

First Quadrant, L.P.

Form ADV Part 2A

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This Form ADV Part 2A (the "Brochure") provides information about the qualifications and business practices of First Quadrant, L.P. ("First Quadrant" or the "Firm"). If you have questions about the contents of this Brochure, please contact us at the telephone number and address above, or at FQCompliance@firstquadrant.com. The information in this Brochure has not been approved or verified by the U.S. Securities and Exchange Commission ("SEC") or by any state securities authority.

Additional information about First Quadrant is also available on the SEC's website at www.adviserinfo.sec.gov. The SEC's web site also provides information about any persons affiliated with First Quadrant who are registered, or are required to be registered, as investment adviser representatives of First Quadrant.

Although First Quadrant is registered as an investment adviser under the Investment Advisers Act of 1940, such registration does not imply that First Quadrant or our personnel have a certain level of skill or training.

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Item 2 – Material Changes

This Item requires us to summarize any material changes to our Form ADV Part 2A since our annual update on March 27, 2019. While we do not believe that the following changes are material, we have nonetheless summarized our changes to the current Form ADV Part 2A below:

- Item 4 – Advisory Business: We updated our assets under management to approximately \$16.166 billion as of December 31, 2019.
- Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss: We updated our investment risk disclosures.
- Item 14 – Client Referrals and Other Compensation: We updated our disclosures to reflect that we may enter in to third-party solicitation agreements in the future.

We also made certain other non-material changes throughout the form. If you have any questions about the contents of this Form ADV Part 2A, please contact First Quadrant's Compliance department via email at FQCompliance@firstquadrant.com or in writing at:

First Quadrant, L.P.
Attn: Chief Compliance Officer
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Item 4 – Advisory Business

Introduction

First Quadrant is an investment management firm specializing in alternative approaches to global investing. We provide investment management on both a discretionary and non-discretionary basis.

First Quadrant offers an array of investment solutions in the following areas: macro, currency, commodities, equity market neutral, long/short equities, multi-asset, tax management, tail-risk management and inflation protection. Our investment strategies are managed by a team of investment professionals in a manner consistent with the Firm's systematic approach to investing.

Our approach is based on an application of the scientific method to validate hypotheses about the existence and profitability of various market opportunities. Our investment strategies generally incorporate, as one component of our investment process, the use of one or more investment models that reflect fundamental ideas that have been empirically tested. We focus the research process on factors that we believe have proven successful in different economic environments, and in such a way, we strive to build models that will facilitate the achievement of our investment objectives in varying markets. In our overall investment process, portfolio managers maintain ultimate discretion at all times regarding the implementation of trades generated by the Firm's models and may facilitate non-model driven actions within portfolios, when necessary, depending on market conditions.

First Quadrant serves as an investment adviser or sub-advisor to various institutional clients around the globe, including, but not limited to, corporations and business entities, pension and profit sharing plans, mutual funds, trusts, private (unregistered) funds, state or municipal government entities, joint ventures, other investment advisers, and foreign governments. Please see "Item 7 – Types of Clients" of this Brochure for more information with respect to First Quadrant's clients.

The Firm has been in business since 1988. First Quadrant currently has 68 employees working in the Firm's Pasadena, California office. As of December 31, 2019, First Quadrant had approximately \$16.166 billion in assets under management.

Principal Ownership

First Quadrant's institutional partner, Affiliated Managers Group, Inc. ("AMG"), is a publicly-traded asset management company (NYSE: AMG) with equity investments in boutique investment management firms. AMG holds a majority interest in First Quadrant through its holding companies, AMG CA Holdings Corp. and AMG CA Holdings, LLC. First Quadrant's senior management owns the remaining interest in First Quadrant.

AMG also holds equity interests in other investment management firms ("AMG Affiliates"). Further information on both AMG and the AMG Affiliates is provided in "Item 10 – Other Financial Industry Activities and Affiliations" of this Brochure.

Advisory Services

First Quadrant is in the business of providing discretionary investment management services to its clients, which includes, but is not limited to, managing institutional accounts, sub-advising mutual funds, sub-advising UCITS fund, and managing private unregistered funds. As one component of our investment management processes, First Quadrant has developed proprietary investment models to facilitate the Firm's management of its clients' investment accounts. The investment models and associated software, which were generally developed in-house by First Quadrant, are designed to identify opportunities within financial markets and generate asset purchase and sale recommendations that may ultimately be implemented by our Portfolio Managers. Some of our investment strategies may also engage in additional trading strategies, as described further below.

