

## **Brochure - Form ADV: part 2**

### **PICTET ASSET MANAGEMENT LIMITED**

Moor House – Level 11

120 London Wall

London EC2Y 5ET

United Kingdom

Contact details:

David Cawthrow, Global Co-Head of Compliance of Pictet Asset Management

Direct phone: +4420 7847 50 40 direct fax +4420 7847 50 46

Website:

<https://www.am.pictet/en/globalwebsite/institutional>

Date of the brochure:

8 May 2019

This brochure provides information about the qualifications and business practices of Pictet Asset Management Limited. If you have any questions about the contents of this brochure, please contact us at +44 20 7847 50 40 or by email [dcawthrow@pictet.com](mailto:dcawthrow@pictet.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Additional information about Pictet Asset Management Limited also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Although Pictet Asset Management Limited is a registered investment adviser with the SEC, registration with the SEC does not imply a certain level of skill or training.

## **Item 2 Material change**

Please find a summary of the following item which was subject to specific a material change compared to the last brochure.

- Item 4: Sebastien Eisinger replaced Laurent Ramsey as the Chairman of the Board of Directors of Pictet Asset Management Ltd ("Pictet AM Ltd") who resigned in April 2019.

Pursuant to SEC Rules, we will ensure that our clients receive a summary of any materials changes to this and subsequent brochures within 120 days of the close of our business fiscal year. We may additionally provide other on-going disclosure information about material changes as necessary.

We will further provide our clients with a new brochure as necessary based on changes or new information, at any time, without charge.

Our brochure may be requested by contacting David Cawthrow, Global Co-Head of Compliance of Pictet AM at +4420 7847 5040 or by email at [dcawthrow@pictet.com](mailto:dcawthrow@pictet.com).

### Item 3 Table of contents

Item 2 Material change .....	3
Item 3 Table of contents.....	4
Item 4 Advisory Business.....	5
Item 5 Fees and Compensation .....	6
Item 6 Performance-Based Fees and Side-By-Side Management .....	7
Item 7 Type of clients.....	9
Item 8 Methods of Analysis, Investment Strategies and Risk of loss.....	10
Item 9 Disciplinary Information.....	25
Item 10 Other Financial Industry Activities and Affiliations.....	26
Item 11 Code of Ethics, Participation or Interest in client Transactions and Personal Trading .....	30
Item 12 Brokerage Practices .....	33
Item 13 Review of Accounts .....	37
Item 14 Client Referrals and Other Compensation.....	38
Item 15 Custody.....	39
Item 16 Investment Discretion.....	39
Item 17 Voting client Securities .....	40
Item 18 Financial Information .....	41
Privacy Notice.....	<u>41</u>

## **Item 4 Advisory Business**

### **The Advisory Firm**

Pictet AM Ltd has been providing both discretionary or advisory investment management services on a global scale to a wide range of international institutional clients since 1980. These clients include retirement plans assets for corporate and government entities, foundations, and other institutional investors. Furthermore, we also act as the investment adviser or sub-adviser to US-based investment companies and other regulated and unregulated collective investment schemes in international jurisdictions.

Pictet AM Ltd is wholly owned by Pictet Asset Management Holding SA which is ultimately owned by Pictet & Partners SCA, a Swiss Holding Company and Pictet Canada LP, a Canadian Investment dealer.

Pictet AM Ltd has one branch in Dubai mainly to market and distribute non-US mutual funds and segregated markets to non-US investors in the Middle East. All European branches of Pictet Asset Management Ltd ("Pictet AM Ltd") ceased activities on 31 December 2018, and all activities were transferred to our sister company, Pictet Asset Management (Europe) SA, as part of the Pictet Asset Management Group Brexit Strategy.

Sebastien Eisinger replaced Laurent Ramsey as the Chairman of the Board of Directors of Pictet Asset Management Ltd ("Pictet AM Ltd") who resigned in April 2019.

### **Type of advisory services offered**

Pictet AM Ltd provides both advisory and discretionary investment management services to institutional clients. These services include:

- assistance in determining appropriate risk and return objectives for each client
- defining the appropriate asset mix which is most likely to achieve those objectives
- selection or advice of specific markets, currencies and securities from those categories and
- assuming discretionary responsibility for all aspects of day-to-day management and investment of the client's account(s).

Pictet AM Ltd manages a wide range of equity, fixed income and multi asset strategies including total return.

## **Client needs and restrictions**

Pictet AM Ltd will usually tailor its management to its client's needs. Our institutional clients usually determine in conjunction with us the investment constraints to be followed in the management of their assets. Further details are provided in item 13 of this brochure.

## **Wrap Fees programs**

Pictet AM Ltd does not participate in wrap fee programs while providing portfolio management services.

## **Asset under management**

Pictet AM Ltd managed approximately US\$ 35.4 billion of client assets on a discretionary basis as at 31 December 2018 and US\$ 130 million of client assets on a non-discretionary basis.

# **Item 5 Fees and Compensation**

For its services, Pictet AM Ltd charges a fee expressed as a percentage of market value of the managed assets generally determined as of the last trading day of each quarter or on another basis as agreed with the client. As we only provide discretionary investment management services to qualified purchasers as defined in section 2(a)(51)(a) of the Investment Company Act of 1940, our fees are subject to negotiation with clients. This can include the use of fees on a declining scale linked to the size of the account, and may in certain circumstances include a performance fee (for the latter, please refer to item 6 of this brochure).

Fees are typically payable quarterly in arrears. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee for the quarter.

Our management fees are usually computed based on the client's custodian's valuation. However, in some instances and in agreement with our clients, we use the valuation generated by the Pictet AM's portfolio management systems to calculate our management fees. In such cases, there is a risk that there may be of occasional differences in the valuation of assets between the Pictet AM's systems and those of the client's custodian impacting the level of management fees charged to our clients.

Pictet AM Ltd's investment advisory agreements can be terminated at any time by either the client or Pictet AM Ltd on a mutually acceptable period of notice, usually not more than 30 days.

Pictet AM Ltd's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients incur certain charges imposed by custodians, brokers, investment managers of third party funds and other third parties such as:

- management fees of third party funds
- custodial fees
- deferred sales charges
- transfer taxes
- wire transfer and electronic fund fees and
- other fees, commissions and taxes on brokerage accounts and securities transactions.

Client assets can be invested in third party open ended mutual funds and exchange traded funds (subject to client's investment guidelines) which also charge management fees. These fees are disclosed in a fund's prospectus. We take these fees and other fund expenses into account when selecting funds for client investments.

Such charges, fees and commissions are exclusive of and in addition to Pictet AM Ltd's fee, and we do not receive any portion of these commissions, fees, and costs.

In some instances, we can also invest our client assets in our in-house funds (subject to clients' investment guidelines and eligibility criteria for US clients) which also charge management fees. In such instances, Pictet AM Ltd will generally exclude the value of client assets investments in our in-house funds in the computation of our management fees.

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

### **Performance fees**

Pictet AM Ltd can enter into performance fee arrangements with "qualified clients", and such fees are subject to individual negotiation with each such client. We will structure any performance or incentive fee arrangement to comply with Section 205(a)(1) of the Investment Advisers Act of 1940 ("The Advisers Act") and Rule 205-3 thereunder.

In measuring clients' assets for the calculation of performance-based fees, we include realized and unrealized capital gains and losses.

The management of accounts with performance fees gives rise to the following conflicts of interest among others:

- Pictet AM Ltd and its fund managers could have an incentive to favour clients that pay performance-based fees over those that do not. This incentive could, for example, affect the decision to effect securities transactions for some clients and not for others if we believe the transaction will be profitable (or to allocate a greater portion of a limited investment opportunity to such accounts).
- The receipt of performance fees may incentivize us to make investments that are riskier or more speculative than would otherwise be made if there are no performance fees, as these may generate a higher return. With respect to the total return funds managed by Pictet AM Ltd (please refer to item 7), the performance fee arrangement was not the product of an arm's length negotiation with a third party.

### **Side-by-side management**

We manage other accounts with substantially similar investment strategies. This so-called side-by-side management of different accounts with similar investment strategies involves potential conflicts of interest.

