

securities laws. In general, under the MNPI Procedures and applicable law, when the Firm is in possession of material non-public information related to a publicly-traded security or the issuer of such security, whether acquired unintentionally or otherwise, neither the Firm nor its personnel are permitted to render investment advice as to, or otherwise trade or recommend a trade in, the securities of such issuer until such time as the information that the Firm has is no longer deemed to be material non-public information.

In the ordinary course of operations, however, certain businesses within the Firm may seek access to material non-public information. The MNPI Procedures address the process by which material non-public information may be acquired intentionally by the Firm and the sharing of information between different businesses within the Firm. When considering whether to acquire or share material non-public information, the Firm will attempt to balance the interests of all clients, taking into consideration relevant factors, including, but not limited to, the extent of the prohibition on trading that may occur, the size of the Firm's existing position in the issuer, if any, and the value of the information as it relates to the investment decision-making process. The intentional acquisition of material non-public information may give rise to a potential conflict of interest since NBAL may be prohibited from rendering investment advice to clients regarding the public securities of such issuer and thereby potentially limiting the universe of public securities that NBAL may purchase or potentially limiting the ability of NBAL to sell such securities. Similarly, where the Firm declines access to (or otherwise does not receive or share within the Firm) material non-public information regarding an issuer, NBAL may base its investment decisions with respect to assets of such issuer solely on public information, thereby limiting the amount of information available to NBAL in connection with such investment decisions. In determining whether or not to elect to receive material non-public information, the Firm will endeavor to act fairly to its clients as a whole.

## **2. Gifts and Entertainment**

Gifts and Entertainment provided or received by NBAL's employees to/from clients, prospective clients, vendors, suppliers, consultants and others with whom NBAL conducts business can strengthen business relationships yet may also create actual or apparent conflicts of interest. Therefore, in accordance with its Gifts and Entertainment policy, all NBAL employees are required to follow the following guiding principles:

- No gifts or entertainment may be solicited
- No cash or cash equivalents should be offered or accepted
- All gifts and entertainment received or offered should be for a clear business purpose
- All gifts and entertainment should not be excessive, inappropriate or intended to influence recipients inappropriately.

In addition to the above, NBAL imposes certain specific restrictions on providing and receiving gifts and entertainment, including the imposition of monetary limits and requiring employees to report to, and, in certain circumstances, to obtain prior approval from, Compliance.

In particular, all gifts and entertainment intended for government officials must be appropriate, must not be lavish, must be made lawfully under the U.S. Foreign Corrupt Practices Act of 1977 and local law, must have a concrete business purpose and must be pre-approved by Compliance.

Furthermore, other public, as well as private, institutions may have their own internal rules regarding the acceptance of gifts or entertainment by their personnel and other representatives, and NBAL employees are reminded to be alert to such additional restrictions.

Compliance is responsible for carrying out ongoing monitoring NBAL's practices on giving and receiving of gifts and entertainments.

### **3. Political Contributions**

Due to the potential for conflicts of interest, the Firm has established policies and procedures relating to political contributions which are designed to comply with applicable federal, state and local law. All employees who are either US citizens or green card holders are required to seek preapproval before making any political contribution or volunteering for a campaign.

### **4. Outside Business Activities**

Given the nature of NBAL's business, employees who engage in outside business activities may face numerous and significant conflicts of interest. Under NBAL's Outside Business Activities policy, "outside business activities" include service as an employee, consultant, board member, partner, officer, director, owner or trustee of an organization that is not an affiliate of NBAL. Prior to pursuing any outside business activity, an employee must:

- receive written approval from his/her manager;
- receive written approval the Compliance; and
- complete the Outside Business Activities form

### ***General Guidelines***

When engaged in an approved outside business activity, an employee must always:

- act in the best interest of NBAL in the event a potential conflict of interest arises;
- remain aware of how personal activities can lead to conflicts, such as taking a second job with, or making an investment in, a customer, vendor or competitor;
- discuss with his/her manager any situation that could be perceived as a potential conflict of interest; and
- pro-actively address situations that may put his/her interests or those of a family member or friend in potential conflict with NBAL's.

### ***Service on Outside Boards***

Compliance applies the MNPI Procedures to prevent the misuse of material non-public information which may be acquired through outside board service, as well as other procedures or investment restrictions which may be required to prevent actual or potential conflicts of interest.