First Quadrant currently specializes in providing solutions in three categories: Diversifying Solutions; Enhancing Solutions; and Mitigating Capabilities. These strategies are described in more detail in “Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss” of this Brochure.

Clients of First Quadrant, prospective clients, and other investors may be also solicited by First Quadrant to invest in private funds managed by First Quadrant.

Please see additional information on these investments in “Item 5 – Fees and Compensation” of this Brochure.

In addition to the direct discretionary asset management services that First Quadrant provides to the Firm’s clients, the Firm also delivers non-discretionary asset management services through the licensing of First Quadrant’s proprietary investment signals to third parties. Through this type of arrangement, First Quadrant develops a series of portfolio and trade recommendations, and provides these recommendations to enable third-party trade execution. First Quadrant does not make the decision to execute these recommendations or perform the actual trade executions.

As an asset manager for institutional clients, First Quadrant recognizes that all of our clients are unique; therefore, their investment needs may be different. As such, we may modify our primary investment strategies, as necessary, to meet the goals that our clients specify, in an effort to accommodate the particular investment objectives and accompanying restrictions requested by our clients. At the commencement of the client relationship, each of our clients typically executes an investment management agreement, which sets forth the client’s investment objectives, investment strategy, and any investment restrictions, which will be applied to our management of the client’s assets. Prior to the execution of the agreement, we typically review requested objectives and restrictions and works with the client as needed to refine these objectives and restrictions to both meet the client’s needs and provide First Quadrant with sufficient discretion to properly invest the client’s assets.

Assets Under Management

As noted above, as of December 31, 2019, First Quadrant had approximately \$16,166,000,000 of client assets under management (“AUM”). Of this amount, \$15,931,000,000 is managed by First Quadrant on a discretionary basis, and \$234,000,000 is managed by First Quadrant on a non-discretionary basis using First Quadrant’s investment signals.

The AUM listed above includes the total market values for all fully funded accounts and clients’ specified target overlay exposure values of not fully funded portfolios, all of which are managed by First Quadrant. Non-discretionary AUM is based on portfolios managed and traded by a strategic partner using First Quadrant’s non-discretionary investment management services as described above. First Quadrant’s Regulatory Assets Under Management (“Regulatory AUM”) value set forth in the Firm’s Form ADV Part 1A is calculated in the same way.

Please see First Quadrant’s Form ADV Part 1A – Item 5 for more information.

Item 5 – Fees and Compensation

Standard Fee Schedule

First Quadrant is compensated for investment advisory services through payments of fees made by our clients. First Quadrant's standard fee schedule is included for separate account clients below. This standard fee schedule may be modified from time to time.

Separate Accounts Assets Managed (in Millions)

		Base Fee (risk based) ¹		Incentive Fee
Tactical Currency Allocation LS/Macro FX	Option 1	0.05% per 1.00% of target risk		20.00%
	Option 2	0.09 % per 1.00% of target risk		NA
Global Tactical Asset Allocation LS		0.06% per 1.00% of target risk		20.00%
Commodities LS		0.08% per 1.00% of target risk		20.00%
		Base Fee (flat)		Incentive Fee
Global Diversified Macro		1.00%		20.00%
Global Equity Market Neutral		0.80%		15.00%
Global Equity Long/Short		0.80%		15.00%
	\$0-\$100	\$100-\$300	Over \$300	Over \$350
Balanced Risk Commodities	0.50%	0.30%	0.30%	0.15%
Essential Beta (10% Risk)	0.40%	0.35%	0.35%	0.20%
Essential Beta (12% Risk)	0.48%	0.42%	0.42%	0.24%
Essential Beta (15% Risk)	0.60%	0.525%	0.525%	0.30%
Protected Equity Plus	OPTION1			
	0.40%	0.40%	0.35%	0.35%
	OPTION 2			
	0.10% flat fee + 20% incentive fee			
US Tax-Advantaged Equity	0.50%	0.40%	0.30%	0.30%
Global Tax-Advantaged Equity	0.55%	0.45%	0.35%	0.35%

Minimum separate account size - \$25 million. Minimum fund account investment - \$5million.¹

¹ Minimum account size for risk-based strategies is risk level dependent. Minimum annual management fee is generally \$200,000.