These potential conflicts include the favourable or preferential treatment of an account or a group of accounts, conflicts related to the allocation of investment opportunities, particularly with respect to securities that have limited availability, such as initial public offerings, and transactions in one account that closely follow related transactions in a different account (e.g. purchase of securities for an account after a purchase of the same securities for another account has increased the value of the securities).

In addition, individual fund managers can receive a higher performance related bonus from managing total return funds compared to managing long-only funds.

Therefore, the results of the investment activities for one account may differ significantly from the results achieved by Pictet AM Ltd for other accounts.

We manage accounts with similar investment strategies which have different rates of management fees. Therefore, the accounts paying us the higher management fees incentivise us to favour them over the client accounts paying lower management fees.

We mitigate these conflicts in the following way:

- Our allocation policy requires that the allocation for each account should be pro-rata with the size of each client's order, after taking into account market convention e.g. standard lot size and uneconomic allocations. Regular compliance monitoring is carried out to ensure adherence to this policy.



- We aim to allocate investment opportunities fairly, and we monitor this on an on-going basis by reviewing the performance and risk indicators of similar accounts.

In certain circumstances, particularly when our affiliates launch a new product or provide the initial seed money, such products may be wholly or principally owned by our affiliates or their clients at the outset. The ownership interest of the Pictet Group in these products or funds may give us an incentive to favour them over other client accounts.

We exercise investment responsibility or take other actions for some clients that can differ from the management given, or the timing and nature of actions taken, for other clients. This can result in materially different positions in different accounts including being long a security in certain accounts, and being short in the same security in other accounts managed by us. We may also take positions in different directions in the same issuer for equity and fixed income accounts. However, we seek to ensure that over the long term, all clients are treated as fairly and equitably as possible relative to each other. Investment results for different accounts, including accounts that are generally managed in a similar style, can also differ as a result of other factors such as cash availability for an account, the timing of an account opening, additions or withdrawing of assets, or due to client investment restrictions. Some clients may not be able to participate at all in some investments in which other clients participate, or may participate to a different degree or at a different time than other clients do.

Our portfolio strategies for some clients could conflict with our strategies for other clients and could affect the prices and availability of the securities and other financial instruments in which clients invest.

To address these conflicts, our policies and procedures provide that investment decisions are made without consideration of the pecuniary interests of Pictet AM Ltd, and instead are made in accordance with our fiduciary duties to all client accounts. As discussed further in item 12 below, this generally means that all accounts managed with the same investment strategy will participate in a fair and equitable manner in investment opportunities that Pictet AM Ltd allocates to the strategy, although different allocations could occur due to the different objectives, restrictions and situations of different clients, for example, due to the availability of cash, or where potential allocation to IPOs may result in an uneconomic allocation, i.e. less than USD 10,000 for equity accounts, and where minimum investment amounts for fixed income instruments are not met.

## **Item 7 Type of clients**

We generally provides portfolio management services to:

- pension and profit-sharing plans
- charitable institutions
- insurance companies
- registered mutual funds

- private investment funds
- sovereign wealth funds
- regulated and unregulated foreign funds such as UCITS funds
- other U.S. and international institutional clients.

Accounts managed by Pictet AM Ltd should generally be at least US\$50 million, although we may at our discretion and in special circumstances manage accounts of lesser amounts.

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

### **Methods of analysis and Investment Strategies**

Pictet AM Ltd relies on various sources of information; primarily research received both from external providers as well as internally generated primary research. Sources of information utilised within our primary research process include the financial press, meetings with company management, analysts from other financial institutions (including brokers), and independent research providers, conference attendance and other research materials, corporate rating services, timing services, annual reports, prospectuses, filings with the SEC and other regulators, company press releases and system generated information such as from Bloomberg Financial.

We employ a wide range of investment strategies in managing clients' assets, which include, but are not limited to long term purchase (securities held at least a year), short term purchase (securities sold within a year), short sales and covered options and / or spreading strategies. Although selling, where securities purchased within a year, is not an investment strategy typically used except with some of our total return strategies, we can sell a security within 30 days of its acquisition as necessary or appropriate (e.g. to react to changing economic, political and / or market conditions and client needs, depending on the strategy managed). Frequent trading can affect investment performance, particularly through increased brokerage and other transaction costs and taxes.

We use derivative instruments such as futures, options, swaps and forward foreign exchange contracts both for speculative investment purposes, for efficient management purposes (e.g. to facilitate the prompt investment of a large cash flow) and for hedging purposes to alter the equity, duration and / or currency exposure of discretionary mandate portfolios to try to protect the clients' assets against market events likely to have a negative impact on performance. The derivatives used include both exchange traded and over the counter ("OTC") derivatives.

## **Investment Strategies & Material Risks**

The following is a description of the investment strategies managed by Pictet AM Ltd. At the end of this item, there is a discussion of the various risks related to these strategies.

### ***Emerging Market Debt (hereafter “EMD”):***

Our EMD team believes that:

- A top-down view of the macro environment enables them to assess how attractive conditions are for taking risk
- Understanding the direction of a country's credit quality enables us to establish a bias.
- In local currency debt markets, currency and interest rates are distinct sources of alpha, which should be managed separately.
- Success is improved by timing and the disciplined management of stop and profit levels.

The EMD process is split into two stages:

- Stage 1 assesses the global temperature for taking risk and sets the tone for our country selection.
- Stage 2 is the implementation process and separates the key sources of risk. Once a country is selected, the currency and the interest rates of that country are examined independently.

Risks involved for EMD: (please see the end of item 8 for fuller risk descriptions)

- Major risks
- Specific risks for fixed income instruments
- Specific risks for Emerging Market Debt.

### ***Emerging Market Corporate Bonds ( hereafter “EMC”)***

Our EMC team believes that:

- A solid understanding of all company names is essential, and thorough bottom-up credit research is paramount.
- Local knowledge is key and can potentially lead to increased returns.

The EMC process can be summarised as the following:

- Stage 1. We start with the global emerging markets corporate bond universe.
- Stage 2. Bottom-up credit ranking. The analysts begin by ranking the securities in the investment universe across emerging markets globally. The bottom-up ranking of expected outperformance is conducted according to fundamentals, valuation and technical aspects of each bond.
- Stage 3. The investment managers then select and size the most attractive bonds, focusing mainly on those with a ranking of 3 and 4 (strong and very strong outperformance). The lead investment manager has final decision-making authority for which he assesses the expected liquidity as well as credit risk. This is executed within the set investment guidelines of the portfolio.
- Stage 4. The next step of the process is a top-down review of country and sector risks which is conducted to validate the results of our bottom-up driven process. The entire team is involved in this on-going review. They maintain a constant flow of communication with our dedicated fixed income risk team to discuss any movements within the portfolio.
- Stage 5. Monitoring and control. The investment managers and risk teams monitor all portfolios to ensure that our positions are consistent across all portfolios and portfolios are managed according to their respective guidelines

Risks involved for EMC: (please see the end of item 8 for fuller risk descriptions)

- Major risks
- Specific risks for fixed income instruments
- Specific risks for Emerging markets equities or debts.

### ***Global Bonds:***

Our main Global Bonds products include Global Bonds, European Bonds and US Bonds. Our Global Bonds team has a long term investment horizon focusing on the range of expected returns in each asset class. Our Fund Managers invest in a diversified range of fixed income strategies based on long term valuations independent of a central forecast scenario. The team aims to build robust portfolios based on

strategy diversification and risk budgeting per strategy. The team aims for stable returns within a strict, risk-managed analytical framework. Our multi-stage investment process aims to build a well-diversified portfolio, balanced across our long-term investment themes, across our alpha sources of interest rates, spreads and currencies, and across risk scenarios. Duration, sector, rating, issuer domicile and currency are carefully analysed using a multi-dimensional risk matrix. The Fund Managers are mindful of risk replication and hidden correlations.

Risks involved for Global Bonds (please see the end of item 8 for fuller risk descriptions):

- Major risks
- Specific risks for Fixed Income instruments.