In addition to complying with the policies and procedures set forth in the Code, employees must be vigilant in identifying and managing the potential conflicts of interest that may arise by virtue of their service on outside boards. Depending on the circumstances, these conflicts may require the employee to recuse him or herself from deliberations of the board. In some cases, it may be necessary to resign from the Board entirely. Employees are encouraged to seek guidance from Legal as to how these potential conflicts may be best addressed.

## **5. Outsourcing/Service Providers**

The Firm must conduct appropriate due diligence on any outside vendor that provides products or services to the Firm and enter into an appropriate contract. The Firm's relationships with outside vendors must be managed so that appropriate controls and oversight are in place to protect the Firm's interests, including safeguarding of private and confidential information regarding the Firm's clients and employees.

## Item 12: Brokerage Practices

### A. Criteria for Selection of Broker-Dealers

NBAL has discretion to select the broker-dealer for securities transactions for each Client Account. NBAL looks to the overall quality of service provided by the broker-dealer and will consider many factors when making a selection for execution. The broker-dealer's ability to provide best execution is of paramount importance in NBAL's selection of the broker-dealer. Best execution is not determined solely based on obtaining the lowest commission costs, but is an evaluation of a number of quantitative and qualitative factors. In selecting a broker-dealer, NBAL considers the broker-dealer's execution capabilities, including block positioning, research, financial stability, ability to maintain confidentiality, delivery and ability to obtain best execution.

In selecting a broker for each specific transaction for a Client Account, NBAL will use its best judgment to choose the broker most capable of providing the brokerage services necessary to obtain the best available price and most favorable execution. The full range of brokerage services applicable to a particular transaction will be considered when making this judgment. Such services may include: competent block trading coverage, ability to position, capital strength and stability, reliable and accurate communications and settlement processing, use of automation, knowledge of other buyers or sellers, and provision of information on the particular security or market in which the transaction is to occur. Applicability of specific criteria will vary depending upon the nature of the transaction, the market in which it is affected, and the extent to which it is possible to select from among multiple brokers capable of effecting the transaction.

#### **Prime Brokers**

NBAL may select one or more firms to serve as prime-broker ("**Prime Broker**") to hold the funds and securities of certain Funds. The Prime Broker may also execute transactions on behalf of such Funds, consistent with best execution. Specific transactions may be "traded away", where such trades are executed through broker-dealers other than the Prime Broker in order to gain access to greater inventory or better price or execution. NBAL may select Prime Brokers it believes will provide specific services to the Funds, allowing the Funds to operate effectively and efficiently by, for example, providing NBAL with electronic access to account information and trade confirmations, bulk mailing of statements to investors.

#### **Research and Other Soft Dollar Benefits**

##### ***Use of Soft Dollars***

NBAL may consider research and other services in making brokerage decisions and, as it deems appropriate, may use a portion of the commissions generated when executing transactions for Client Accounts (commonly referred to as "soft dollars") to acquire research and brokerage services ("soft dollar benefits") in a manner consistent with the "safe harbor" provided by Section 28(e) of the Securities Exchange Act of 1934. Under the safe harbor, as it has been

interpreted by the SEC, NBAL may use soft dollars to pay for soft dollar benefits, even where such benefits may also be available for cash, to the extent appropriate and permitted by law, when such benefits assist NBAL in meeting clients' investment objectives or in managing clients' accounts. A client may also request or direct NBAL to effect all or a portion of transactions through particular broker-dealers. Such requests may result in broker-dealers paying a portion of their commissions for expenses that are outside the soft dollar safe harbor of Section 28(e) of the Exchange Act.

The use of soft dollars to receive research and services benefits NBAL by allowing NBAL, at no cost to it, to (i) supplement and enhance its own research and analysis activities, (ii) receive the views and information of individuals and research staff of other securities firms, and (iii) gain access to persons having special expertise on certain companies, industries, areas of the economy and market factors. Subject to NBAL's policies and procedures, NBAL takes into account the value of permissible soft dollar benefits provided by a broker-dealer, as long as such consideration is not inconsistent with the objective of seeking best execution for client transactions, and clients may pay a higher commission to a broker-dealer in recognition of such soft dollar benefits than might otherwise be obtained in the absence of such considerations.