Notwithstanding this fee schedule, and subject to applicable laws and regulations, First Quadrant retains discretion over the fees that it charges to the Firm's clients, as well as any changes in our fee schedules. Fees may be negotiated in First Quadrant's sole discretion in light of a client's special circumstances, such as asset levels, service requirements, or other factors. In some cases, First Quadrant may agree to offer clients a fee schedule that is lower than that of any other comparable clients in the same investment style. In addition, there may be historical fee schedules with longstanding clients that differ from those applicable to new client relationships. For comparable services, other investment advisers may charge higher or lower fees than those charged by First Quadrant. Advisory fees may be subject to a specified annual minimum; however, First Quadrant reserves the right to waive all or a portion of the Firm's management fee and negotiate minimum annual fees.

Fees for advisory services are generally billed either monthly or quarterly, in arrears, and are prorated to the date of termination if the client relationship is terminated. First Quadrant does not directly deduct fees from client accounts. Fees for accounts established in the middle of a fee billing period are prorated from the execution date of the investment advisory agreement to cover only the period of time the assets were under management.

The fees charged to clients generally are computed as a percentage of the value of the assets under management. To calculate advisory fees, First Quadrant generally relies on prices provided by third-party pricing services, custodians, and/or broker/dealers or platform sponsors for purposes of valuing portfolio securities held in client accounts. First Quadrant may, on occasion, be required to "fair value price" a security when a market price for that security is not readily available or when First Quadrant has reasons to believe that the market price is unreliable. When "fair value pricing" a security, First Quadrant will use various sources of information at the Firm's disposal to determine a fair price that the security would obtain in the marketplace if, in fact, a market for the security existed.

For any fair value securities, First Quadrant maintains policies and procedures relating to the pricing process, in an effort to mitigate any conflicts of interest with respect to valuation. Specifically, where a pricing service is unable to provide a price for a security which is not an over-the-counter ("OTC") instrument, the Firm's Accounting department will typically request a price from the applicable custodian holding the security, or request First Quadrant's Trading department to refer the Accounting department to an external third party (e.g., broker) or system which may be able to provide a fair value. With respect to an OTC instrument, daily pricing will generally be obtained from the broker or counterparty that executed the trade.

Please see Item 6 for further information regarding performance fees (or incentive fees) for certain products, which are available, subject to applicable law, and are negotiable.

Fees for Specialized Accounts and Advisory Services

Private Pooled Investment Vehicles Sponsored by First Quadrant

First Quadrant sponsors various privately-offered pooled investment vehicles. These entities are neither registered under the Securities Act of 1933, nor registered under the Investment Company Act of 1940. Accordingly, interests in these funds are offered exclusively to investors satisfying the applicable eligibility and suitability requirements either in private placement transactions within the United States or in offshore transactions. Certain qualified clients and prospective clients may be solicited by First Quadrant to invest in these private funds. However, no offer to sell these funds is made by the descriptions in this Brochure, and as noted, these funds are available only to investors that are properly qualified.

The typical fee schedule for these funds is an annual management fee ranging from approximately 0.15% to 1.5% of client assets under management and, depending upon the investment strategy, may include a 20% performance fee on all net profits allocated to each investor on a quarterly or annual basis. Such performance fees may be subject to a "high water mark" or loss carry forward provisions. However, depending on the characteristics of the sponsored fund, fees may be higher or lower than the stated range. Fees earned by First Quadrant for each fund vary from fund to fund. First Quadrant reserves the right to waive some or all fees for certain investors in the funds, including for investors who are affiliated with First Quadrant. Fees for such services and other terms are generally set forth in the offering memorandum or other relevant document. The terms set forth in these

documents, such as management and incentive fees (as described above), withdrawal and redemption conditions, and information rights, may be negotiable and varied under side letters depending on the size of the proposed investment, type of investor, and special legal requirements applicable to the prospective investor.

These funds will bear the expenses of administering their own business, including, without limitation, commissions on trades executed by First Quadrant and other related expenses, auditing and accounting fees and expenses, ongoing legal and bookkeeping expenses, administration fees, custodial fees, governmental fees, including regulatory filing fees and expenses, and the expenses of offering and selling shares. In some instances, First Quadrant may cap certain fund expenses (excluding fees such as management fees, performance fees, and trading costs) at a specified level. Fees charged to subscribers of private pooled investment vehicles are deducted directly from each respective subscriber's accounts by the administrator.