#### ***Absolute Return Fixed Income (ARFI):***

The Global Bonds team manages our absolute return fixed income strategies using the same investment principles and the same value-based investment process as the other strategies managed by it. We aim to deliver positive absolute returns, while controlling downside risks by investing globally across all fixed income sectors in both developed and emerging markets, not constrained by a market benchmark. Our multi-stage investment process aims to build a well-diversified portfolio, balanced across our long-term investment themes, across our alpha sources of interest rates, spreads and currencies, and across risk scenarios. Although draw-downs cannot always be avoided, we have a strong focus on downside risk management.

Risks involved for ARFI (please see the end of item 8 for fuller risk descriptions):

- Major risks
- Specific risks for Fixed Income instruments.
- Specific risks for Emerging markets equities or debts.

#### ***Global Emerging Equities (hereafter “EM”)***

The EM equity investment process is bottom up and value based. We believe that investing in stocks with low valuations that are undergoing an inflection in fundamentals will beat the market over a cycle. Hence, we look for stocks where we can identify a potential future inflection that is likely to be positive for the stock e.g. in governance, acquisitions and disposals and management. In addition, we seek to identify stocks where one or more of the main drivers of the business are changing for the better but where this is not yet

fully reflected in estimates or stock price. Country and sector weights are largely driven by the results of our bottom up value and fundamental work but are subject to a risk control process.

Risks involved for EM: (please see the end of item 8 for fuller risk descriptions)

- Major risks
- Specific risks for Emerging markets equities or debts.

### *EAFE Equities (hereafter “EAFE”)*

The philosophy of EAFE is based on a core approach of looking at how growing companies are valued compared to their intrinsic value – either in terms of assets or the present value of future cash flows. EAFE believes that companies can be mispriced by the market and that through the application of thorough fundamental research with a longer-term focus, these anomalies can be identified and yield investment opportunities. EAFE portfolios tend to exhibit modest tilts towards both growth and value.

Risks involved for EAFE: (please see the end of item 8 for fuller risk descriptions):

- Major risks.

### *International Multi Asset & Strategy (hereafter “IMAS”)*

We use a long only, top-down approach with strong risk controls to build a diversified portfolio of assets. The portfolio is not managed to a specific benchmark and has the flexibility to allocate to different asset classes, including emerging market equities and bonds, based on the qualitative assessment of the investment team. Dynamic asset allocation is at the heart of our investment process and enables us to adapt to the rapidly changing markets of today. We have the flexibility to invest directly in the underlying securities, in an in house fund or in a fund managed by a third-party manager.

Risks involved for IMAS: (please see the end of item 8 for fuller risk descriptions)

- Major risks
- Specific risks for fixed income instruments

- Specific risks for Emerging Market Debt.

#### *Total Return Credit (hereafter "TRC")*

TRC pursues a global relative value credit spread strategy and aims for credit alpha in all market conditions:

- The investment team has extensive credit experience and has developed and refined the strategy over a period of 7 years.
- The fund pursues an actively managed global long/short trading strategy and has the ability to take both long and short positions across all geographic regions and to hedge interest rate and currency risk.
- The fund invests in a wide range of global, liquid and mainly investment grade credit instruments and the availability of a large number of effective hedging instruments ensures that undesirable risk factors can be hedged. The fund employs a disciplined stop-loss and stop-gain approach.

Risks involved for TRC: (please see the end of section 8 for fuller risk descriptions)

- Major risks
- Specific risks for fixed income instruments
- Specific risks for Emerging markets equities or debts.

#### *Total Return Emerging Markets Fixed Income (hereafter "TREM")*

TREM pursues a global total return strategy and targets the dispersion within the emerging market asset class and aims to deliver alpha in all market conditions. The investment team looks for opportunities on a global basis using a range of emerging market fixed income tools including:

- foreign exchange, sovereign credit and interest rates,
- long/short for macro strategies and term structures,
- curve and basis trades for relative value strategies

The fund employs a disciplined stop-loss and stop-gain approach.

Risks involved for TREM: (please see the end of item 8 for fuller risk descriptions)

- Major risks

- Specific risks for fixed income instruments
- Specific risks for Emerging markets equities or debts.

### ***Total Return Global Cyclical Equities***

The strategy is focused on the industrial cyclical sectors globally. The universe includes the capital goods, aerospace and defence, automotive, chemicals, construction and materials sectors. Other adjacent sectors complete the universe: transportation, paper, energy services. In terms of regions, the segment invests mainly in Europe and US. The selection of individual positions is based on fundamental bottom-up analysis of individual companies complemented with the assessment of cyclical conditions impacting the various end markets.

Risks involved for Total Return Global Cyclical Equities: (please see the end of item 8 for fuller risk descriptions)

- Major risks
- Specific risks for Emerging markets equities or debts.

### ***Total Return Equities - Agora***

Agora is a European Equity Market Neutral strategy, with a catalyst approach to investing, and a focus on large-cap European companies. Catalysts that are core to this strategy can be categorized as: corporate events, opportunistic trades and structural winners/losers. The portfolio is diversified across roughly 50 core investment strategies, whereby each strategy is expressed through a combination of long and short positions with the aim to isolate the idiosyncratic potential of the trade in an effort to limit the fund's exposure to systematic risk.

Risks involved for Total Return Equities – Agora (please see the end of item 8 for fuller risk descriptions):

- Major risks
- Specific risks for Emerging markets equities or debts

### ***Total Return Global Consumer***

The Global Consumer equities strategy follows a market neutral approach to investing and covers a broad range of consumer, technology, media and telecommunications sectors globally. The strategy seeks to provide long-term capital appreciation by investing primarily in liquid and large caps.



The investment team uses a bottom-up approach targeting strong equity alpha and a low correlation to the stock market.

The strong emphasis on deep fundamental analysis aims to generate high conviction positions with non-consensual insight and idiosyncratic returns.

Risks involved for Total Return Global Consumer: (please see the end of item 8 for fuller risk descriptions)

- Major risks
- Specific risks for Emerging markets equities or debts.

#### ***Total Return Global Market Neutral Equities***

The Global Market Neutral equities strategy follows a market neutral approach to investing with a focus on sectors and businesses that exhibit limited cyclicalities. The strategy seeks to provide long-term capital appreciation by investing primarily in liquid large caps in developed markets.

The investment team uses a rigorous bottom-up fundamental approach targeting strong equity alpha and a low correlation to the stock market. The strong emphasis on deep fundamental analysis aims to generate high conviction positions on both the long and the short side.

Risks involved for Total Return Global Market Neutral Equities: (please see the end of item 8 for fuller risk descriptions)

- Major risks
- Specific risks for Emerging markets equities or debts.

#### ***Total Return Distressed Debt (hereafter "TRDD")***

TRDD operates a total return long/short credit strategy seeking to generate attractive returns through the cycle with low correlation to traditional asset classes. The investment manager takes a long/short approach to investing in financially stressed and distressed companies, predominantly in Europe, although with the ability to source ideas globally. Deep fundamental research underpins the investment process which targets capital structure trades, recovery rates, liquidity and, where appropriate, restructuring processes. A balanced portfolio is constructed from a bottom-up standpoint across a diversified range of issuers. The investment manager will however typically implement selective, concentrated high conviction positioning where opportunities arise. The strategy targets the more liquid end of the distressed investing spectrum, as such focusing primarily on larger capital structures.

More specifically the investment manager takes a flexible approach to expressing trade theses on both the long and short side through:

- Bonds
- Loans
- Credit derivatives
- Equities (listed and post re-org)

Risks involved for TRDD: (please see the end of item 8 for fuller risk descriptions)

- Major risks
- Specific risks related to fixed income instruments
- Specific risks related to emerging markets equities or debt

### ***Total Return Merger and Arbitrage***

The manager pursues a global merger arbitrage strategy and invests in announced Merger and Acquisition (M&A) transactions.

The manager assesses transactions globally with an opportunistic approach to select the transactions that offer the best risk / reward profile by doing an in-depth analysis of each transaction combined with a bottom-up fundamental assessment of the companies involved. The strategy seeks to achieve returns that are uncorrelated with the broader market.

Risks involved for Total Return Merger and Arbitrage: (please see the end of item 8 for fuller risk descriptions)

- Major risks
- Specific risks for Emerging markets equities or debts.