When appropriate under its discretionary authority and consistent with the duty to seek best execution, NBAL may execute brokerage transactions for Client accounts through broker-dealers who provide NBAL with useful soft dollar benefits and may pay to those broker-dealers an amount or rate of commission that is higher than might have been paid absent the receipt of soft dollar benefits. NBAL may select broker-dealers based on its assessment of each broker-dealer's ability to provide quality executions and their belief that the research, information and other services provided by such broker-dealer may benefit Client Accounts. Often, it is not possible to place a dollar value on the quality of executions or on the soft dollar benefits NBAL receives from broker-dealers effecting transactions in portfolio securities. Accordingly, broker-dealers selected by NBAL may be paid commissions for effecting portfolio transactions for Client Accounts in excess of amounts other broker-dealers would have charged for effecting similar transactions, if NBAL determines in good faith that such amounts are reasonable in relation to the value of the soft dollar benefits provided by those broker-dealers, viewed either in terms of a particular transaction or NBAL's overall duty to discretionary accounts.

NBAL may use soft dollars to pay for any specific service or for any portion of a "mixed use" benefit (e.g., products or services that provide both research and non-research benefits). In such instances, and where a cash value is affixed to the service or benefit (whether by the broker-dealer, NBAL or a third-party), NBAL may use soft dollars for the eligible portion and pay cash for the remainder. Although the allocation between soft dollars and cash is not always capable of precise calculation, NBAL will make a good faith effort to make the allocation reasonably. Records of any such allocations and payments will be prepared and maintained by NBAL. Additionally, where a cash value is affixed to a particular service or benefit, NBAL may use available soft dollar credits and pay cash to make up any difference.

NBAL may use a research service supplied by a broker-dealer for accounts that did not place the order with that broker-dealer. It is also possible that the account that places the order may not benefit directly from a particular research service.

NBAL may use “commission sharing arrangements” to obtain soft dollar benefits. In commission sharing arrangements, NBAL may effect transactions, subject to best execution, through a broker and request that the broker allocate a portion of the commission or commission credits to a segregated “research pool” maintained by the broker. NBAL may then direct such broker to pay for eligible products and services. Participating in commission sharing arrangements may enable NBAL to (1) strengthen its key brokerage relationships; (2) consolidate payments for eligible products and services; and (3) continue to receive a variety of high quality eligible products and services while facilitating best execution in the trading process.

### ***Allocation of Soft Dollar Research***

Research obtained with soft dollars will not always be utilized by NBAL for the specific account that generated the soft dollars. It should be noted that the value of many soft dollar benefits cannot be measured precisely, and commissions paid for such services certainly cannot always be allocated to Clients in direct proportion to the value of the services to each client. Because, as discussed below, NBAL may aggregate or “bunch” client transactions, brokerage commissions attributable to one or more Client Accounts may be allocated to brokers who provide statistical data and other research used by NBAL in managing the accounts of other clients, and vice versa, and NBAL may use “step outs” to obtain soft dollar benefits. A step out occurs when NBAL directs a broker-dealer, who executes a trade, to allocate (or “step out”) a portion of the trade to another broker-dealer for clearance and settlement. NBAL primarily uses step-outs for block trades and believes that this practice assists in seeking best execution.

A factor in the allocation of brokerage is NBAL’s evaluation of the quality of the brokers’ research, meaning the extent to which such brokerage benefits some or all accounts. For purposes of evaluating such research, points are awarded in several categories and the allocation to brokerage business is made based upon the number of points each broker receives. Research is often received on an unrequested basis from brokers who are not awarded points. Often research received from others is not used. Brokers who are not being awarded points for research are nonetheless sometimes used in the interest of securing best execution.

Commissions paid by one account may, in effect, subsidize services that benefited another account. However, any distortions should balance out over time as NBAL’s various sources of research and brokerage services enable NBAL to make better investment decisions and execute more effective trades. Therefore, NBAL does not usually attempt to allocate the relative costs or benefits of research or brokerage services among Client Accounts. NBAL believes that, in the aggregate, the services it receives benefit clients and assist NBAL in fulfilling its overall fiduciary duty to clients.

NBAL may receive directives from certain clients to make a “best effort” attempt to transact business with a client-designated broker in consideration of services received solely by that client from the broker. In such instances, only the particular client’s own soft dollars are used. Unless contrary written instructions are provided by the client, primary consideration is still given to seeking best execution of such transactions.