### ***FX Total Return (hereafter "FXTR")***

FXTR implements a highly liquid strategy which seeks high quality risk adjusted absolute returns with low correlation to major risk factors. The investment manager believes that significant FX alpha can be captured across market regimes, including persistent mispricing generated by major macroeconomic themes and central bank intervention. The core strategy seeks to generate alpha by identifying and exploiting these, predominantly through trading in liquid G10 and EM foreign exchange markets.

Interest rates derivatives will also be used tactically where appropriate. In addition, a more opportunistic portion of the portfolio will be implemented to seek returns in environments without strong macro direction or clear monetary policy divergence.

More specifically, the investment manager will make directional, relative value, tactical and technical investment decisions over both the short and medium term, using the below instruments:

- Deliverable spot FX contracts and FX forwards/options
- Non-deliverable FX forwards/options
- OTC forward rate agreements and interest rate swaps
- Listed futures and options on futures in interest rate markets

Risks involved for FXTR: (please see the end of item 8 for fuller risk descriptions)

- Major risks
- Specific risks for Emerging markets equities or debts

Pictet AM Ltd also pursue other strategies that are not available to US clients.

## **Risk**

Investing in securities involves the risk of loss that clients should be prepared to bear. These risks are described in more detail below.

### **1. Major risks.**

Major investment risks generally include, but are not limited to:

#### ***1.1. Political, legal, tax, market or economic developments and foreign exchange risks***

Client portfolios managed by Pictet AM Ltd may be adversely affected by political developments and / or changes in local laws, taxes, foreign exchange controls, exchange rates, market or economic developments.

### ***1.2. Investment risks***

The investments within a client's portfolio are subject to normal market fluctuations and other risks which are inherent in investing in securities and we give no assurances that capital appreciation or income will be achieved. The value of investments and the income from them, and therefore the value of a client's portfolio, can go down as well as up. Clients are warned that they may not get back the amount invested. Furthermore, past performance of a strategy is not a guide to its future performance.

### ***1.3. Valuation risk***

Valuation risk is the financial risk that an asset is overvalued and is worth less than expected when it matures or is sold. Factors contributing to valuation risk can include incomplete data, market instability, financial modeling uncertainties and poor data analysis by the people responsible for determining the value of the asset.

### ***1.4. Risks for derivative instruments***

In the normal course of business, we can trade various financial derivative instruments and enter various derivative contracts including forward and future contracts, options, swaps, warrants, other derivative instruments, short sales, margin and leverage with different risk profiles. In some instances, we can also invest on behalf of our clients directly in such financial instruments to manage volatility and to hedge the currency exposure risk.

The markets in derivative instruments can be highly volatile, illiquid and difficult to price in some occasions. In addition, because of their complex nature, some derivatives may not always perform as intended on some occasions. Such instruments often carry a high degree of risk as they often involve a high degree of gearing or leverage so that a relatively small movement in the price of the underlying security can potentially result in a disproportionately large movement, unfavourable or favourable, in the price of the derivative in some instances. In certain circumstances, this may result not only in the loss of the original investment, but also in an unquantifiable further loss exceeding any margin deposit. This can increase the volatility of the portfolios which are invested in derivatives and can result in the liquidation of the portfolio when it is not advantageous to do so.

### ***1.5. Volatility and illiquidity risks***

Due to the above mentioned risk of instability caused by social, political and economic developments, the prices for transferable securities in which the clients invest can fluctuate significantly in short-term periods. Although Pictet AM Ltd intends to invest predominantly on behalf of its clients in listed securities or in securities traded on regulated markets some risk of illiquidity can still exist, due to the relatively undeveloped nature of certain stock markets, or the nature of certain small cap securities which the client may authorise Pictet AM Ltd to trade

in that, in crisis periods, can give rise to the suspension of the valuation of one or several clients' securities, or to the removal of a liquid market for these stocks.

#### ***1.6. Currency exchange risks***

Where a liability in one currency is to be matched by an asset in a different currency, or where the services to be provided under a client's agreement relate to an investment denominated in a currency other than the currency in which an account is valued, a movement of exchange rates can have a separate effect, unfavourable as well as favourable, on the gain or loss which would otherwise be experienced on the investment.

#### ***1.7. Counterparty risks***

The insolvency or default of any other brokers involved in a transaction (including derivatives) for clients of Pictet AM Ltd, can lead to positions being liquidated or closed out without our consent. In certain circumstances, our clients may not get back the actual assets that we lodged as collateral on behalf of our clients or they may have to accept any available payment in cash.

#### ***1.8. Capitalisation risks***

Investments in small- and mid-capitalisation companies can be more volatile and more illiquid than investing in large-cap companies. Investments in small-cap companies have additional risks because these companies have limited product lines, markets or financial resources.

#### ***1.9. Concentration risk***

If the investments of client's account are concentrated in issuers within the same country, state, geographic region, industry or economic sector, and adverse economic, business or political developments occur, this concentration of investments can affect the value of the investments of the client's account more than if its investments were not so concentrated.

#### ***1.10. Management risk***

A strategy used by us may fail to produce the intended results for a client's account, including the risk of loss of the entire amount invested. There is no guarantee that the investment objective of an account managed by us will actually be achieved and investment results of the client's account may vary substantially over time.

### ***1.11. Cyber security risk***

With the increased use of technologies such as the Internet and the dependence on computer systems to perform necessary business functions, a company in which we have invested on behalf of our clients, or we may be prone to operational and informational security risks resulting from breaches in cyber security (“cyber-attacks”). A cyber-attack refers to both intentional and unintentional events that may cause us or the invested company to lose proprietary information, suffer data corruption, or lose operational capacity. Cyber-attacks include, but are not limited to, infection by computer viruses or other malicious software code, gaining unauthorized access to systems, networks, or devices that are used to service our operations through “hacking” or other means for the purpose of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. Cyber-attacks can also be carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service attacks on our firm or invested company’s websites (i.e. efforts to make network services unavailable to intended users). In addition, authorized persons could inadvertently or intentionally release confidential or proprietary information stored on our firm or invested company’s systems.

Cyber security failures or breaches by our firm or an invested company’s affiliates or service providers, may cause disruptions and impact the business operations, potentially resulting in financial losses to our firm or the invested company, impediments to trading, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs. In addition, substantial costs can be incurred in attempting to prevent any cyber incidents in the future.

### ***1.12. Restricted Investment risks***

Restricted securities are those that may not be sold to the public without effective registration statement under the U.S. Securities Act of 1933, as amended, or if they are unregistered, may be sold only in a privately negotiated transaction or pursuant to an exemption from registration. These restrictions could prevent a client’s account from promptly liquidating unfavourable positions and subject such client’s account to substantial losses.

## **2. Specific risks related to fixed income instruments**

In addition to the major risks, there are some specific risks for fixed income investments, and the main ones are defined below:

## **2.1 Interest risk**

Interest rate risk is the risk borne by an interest-bearing asset, such as a bond, due to the variability of interest rates. In general, as rates rise, the value of a fixed rate bond will fall, and vice versa.

## **2.2 Duration risk**

The duration risk is how the price of a fixed income instrument changes in response to interest rate changes. As interest rates change, the price does not change linearly, but rather is a convex function of interest rates which will affect the value of the price of the fixed income instrument.

## **2.3 Credit risk**

The credit risk is an investor's risk of loss of a fixed income instrument arising from a borrower who does not make payments as promised. This risk can impact the coupon paid and / or the principal which may cause a decrease in the value of the investment. There are three types of credit risk:

- Default risk is the risk that the issuer will default on its payments, which jeopardizes both interest and principal.
- Credit spread risk results because the market perceives that the issuer is in weaker financial health and may have trouble maintaining payments in the future, resulting in a larger spread between bid and ask prices in the secondary market.
- Downgrade risk is the risk that the current credit rating will be downgraded by one or more of the credit rating agencies.

## **2.4 Liquidity risk**

This is the spread between the bid and ask prices for a security being offered in the secondary market. If there is not much interest in the security, then the bid-ask spread can widen, resulting in the price of the sold security being significantly less than other similar recent transactions even when there is no change in any other significant factor. Small or mid capitalized securities or high yield bonds often have low average daily traded value that require longer than average time to sell positions.

## **2.5 Reinvestment risk**

Reinvestment risk is based on the assumption that cash flows from a fixed-income security are reinvested, so that interest can be earned on interest, and, thus, the risk is that the reinvested money will not earn the same rate of return as the original investment.

## **2.6 Legal and regulatory risk**

Legal and regulatory risk is the risk of financial or reputational loss that can result from lack of awareness or misunderstanding of, ambiguity in, or reckless indifference to, the way law, regulation and their evolutions apply to your business, its relationships, processes, products and services including the price of a security. In addition, law, regulation and their evolution can also impact our investment process and the performance of our managed accounts.

The second type of legal risk occurs because tax-exempt securities have to satisfy specific legal requirements, and if it is later determined that the security does not satisfy these requirements, its tax-exempt status can be eliminated, which would reduce not only the effective return of the securities after taxes, but it would reduce the price of the security in the secondary market because its now taxable yield / dividend would have to equal the taxable yield / dividend of other, comparable securities.

## **3 Specific risks related to emerging markets equities or debt**

There are some specific risks for emerging markets equities and debt portfolios, and the main ones are defined below:

### **3.1 General emerging markets risks**

Clients should be aware that, due to the social, political and economic situations in emerging countries, investment in emerging market securities presents greater risk and is intended only for investors who are able to bear and assume this increased risk. Emerging market securities are generally only suitable for investors seeking a long-term investment.

Investing in emerging market securities is subject to other risks including:

- Political and economic risks
- Capital repatriation restrictions
- Weaker accounting standards
- Counterparty risks and



- Volatility and / or illiquidity risks in the markets of the emerging countries.

The two latter risk types have already been described in the major risks section but their impact and / or occurrence can even be greater for emerging markets than for developed ones. These other three risks are described in more detail below.

### ***3.2 Political and economic risks***

In most of the emerging countries in which Pictet AM Ltd invests on behalf of its clients, the governments have implemented or are implementing policies of economic and social liberalisation. Although it is presumed that these reforms should be beneficial to these economies in the long term, there is no guarantee that these reforms will be maintained or that they will achieve the expected results. These reforms can be challenged or slowed by political or social events, or by national or international armed conflicts. All these political risks can affect the capital gains objectives set for the clients investing in emerging countries.

### ***3.3 Capital repatriation restrictions***

The repatriation of capital with regard to investments made in certain securities or countries can be sometimes restricted during certain times from the date of such investments or even indefinitely. If Pictet AM Ltd is unable to repatriate capital from the clients' investments, in whole or in part, this can have an adverse effect on the cash flows of our clients and their results.

### ***3.4 Weaker accounting standards***

In some emerging markets, the applicable accounting and auditing standards are not as strict as those applied in the USA. Consequently, the accounting and financial information on the companies in which the clients are invested can be more cursory and less reliable.

<h2><b>Item 9 Disciplinary Information</b></h2>
---

Pictet AM Ltd has no information to report in response to this item.

## Item 10 Other Financial Industry Activities and Affiliations

### Registration as a broker dealer

Pictet AM Ltd is not a broker dealer but an institutional asset manager which is part of the Pictet Group.

### Registration with the National Futures Authority

Pictet AM Ltd is neither registered as a Futures Commission Merchant, Commodity Pool Operator, nor a Commodity Trading Advisor and is not an associated person of any such registered entities. However, we are recorded with the National Futures Authority as an Exempt Commodity Pool Operator and Exempt Commodity Trading Advisor.

### Material affiliates of Pictet AM Ltd, their material conflicts and how they are addressed

Listed below are the Pictet Group legal entities with which Pictet AM Ltd has a relationship or arrangement that is material to our advisory business, or to our clients.

The material conflicts, arising from our business relationships with our affiliated entities, are set out below together with details of how they are managed.

1. *The execution of orders by affiliated brokers.*

Pictet AM Ltd may use the broker-dealer services of Pictet Group brokers on a limited basis for non US client accounts, but any client may request that trades are not executed using such brokers. If Pictet Group brokers are used, they must comply with our best execution policy, and only charge an arms-length commission or spread. There is regular monitoring of these requirements.

2. *The use of Pictet AM Group affiliates to execute orders or place orders for execution into the market.*

Where Pictet AM Ltd directs client orders to other Pictet AM trading desks for trade execution, these trades must be executed in accordance with the Pictet AM Best Execution Policy, and there is no additional cost to clients for this service. There is regular monitoring of adherence to this Best Execution Policy. All Pictet AM entities act solely as agent, and do not charge any commission or mark-up additional to that charged by the executing broker.

The Pictet AM Group trading desks execute orders or place orders for execution only for its clients and those of the Pictet AM group of companies.

3. *The potential sharing or leakage of sensitive information relating to clients, their investment and their trading activities to affiliates.*

All Pictet AM companies have robust “Chinese Walls” in place to mitigate and reduce potential conflicts arising, which include:

- Physical access controls restricting access to Pictet AM premises to Pictet AM staff.
- Controls restricting systems access to sensitive investment management and trading information to the relevant investment teams only.
- The use by Pictet AM of separate systems for portfolio management, trading and investment accounting from the rest of the Pictet Group, with strict controls in place to prevent any access by non-Pictet AM staff to Pictet AM systems.
- There are no shared employees between Pictet AM and the rest of the Pictet Group who carry out activities of portfolio management, operations or trading for Pictet AM and other parts of the Pictet Group.

4. *Referrals of clients to / from other Pictet Group entities.*

Clients may be referred to / from Pictet AM Ltd by other Pictet Group entities. However, Pictet AM Ltd does not make or receive any payments for US client referrals.

In addition:

- All of the compliance activities of the Pictet AM group are supervised by the Global Co-Heads of Pictet AM Compliance, to ensure that a common standard is applied to all Pictet AM entities providing key services to Pictet AM Ltd.
- All Pictet AM entities are subject to the Pictet AM Code of Ethics and Core Compliance Manual or equivalent procedures. These set the required high professional standards of behaviour that all Pictet AM employees are expected to follow in the conduct of their personal and professional affairs in compliance with the SEC rules and those of any other regulators to whom these entities are subject to.
- There is also a compliance monitoring programme in place that is reasonably designed to ensure that the activities carried out by related entities to Pictet AM Ltd are carried out in compliance with all relevant rules and regulations.

***Banque Pictet & Cie SA***

Banque Pictet & Cie SA is licensed as a bank and broker dealer with the Swiss Financial Market Supervisory Authority (FINMA). It is engaged in the provision of asset management, custodial and broker dealer services and may provide general research information to Pictet AM Ltd and may refer or

delegate clients to Pictet AM Ltd. Pictet AM Ltd can use the broker-dealer services of Banque Pictet & Cie SA on a limited basis for non US client accounts, but any client may request that Banque Pictet & Cie SA not be used as broker for their accounts.

Banque Pictet & Cie also provides certain administrative, support and IT services to Pictet AM Ltd. Otherwise, there is no material business relationship between Pictet AM Ltd and Banque Pictet & Cie SA.

### ***Pictet Asset Management SA (“Pictet AM SA”)***

Pictet AM SA is registered as an investment adviser with the SEC and is regulated in Switzerland by the Swiss Financial Markets and Supervisory Authority (“FINMA”).

Pictet AM SA manages a wide range of equity, fixed income and multi asset strategies including total return.

Pictet AM SA refers to Pictet AM Ltd clients wanting to invest in strategies managed by Pictet AM Ltd, and Pictet AM Ltd refer to Pictet AM SA clients wanting to invest in strategies managed by Pictet AM SA. Furthermore, Pictet AM Ltd also share research with Pictet AM SA for all strategies except Total Return Equities

Pictet AM SA and Pictet AM Ltd have formed centralized dealing desks primarily specializing in fixed income securities and active equities respectively. Therefore, we generally direct our non-Asian fixed income trades, excluding emerging corporate bonds, and equity trades for our Total Return accounts to the Pictet AM SA trading desk for execution. Pictet AM SA mainly directs the large majority of its non-Asian long-only equity trades to the Pictet AM Ltd dealing desk for trade execution.