### ***Types of Soft-Dollar Products and Services***

Research services provided by a broker-dealer can be either proprietary (created and provided by the broker-dealer, including tangible research products as well as access to analysts and traders) or third party (created by a third party but provided by broker-dealer). NBAL may use soft dollars to acquire either type of research or any permissible brokerage services. NBAL has received the following soft-dollar products and services during the last fiscal year: current and historical data concerning particular companies, industries and the financial economy as a whole, as well as information and analysis thereof, technical and statistical studies and data dealing with various investment opportunities, risks and trends, and analysis involving special situations. NBAL may also choose to place a trade with a particular broker when, for example, a research analyst at that broker has furnished NBAL with valuable perspective or advice regarding a specific company or security or its trading market.

### ***Directed Brokerage for Soft Dollar Services***

NBAL will not enter into any agreement or understanding with a broker-dealer that would obligate NBAL to direct a specific amount of brokerage transactions or commissions in return for such research (or brokerage) services. Nonetheless, certain broker-dealers may state in advance the amount of brokerage commissions they require for certain services and the applicable cash equivalent. In some cases, NBAL may enter into a commission sharing arrangement pursuant to which soft dollars generated are held in an account for the benefit of NBAL, and credits from that account may be used to acquire soft dollar items. NBAL also may, but is not obligated to, pay cash for soft dollar items.

### **Brokerage for Client Referrals**

NBAL does not enter into agreements with, or make commitments to, any broker-dealer that would bind NBAL to compensate that broker-dealer, directly or indirectly, for client referrals (or sale of fund interests) through the placement of brokerage transactions.

### **Directed Brokerage**

NBAL does not have any directed brokerage clients.

### **Other Fees in Connection with Trading**

In an effort to achieve best execution of portfolio transactions, NBAL may place securities or future transactions for Client Accounts by utilizing electronic marketplace or trading platforms. Some of these electronic systems may impose additional service fees or commissions. NBAL may pay these fees directly to the provider of the service or these fees may be included in the execution price of a security. NBAL's intention is that it will only use such systems and incur such fees if it believes that doing so helps it to achieve the best execution of the applicable transaction, taking into account all relevant factors under the circumstances. For example, NBAL will consider the speed of the transaction, the price of the security, the research it receives, its ability to block the transaction and other factors discussed in this Brokerage Practices section.

## **Trade Errors**

On occasion, an error may be made in a Client Account. For example, a security may be erroneously purchased for a Client Account instead of sold. In these situations, NBAL generally seeks to rectify the error by placing the Client Account in a similar position as it would have been had no error occurred. Depending on the circumstances, various corrective steps may be taken, including but not limited to, canceling the trade, adjusting an allocation, and/or reimbursing the account. While NBAL will generally compensate Client Accounts for actual losses suffered as a result of a trade error caused through the fault of NBAL, NBAL does not compensate its clients for lost investment opportunities (e.g., the failure to take advantage of investment or market improvements).

## **B. Aggregation of Orders/Allocation of Trades**

### **Aggregation**

Transactions for each Client Account generally will be effected independently from each other. However, there may be occasions when NBAL decides to purchase or sell the same security or financial instrument for several Client Accounts at approximately the same time. NBAL may (but is not obligated to) combine or “bunch” such orders in order to secure certain efficiencies and results with respect to execution, clearance and settlement of orders.

This aggregation of orders across client accounts could lead to a conflict of interest in the event an order cannot be entirely fulfilled and NBAL is required to determine which accounts should receive executed shares and in what order. NBAL has an incentive to allocate shares received first to its Client Accounts or to the accounts from which it receives fees. To mitigate such conflicts, NBAL has adopted allocation procedures, reasonably designed to treat all participating accounts fairly (see below).

NBAL is not obligated to include every Client Account in an aggregated trade. A variety of factors is used to determine whether a particular Client Account may or may not participate in a particular aggregated transaction. These include investment objectives and strategies, position weightings, cash availability, and risk tolerance.

NBAL will aggregate and allocate orders only in a manner designed to ensure that no Client Account is favored or disfavored and that participating Client Accounts are treated in a fair and equitable manner over time. NBAL may not intentionally allocate profitable trades at each day's end so as to favor disproportionately certain clients without appropriate disclosure.