Pictet AM SA is the Manager to two no-load Delaware Limited Liability Companies (“LLCs”) for whom Pictet AM Ltd acts as investment adviser. These are diversified, open-ended investment companies called:

- Pictet International Equity Fund LLC
- Pictet Emerging Local Currency Debt LLC.

Pictet AM SA is also the manager and investment advisor of two hedge funds domiciled in Cayman Islands for whom Pictet AM Ltd acts as a sub investment adviser:

- Agora Master Fund LP
- Alphanatics Master Fund LP

The four above funds are “Private Funds” as defined under SEC rule 203 (b)(3) – 1, and are only to be marketed to “accredited investors” as defined in Regulation D.

***Pictet Asset Management (Singapore) Pte Ltd (“Pictet AM Singapore”)***

Pictet AM Singapore is an affiliate company of Pictet AM Ltd which is registered with the Monetary Authority of Singapore and the SEC.

We use the services of a dedicated trading desk at Pictet AM Singapore to execute orders or place orders for the execution of transactions mainly in Asian fixed income securities. The purpose of this arrangement is to utilize a trading desk in the same time zone as the relevant markets that are being invested in.

In addition, the Emerging Market Debt and Emerging Market Corporate Debt products offered by Pictet AM Ltd are partially managed or advised by staff based in Pictet AM Singapore that mainly focus on the Asian fixed income markets. These managers solely provide investment advisory and research services to fixed income clients of the Pictet AM group of companies.

***Pictet Asset Management (Hong Kong) Ltd (“Pictet AM Hong Kong”)***

Pictet AM is an affiliate company of Pictet AM Ltd, and is regulated by the Securities & Futures Commission of Hong Kong.

We use the services of a dedicated trading desk at Pictet AM Hong Kong to execute orders or place orders for execution of transactions mainly in Asian equity instruments.

The purpose of this arrangement is to utilize a trading desk in the same time zone as the relevant markets that are being invested in.

In addition, certain accounts which are lead managed by Pictet AM Ltd Multi Asset and Emerging Equity teams are partly managed by staff based in Pictet AM Hong Kong that mainly focus on the Hong Kong and Chinese equity markets.

***Pictet Asset Management Inc (“Pictet AM Inc”)***

Pictet AM Inc is the Montreal based affiliate company of Pictet AM Ltd and is registered as an investment adviser with the SEC and with several Canadian provincial financial regulators as an exempt International Investment Manager. Pictet AM Inc conducts business development activities of Pictet AM Ltd and Pictet AM SA in Canada and the USA together with supporting client servicing activities for North American clients primarily serviced by Pictet AM Ltd.

Pictet AM Inc staff have “view only” access to the portfolios of North American clients which they are servicing, and are not able to create orders or place orders for execution for any client accounts.

### ***Pictet Asset Management (Europe) SA ("Pictet Europe")***

Pictet Europe is regulated by the Luxembourg Financial Authority, Commission de Surveillance du Secteur Financier, and is the Luxembourg based affiliate of Pictet AM Ltd. Pictet Europe is the Fund Management Company of the Pictet AM Group Luxembourg mutual funds which are neither marketed to nor target US clients. Pictet Europe has delegated the management of a number of its Luxembourg mutual funds to Pictet AM Ltd.

### ***Pictet Asset Management (Japan) Ltd ("Pictet AM Japan")***

Pictet AM Japan is an affiliate company of Pictet AM Ltd and is regulated by the Japanese Financial Services Agency. Pictet AM Japan is primarily involved in distribution activities for Japanese domestic investors and also manages Japanese equity total return mandates.

Pictet AM Japan refer to Pictet AM Ltd clients wanting to invest in strategies managed by Pictet AM Ltd. Furthermore, Pictet AM Japan and Pictet AM Ltd also share research.

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

### **Code of Ethics**

We strive to adhere to the highest industry standards of conduct based on the principles of professionalism, integrity, honesty and trust and we have adopted a Code of Ethics ("Code") under SEC Rule 204A-1 to help us meet these standards and prevent conflicts of interest. All our staff and connected persons must comply with the Code, which covers the following key areas:

- Personal account dealing rules
- Gifts and entertainment
- Protecting the confidentiality of client information
- Dealing with personal conflicts of interest
- Respecting Pictet AM Ltd corporate confidential information

Our staff are required to follow Pictet AM's Code of Ethics. Subject to satisfying this policy and applicable laws, officers, directors and employees of Pictet AM Ltd and its affiliates may trade for their

own accounts in securities which are recommended to and/or purchased for Pictet AM Ltd's clients. The Code of Ethics is designed to ensure that the personal securities transactions, activities and interests of the employees of Pictet AM Ltd will not interfere or conflict with:

- making decisions in the best interests of advisory clients, and
- implementing such decisions

while, at the same time, allowing employees to invest for their own accounts.

Under the Code, certain classes of securities have been designated as exempt transactions from Compliance's pre-approval, based upon a determination that trading these would not materially interfere or conflict with the best interests of our clients. In addition, the Code requires pre-clearance of many transactions, and restricts trading in close proximity to client trading activity. Nonetheless, because the Code of Ethics in some circumstances permits employees to invest in the same securities as clients, there is a possibility that employees might benefit from market activity by a client in a security held by an employee. Employee trading is monitored under the Code of Ethics, to manage conflicts of interest between us, our staff and our clients.

Some entities of the Pictet Group undertake trading for their own accounts. This is managed by dedicated teams within those entities who have no responsibility for managing assets or executing trades on behalf of Pictet AM Ltd clients. Furthermore, Pictet AM Ltd does not undertake any proprietary investment, nor do other entities of the Pictet Group conduct any proprietary investment on behalf of Pictet AM Ltd or any other Pictet AM entity.

Some entities of the Pictet Group can buy or sell securities for their own accounts that Pictet AM Ltd may have bought or sold on behalf of its clients. However, there are strict Chinese walls in place between Pictet AM Ltd and those other group entities, including separate staff, accounting and trading systems, so that the staff of those group entities that manage this type of account have no access to the orders, transactions or positions of Pictet AM Ltd clients.

Pictet AM Ltd and its affiliates may recommend to or purchase or sell on behalf of clients, securities or other investment products in which Pictet AM Ltd, its affiliates, or other related persons have a financial interest as investment manager, general partner, or as a co-investor in such investment products.

In addition, due to the nature of its clientele, Pictet AM Ltd occasionally places orders in securities issued by its clients but we carry out regular monitoring of trading in such securities to ensure it is consistent with our procedures for the management of inside information.

Where it is permitted by, and in the best interests of both clients, Pictet AM Ltd can decide to cross securities from one client to another. These trades are effected via external brokers at an independently determined market price and usually at lower than normal broker commissions. We will receive no fees for such transactions. ERISA plan clients and US 1940 Act Investment Companies cannot participate in cross trades.

Pictet AM Ltd's clients or prospective clients can request a copy of the firm's Code of Ethics by contacting David Cawthrow, Global Co-Head of Compliance of Pictet AM at +4420 7847 5040 or by email at [dcawthrow@pictet.com](mailto:dcawthrow@pictet.com).

## **Gifts and Entertainment**

Brokers, counterparties, service providers and other third parties with whom we do business occasionally provide gifts and entertainment to our principals and employees. We, and our affiliates, enter into business transactions and relationships on behalf of a client with the providers of such gifts and entertainment. Such gifts and entertainment create a conflict of interest in our selection and retention of these donors as service providers for clients. To address this conflict, we have adopted policies and procedures to monitor and limit gifts and entertainment given and received by our principals and employees.

We also have policies and procedures in place to help us monitor the US political contributions that our principals and employees make to public officials and candidates for elected office in accordance with the requirements of Rule 206(4)-5 of the Investment Advisers Act of 1940.

## **Side Letters**

We sometimes enter into side letters with prospective investors in investment funds that we manage. These side letters allow for different terms than the terms applicable to other fund investors, including terms related to information rights and confidentiality obligations. In general, we will not notify other fund investors when we enter into these agreements but will ensure that no client is disadvantaged by such side letters. The same applies if a client requires us to sign a Most Favoured Nation clause.