When a bunched order is filled in its entirety, each participating Client Account will participate at the average price paid or received, per share or unit, on that day for the bunched order, and share in any associated transaction costs, based upon the initial amount requested for the account (subject to certain size- or cost-related exceptions).

When a bunched order is partially filled, the order will be allocated in accordance with NBAL's written aggregation and allocation procedures. These procedures are described generally below.

NBAL will receive no additional compensation or remuneration of any kind as a result of the aggregation of client trades.

### **Allocation of Investment Opportunities**

The trading policy for NBAL is designed to minimize possible conflicts of interest in trading for Client Accounts.

NBAL considers many factors when allocating securities and financial instruments among Client Accounts, including but not limited to the client's investment objectives, applicable restrictions, the type of investment or financial instrument, the number of shares or contracts purchased or sold, the size of the account, the amount of available cash or the size of an existing position or weighting in an account. Client Accounts are not assured of participating equally or at all in particular investment allocations. The nature of a Client Account's investment style may exclude it from participating in many investment opportunities, even if the client is not strictly precluded from participation based on written investment restrictions.

NBAL attempts to allocate limited investment opportunities, including IPOs, among Client Accounts in a manner that is fair and equitable when viewed over a considerable period of time and involving many allocations. NBAL follows detailed procedures allocating shares in equity and fixed income IPOs and in secondary offerings. The factors taken into account in allocating shares of IPOs include, but are not limited to, investment guidelines legal restrictions on the account.

Compliance is responsible for monitoring and interpreting these policies. Any exceptions to these policies require the prior written approval of Compliance, in conjunction with NBAL's Senior Portfolio Manager.

## **Item 13: Review of Accounts**

### **A. Periodic Reviews**

NBAL's portfolio managers and research analysts conduct regular meetings to review the strategy and market conditions.

Compliance reviews transactions for compliance with investment guidelines, possible conflicts and adherence to the Code and regulatory obligations, on a regular basis. Reviews may be in the form of trade data and exception reports. Topics covered in the review include, but are not limited to, trading on the basis of material non-public information and trading in affiliated securities.

For the Funds, reviews are also performed regularly by the Fund Accounting & Administration team, in conjunction with the Portfolio Management team, Operations and the respective fund administrator.

### **B. Non-Periodic Reviews**

Other than the periodic review of accounts described above, a review of individual Client Accounts will also be triggered by anomalies in the investment strategy (e.g., performance numbers do not look right for the portfolio). Accounts reviews may also take place as a result of major changes in macro- or micro-economic conditions, and material market, economic or political events. Further, changes in regulation may cause us to review client accounts.

### **C. Client Reports**

#### **Separate Accounts**

In addition to statements and confirms that a client may receive from its custodian and broker and/or futures commission merchant, NBAL provides periodic reporting, the frequency and content of which may differ as agreed upon between NBAL and the client, as documented in the investment management agreement. Reporting may include, but is not limited to, performance estimates, holdings, attribution and exposure.

#### **Funds**

Investors in the Funds receive such reports as are provided for in the Fund's Offering Document (or as otherwise negotiated with NBAL).

To comply with the Custody Rule provisions of the Advisers Act, where NBAL is deemed to have custody of a Fund's assets, Fund audited financial statements are prepared in accordance with Generally Accepted Accounting Principles (or "GAAP") or International Financial Reporting

Standards (“IFRS”) and distributed to investors within 120 days after the end of the Fund’s fiscal year .

Depending on the Fund, investors may also receive some of the following regular reports:

- Monthly statement from the fund administrator
- Monthly Fact Sheet
- Quarterly commentary
- Annual Financial Report

Clients should carefully review any statements or other reports that they receive from a custodian and compare them to the client reports provided by NBAL.

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

### **A. Compensation by Non-Clients**

Not applicable.

### **B. Compensation for Client Referrals**

Certain Firm employees are eligible to earn an account referral bonus for referring a potential client to NBAL. Firm senior management determines whether an employee's involvement was significant enough to warrant this bonus.

From time to time, in accordance with applicable law, NBAL may retain and compensate third parties for introducing new clients to NBAL. The compensation to such parties generally represents a percentage of the management fee, and may include a percentage of the incentive fees, paid by the client to NBAL.

Clients do not pay a higher fee than they would otherwise pay due to the solicitor's or placement agent's involvement in the introduction.