## **Disclosure of Portfolio and Other Information**

We sometimes provide portfolio holdings information to investors or entities that have been retained by investors in our managed funds to evaluate portfolio risk and for regulatory reporting purposes. We provide this information in our sole discretion, and reserve the right to cease providing information at any time. We make reasonable efforts to preserve the confidentiality of the information we provide, such as by entering into non-disclosure agreements, but we cannot guarantee that the entities to which we provide information will fulfil their confidentiality obligations.

In the course of conducting due diligence, investors in our managed funds periodically request information pertaining to their investments, and pertaining to us. When we respond to these requests, we can provide information that is not generally made available to other investors in the same fund. When we provide this information, we do so without an obligation to update the information provided. However, we endeavour to provide the information requested in the most current form available in compliance with our Portfolio Information Disclosure Policy.



## Item 12 Brokerage Practices

### General brokerage practices

In our capacity as discretionary investment manager, we have the authority to determine the securities, and the amounts of securities, to be bought or sold for a client's account, subject to compliance with the client's investment objectives and guidelines.

We also have the discretionary authority to select the brokers, dealers and banks through which we will execute transactions for the benefit of our clients, as well as the commission rates paid.

All brokers used must be approved by the Pictet Group Counterparty Risk Committee under the delegated authority of the Group Treasury Committee. When assessing a broker, the Group Counterparty Risk Committee takes a risk based approach which considers both quantitative and qualitative factors such as the broker's financial strength, its regulator and if the broker is used for delivery versus payment or more complex security deliveries. Each assessment is bespoke, with a different emphasis on various evaluation criteria according to the market and nature of future transactions.

We use affiliated brokers as described in item 10 above on a limited basis. In all instances, affiliates are not paid more than a standard rate, or spread in the case of securities that are dealt net of commission such as fixed interest securities. Any client may request that we not use affiliated brokers to execute transactions for its account. We carry out regular monitoring to ensure that best execution is achieved on trades executed via affiliated entities, and also of the volumes of transactions executed by such entities.

Where advantageous, Pictet AM Ltd will deal directly with the market maker in a security. Pictet AM Ltd does not enter into express or implied agreements with brokers based on Pictet AM Ltd's interest in receiving client referrals.

### Best execution

Pictet AM has a Best Execution Policy, which sets out the most important and relevant execution factors we take into account in complying with our best execution obligations i.e. to ensure that our client trades achieve the best possible result on a consistent basis, where we either execute our client's order directly on a trading venue or place the order with an approved broker for execution on their behalf.

We monitor the effectiveness of our best execution policy and execution arrangements to identify, and where appropriate, correct any deficiencies. This will include an assessment of whether the execution venues included in our policy continue to provide the best possible result for our clients.

We review our best execution policy at least annually and whenever a material change occurs that affects our ability to continue to obtain the best possible results for our clients on a consistent basis.

The Pictet AM Trade Execution Committees for Equities and Fixed Income are responsible for overseeing the best execution arrangements and policy within Pictet AM.

For Fixed income trades, our affiliate Pictet AM SA will monitor the effectiveness of our best execution policy and execution arrangements to identify, and where appropriate, correct any deficiencies. This will include an assessment of whether the execution venues included in this policy continue to provide the best possible result for our clients.

For equity trades, the oversight includes the review of transaction cost analysis provided by our external provider, Trade Informatics .

In addition, compliance with our best execution policy is monitored on an on-going basis firstly by the traders, and, secondly by Compliance of our affiliate Pictet AM Ltd for equity trades and Pictet AM SA for fixed income trades.

### **Research and other soft dollar benefits**

Portfolio transactions can be executed through brokers who have provided research and investment ideas if otherwise consistent with the achievement of best execution, but the over-riding factor in the selection of a broker is the achievement of best execution.

Following the implementation of the European Union Markets in Financial Instrument Directive II (“MiFID II”) on 3<sup>rd</sup> January 2018, all research used for the benefit of long-only equity, multi-asset and fixed income strategies managed by Pictet AM Ltd is now paid for from Pictet AM Ltd’s own Profit & Loss account and is no longer paid for using clients’ dealing commissions.

However, research consumed by the Pictet AM Ltd equity total return investment teams continues to be paid for with relevant client commissions, which are collected through a separate Research Payment Account (“RPA”) managed by our external RPA Administrator.

Where an account / fund pays for research via an RPA, Pictet AM Ltd must comply with the requirements of MiFID II, namely:

1. Undertake an assessment of the quality and value of the research purchased, including the setting of a research budget, which is then allocated fairly to each relevant client account.
2. Record and demonstrate how this research benefits the clients and contributes to better investment decisions.
3. Address the possible conflict of interests that could arise between Pictet AM Ltd and its clients, as well as between its clients.
4. Provide information about the budgeted amount Pictet AM Ltd has set for research and the amount of the estimated charge for each client on an ex-ante basis as well as provide annual information on the total costs that each client has incurred for research in an ex-post basis.

In order for the research services to be eligible for payment via the RPA account, they must meet the following criteria:

- The research must help us to form views more effectively and to make better investment decisions in client portfolios;
- The research must represent original thought, in the analysis of information and assessment of outlook;
- The research must have intellectual rigour and go beyond stating the self-evident; and
- The research must involve the analysis or manipulation of data to reach meaningful conclusions which explicitly or implicitly recommends or suggests an investment strategy and provides a substantive opinion as to the present or future value or price of investments or assets.

In addition, Pictet AM Ltd also reviews the research services provided by brokers and paid by the RPA account to ensure that it meets the standards set out in section 28( e) of the Securities Exchange Act of 1934. Such review is carried out on a sample and on-going basis.

Access to the best external research is an important factor in helping our investment professionals to manage money successfully and achieve the investment objectives of our clients. We have no incentive to purchase research unless it can be of benefit to the performance of our clients' portfolios. When executing transactions, we strive to ensure that we obtain the best possible result for our clients on a consistent basis.

Pictet AM Ltd regularly reviews and evaluates trading costs and the continuing value of the equity research services it uses to ensure the use of clients' funds for a service remains appropriate and offers good value for clients.

Equity research is bought for the benefit of clients of Pictet AM Ltd by the managers and analysts responsible for a defined set of products and portfolios. A budget is calculated for each team using the Pictet AM approach and parameters. This budget is calculated by the equity desk head, reviewed by the Equity CIO and finally ratified by the Research Committee. This budget is reviewed on a quarterly basis by the Research Committee.

Pictet AM Ltd will ensure that the use of client dealing commissions for the purchase of equity research via an RPA has been conducted in accordance with the relevant principles and regulations, and in accordance with our internal policies and procedures.

The purchase of research including the setting of research budget is overseen by the Pictet AM Research Committee.

### **Brokerage for client referrals**

We do not receive client referrals from brokers and there are no such arrangements in place.

## **Directed brokerage**

Although it strongly discourages the practice of directed commission, Pictet AM Ltd may agree with a client's request to direct brokerage transactions for the client's account to a specific broker or brokers. However, directed brokerage at the request of clients may impede the achievement of best execution on portfolio transactions by:

- Impairing our ability to negotiate commission rates and other terms on behalf of directed brokerage clients.
- Denying to directed brokerage clients the benefit of our experience in selecting broker-dealers who are able to efficiently execute difficult trades.
- Limiting directed brokerage clients' opportunities to obtain lower transaction costs and better prices by aggregating their orders with orders for other clients.
- Receiving less favourable prices on securities transactions to the extent that we must place transaction orders for directed brokerages clients after placing aggregated orders for other clients.

In addition, such brokers may not have been subject to the due diligence and approval of the Pictet Group Counterparty Risk Committee as described earlier in this section.

## **Trade aggregation**

When buying and selling securities and other investment products for clients, we generally aggregate multiple transactions into one order so that as many eligible clients may participate equally over time on a fair and equitable basis, in terms of best available cost, efficiency and terms. Each client that participates in an aggregated order participates at the average price. However, in some instances where aggregation is not possible, certain client accounts may trade the same securities after other client accounts, and this can impact the execution prices obtained by different clients. In the case of the partial execution of an aggregated order, the executed trades and related external broker commissions are normally allocated on a pro rata basis subject to complying with market conventions on minimum fill and increments, and to avoid uneconomic allocations.

Clients' orders are only aggregated with other Pictet AM clients' orders and not with orders for the clients of other Pictet Group entities nor any Pictet AM or Pictet group entity, nor their employees. Aggregation may on occasion work to the disadvantage of a client in relation to a particular order. Trade allocations are monitored by the Compliance department on a periodic basis

## **Reallocations**

Occasionally, we reallocate transactions in order to correct an error in the original order or the original allocation. We have procedures in place, and carry out compliance monitoring to ensure that such reallocations are carried out fairly and in full compliance with our fiduciary duty.

## **Trade Errors**

We have established policies and procedures for the handling of errors in client accounts. Pursuant to these policies and procedures, we aim to correct errors as soon as practicable after discovery and will always ensure that clients do not suffer any loss as a result of the error.

All errors are overseen by the Business Risk Department, who report all identified errors and breaches for scrutiny by the Pictet AM Business Risk & Compliance Committee, and the Pictet AM Risk Committee.

## **Initial Public Offerings (“IPOs”) for US securities**

If the client authorises us to invest in IPOs, we will only allocate US IPOs to investors in funds and separately managed accounts in which beneficial owners are eligible to participate therein, as defined under Rule 5130 of the Financial Industry Regulatory Authority, as amended.

## **Item 13 Review of Accounts**

Following the take on of the client, the primary (or in their absence, the alternate) portfolio manager assumes day-to-day responsibility for supervision of the account including complying with investment restrictions.

Investment restrictions on a client’s account are also independently monitored by the Compliance department on a daily basis. They also ensure that any appropriate corrective actions are promptly carried out and that breaches are reported to the client.

In addition, Pictet AM Ltd carries out formal risk and performance reviews of all products on a periodic basis where the performance and risk characteristics of the portfolio are reviewed by a committee usually consisting of:

- Deputy CEO / Head of Investment
- The Head of the investment team under review, together with the Senior Portfolio Managers from that team
- The Head of the Pictet AM Investment Risk and Performance Analysis Department
- The Chief Investment Officer of the investment team under review.
- The Risk Manager or its deputy for the relevant investment team.

In addition, the CEO and Chief Risk Officer may attend such meetings on an ad hoc basis, especially for significant strategies.

Pictet AM Ltd's standard reporting package for segregated clients includes the following:

1. A monthly report, except for quarter ends, that includes a valuation, transaction statement and a performance summary. These statements describe all assets held, the quantity and market price in local currency for each position and the market value of the account expressed in the client's base currency translated at the current rates of exchange. Positions are broken down by type of asset and by market value or currency of denomination. All changes in holdings and income and expense items are listed by date.
2. A quarterly report, which provides the information included in the monthly report as at the quarter end, together with (a) a Fund Manager's report, including a review of fund performance together with performance attribution, and (b) an Investment review and outlook.

Please note that the valuation of a client account will be generated by Pictet AM's investment accounting and portfolio management systems. Therefore, there is a risk that on occasions, there are differences in the valuation of assets by Pictet AM's systems and the valuation by the client's custodian.

Whilst the above is the standard reporting package, Pictet AM Ltd can provide alternative reporting to satisfy the differing reporting requirements of its clients.

Following formal reviews and from time to time, additional supplementary information and reports are prepared for the client, highlighting characteristics such as average maturity, regional asset mix, largest holdings, etc.

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

Pictet AM Ltd markets its services via its own Business Development Department, or the Business Development departments of other Pictet AM Group companies. These staff are paid a salary, a profit share based on the Pictet Group's results and a bonus. The criteria used in determining the size of a member of the Business Development staff's bonus, are:

- Net new revenues introduced during the year.
- Gross new revenues introduced during the year.
- Qualitative and / or soft scores, including for example teamwork.

There is also a potential deduction to bonuses in the event of a poor Compliance score by individuals.

Our SEC registered affiliate, Pictet Asset Management Inc refers North American clients to Pictet AM Ltd. Pictet Asset Management Inc's costs are reimbursed on a cost plus basis by Pictet AM Ltd.

Pictet AM Ltd may pay compensation to external introducers for client referrals. This will typically represent a percentage of the annual management fee paid by the introduced client to Pictet AM Ltd, and will be fully disclosed to the client. This cost is fully borne by Pictet AM Ltd, and does not result in any additional cost to the referred client.

Pictet AM Ltd may from time to time refer its clients to other non Pictet AM group entities within Pictet for additional services. Pictet AM Ltd will not receive any remuneration or fee for such referrals except a distribution fee for investor referrals in non US in-house mutual funds which are not eligible for US investors. Pictet Group entities may also, from time to time, refer clients to us, but will not receive any remuneration or fee for such referrals.

## **Item 15 Custody**

Pictet AM Ltd does not have direct custody of client assets and is not permitted by the Financial Conduct Authority in the United Kingdom to have custody of client assets.

US clients should receive at least quarterly statements from the broker-dealer, bank or other qualified custodian, that holds and maintains their managed assets. Pictet AM Ltd urges its clients to carefully review such statements and compare such official custodial records to the account statements that clients receive from us as described in section 13. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **Item 16 Investment Discretion**

Pictet AM Ltd usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives and investment restrictions for the particular client account.

Pictet AM Ltd tries to manage different client accounts within the same product grouping in a similar manner. However, this will always be carried out in accordance with the investment guidelines provided by our clients. Our institutional clients usually determine in conjunction with Pictet AM Ltd the investment constraints to be followed in the management of their assets.

For regulated and unregulated funds, Pictet AM Ltd's authority to trade securities may also be limited by certain federal securities and tax laws and regulations that require the diversification of investments..

Investment guidelines and restrictions must be provided to Pictet AM Ltd in writing prior to the commencement of investment management activities.

## **Item 17 Voting client Securities**

Our voting policy is based on generally accepted standards of best practice in corporate governance including board compensation, executive remuneration, risk management and shareholder rights.

The long-term interests of shareholders are the paramount objective in exercising votes. We therefore do not always support the management of investee companies and may vote against management from time to time. To assist us in the exercising of proxy votes, Pictet AM uses the services of third party specialists whose expertise and international experience allows us to vote at all relevant company meetings worldwide.

The following principles are used in defining the scope of accounts and securities eligible for proxy voting:

1. For actively managed funds, we aim to vote on 100% of equity holdings.
2. For passive strategies, we aim to vote on 100% of equity holdings for Swiss index strategies, and on 80% of AUM for other index strategies. Holdings within the 80% threshold are defined once a year (typically in December) by the Index Equities team although this can be updated more frequently in case of material deviations. This threshold typically represents 50% by the number of companies. For liquidity reasons, voting rights are not exercised in share blocking markets (eg Argentina, Germany, Portugal, Sweden and Norway). Index funds where vote execution costs may exceed 0.5bp are carved out.
3. For segregated accounts, including mandates and third-party (ie sub-advisory) mutual funds managed by Pictet AM, clients who want to delegate the exercise of voting rights to Pictet AM have the choice between:
  - Proxy voting based on Pictet AM policy
  - Proxy voting based on client's own voting policy.

Conflicts of interest related to proxy voting are included in our conflicts of interest policy.

Please refer to <https://www.am.pictet/en/globalwebsite/global-articles/2019/expertise/esg/proxy-voting> for more information about voting activity by Pictet AM entities. This information is also available at portfolio level for open-ended funds and segregated accounts.



## **Item 18 Financial Information**

This item is not applicable.

We are required in this item to provide you with certain financial information or disclosures about our financial condition. We have no financial commitment that impairs our ability to meet our contractual and fiduciary commitments to clients, and we have not been the subject of bankruptcy proceedings.

We do not require or solicit the prepayment of fees.

## Privacy Notice

Please refer to our Group privacy notice which can found at:

<https://www.group.pictet/pictet-group-privacy-notice>

**Last updated: 20 March 2019**