From time to time, NBAL may refer a client to unaffiliated financial institutions or other professional service providers for purposes of rendering certain services to a NBAL client. These services are generally not directly provided by NBAL. The referral may result in the client allocating additional assets to NBAL for management.

NBAL actively seeks to educate consultants, broker-dealers, and other financial intermediaries (jointly referred to in this section as "**Consultants**") about its investment management services. NBAL sponsors educational events where its representatives meet with Consultants and/or their clients. NBAL may pay some of the costs associated with educational events, which provide NBAL's representatives with an opportunity to meet with Consultants and/or clients. These fees are paid by NBAL from its own resources, which include the management fees received from the clients. Clients should confer with their Consultant regarding the details of the payments their consultants may receive from NBAL.

## **Item 15: Custody**

### **Separate Accounts**

NBAL will not maintain possession or custody of any assets constituting a Separate Account. Such assets are generally deposited with a qualified custodian selected and appointed by the client. Under the investment management agreement, NBAL may be entitled to management fees to be paid out of the account by the qualified custodian. When it does so, NBAL will send the client and custodian an invoice stating the fee and the calculation it was based on. The fees charged will be included in the statement sent to the client by the respective custodian. The client must instruct the Custodian to pay NBAL. In addition, as described in Item 13.C above, the qualified custodian will provide clients with account statements. Separate Account clients should carefully review the account statements received from NBAL against reports received from the qualified custodian.

### **Funds**

NBAL or its affiliates will not maintain physical possession of the funds or securities of any Fund. However, for those Funds where an affiliate serves as managing member, the affiliate will have “legal custody” to access the Fund’s account, and as a result, will be deemed to have custody over that account for purposes of the Custody Rule under the Advisers Act. To comply with Custody Rule, with respect to such Fund, NBAL or the third-party administrator to the Fund will provide each investor, annually, with audited financial statements, prepared in accordance with GAAP or IFRS, within 120 days following the end of the Fund’s fiscal year (See Item 13.C above).

Certain Funds have prime brokerage arrangements with certain Prime Brokers. As discussed in Item 12 above, a substantial amount of the brokerage of such Funds may be effected through the Prime Brokers. Under these arrangements, the Prime Brokers perform the following functions, among others: (1) arrange for the receipt and delivery of securities bought, sold, borrowed and lent; (2) make and receive payments for securities; (3) maintain physical possession and custody of cash and securities; and (4) deliver cash to the Funds’ bank accounts.

## **Item 16: Investment Discretion**

NBAL has the authority to determine, without obtaining specific client consent, the type and amount of the securities or financial instruments to be bought or sold for a Client Account. NBAL's discretionary authority is derived from an express grant of authority under each Client Account's investment management agreement with NBAL.

Purchases and sales must be suitable for the particular Client Account and limitations may be imposed as a result of instructions from the client. Clients may limit NBAL's authority by prohibiting or by limiting the purchasing of certain securities or financial instruments. See Item 4.

Pursuant to the Firm's MNPI Procedures on material non-public information, when the Firm is in possession of material non-public information related to a publicly-traded security or the issuer of such security, whether acquired unintentionally or otherwise, neither the Firm nor its personnel are permitted to render investment advice as to, or otherwise trade or recommend a trade in, the securities of such issuer until such time as the information that the Firm has is no longer deemed to be material non-public information. As such, there may be circumstances which will prevent the purchase or sale of securities for Client Accounts for a period of time.



## Item 17: Voting Client Securities

NBAL generally has voting power with respect to securities in its Client Accounts. NBAL has adopted written Proxy Voting Policies and Procedures (the “**Proxy Voting Policy**”) which are designed to reasonably ensure that it votes proxies prudently and in the best interest of its Client Accounts.

The Proxy Voting Policy provides for the process by which voting decisions are made, handling of material conflicts of interest, disclosing the Proxy Voting Policy to clients, maintaining appropriate books and records relating to proxies, and proxy voting guidelines for common proxy proposals.

Clients may obtain a copy of the Proxy Voting Policy or obtain information about how NBAL voted their specific proxies upon request.

## **Item 18: Financial Information**

### **A. Prepayment of Fees (Six or more months in advance)**

Not applicable.

### **B. Impairment of Contractual Commitments**

NBAL has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients.

### **C. Bankruptcy Petitions**

NBAL has not been the subject of a bankruptcy proceeding.