Sub-advisory Arrangements

First Quadrant has been engaged by certain investment advisers (including advisers to registered investment companies) to manage certain portfolios of such advisers. In the Firm's capacity as "sub-advisor" to such accounts, First Quadrant's fees and services are determined by contract with the adviser. Information concerning these sub-advised funds, including a description of the services provided and advisory fees, is generally contained in each fund's prospectus, which can be found at each fund's web site. Other fees payable as an investor in a sub-advised fund or other account are described below, and also in the fund's prospectus or the adviser's fee brochure or client investment management agreement.

Non-Discretionary Programs / Licensing Agreements

As discussed in "Item 4 – Advisory Business" of this Brochure, the Firm delivers non-discretionary asset management services for a fee through the licensing of First Quadrant's proprietary investment signals.

Please see "Item 4 – Advisory Business" for additional information.

Additional Fees and Expenses Payable by Clients

First Quadrant's fees are exclusive of brokerage commissions, transaction fees, service provider fees, and other related costs and expenses which will be incurred by the client. Execution of client transactions typically requires payment of brokerage commissions by clients. "Item 12 – Brokerage Practices" further describes the factors that First Quadrant considers in selecting or recommending broker/dealers for the execution of transactions and determining the reasonableness of their compensation (*e.g.*, commissions). Investment activity may also involve other transaction fees payable by clients, such as sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. In addition, clients may incur certain charges imposed by custodians, broker/dealers, third-party investment consultants, and other third parties, such as custodial fees, consulting fees, administrative fees, and transfer agency fees.

Fees for Investment of Client Assets in Third-Party Exchange-Traded Funds and Custodian Short-Term Investment Funds

At times, First Quadrant may invest clients' assets in third-party exchange-traded funds ("ETFs"), or excess cash held in client accounts may be temporarily invested by the accounts' custodians in the custodians' short-term investment funds ("STIFs"). To the extent that a client's assets are invested in these funds, the client will also typically pay management and/or other fees to these funds that are in addition to the fees paid by the client to First Quadrant. Those fees are described in each respective fund's prospectus. Such charges, fees, and commissions are exclusive of, and typically in addition to, First Quadrant's fee.

Fees charged by ETFs and STIFs generally include two types: shareholder fees and annual fund operating expenses. Shareholder fees may include:

- Redemption fees (fees paid to the fund upon the sale of shares, which generally do not apply to ETFs);
- Exchange fees (fees charged for transferring to another fund within the same fund group); and
- Account fees (account maintenance fees).

Annual fund operating fees may include:

- Management fees (fees paid to an adviser or its affiliates for managing the fund);
- Distribution and/or service fees (fees for distribution expenses, and sometimes shareholder service expenses); and
- Other expenses (miscellaneous expenses, such as custodial expenses, legal expenses, accounting expenses, transfer agent expenses, and other administrative expenses).

Clients whose assets are invested in ETFs and/or STIFs may pay some or all of the above fees. Clients should review the prospectus of any fund in which their assets are invested in order to understand the fees that may be applicable to their particular investment.

Fees for the Sale of Securities

Neither First Quadrant nor our employees receive, directly or indirectly, any transaction-based compensation from the sale of securities or investments that are purchased or sold for your account. First Quadrant is only compensated through the stated management fee agreed upon in the investment advisory agreement. Accordingly, First Quadrant believes that it does not have any conflicts of interest regarding the receipt of the compensation relating to the client assets that we manage.

Item 6 – Performance-Based Fees and Side-by-Side Management

Side-by-Side Management

Our investment professionals simultaneously manage multiple types of portfolios (including institutional separate accounts, sub-advised mutual funds, hedge funds, and UCITS funds) according to the same or a similar investment strategy (i.e., side-by-side management). As described in Item 11, these portfolios may include proprietary accounts in which First Quadrant or the Firm's partners have an interest. The simultaneous management of these different investment products creates certain conflicts of interest, as the fees for the management of certain types of products are higher than others. When managing the assets of such accounts, First Quadrant has an affirmative duty to treat all such accounts fairly and equitably over time and maintain a series of controls in furtherance of this goal.

Nonetheless, each account within a strategy will not necessarily be managed the same at all times, and there is no requirement that First Quadrant use the same investment practices consistently across all accounts. In general, investment decisions for each client account will be made independently from those of other client accounts, and will be made with specific reference to the individual needs and objectives of each client account. Different client guidelines and/or differences within particular investment strategies may lead to the use of different investment practices for accounts within a similar investment strategy. First Quadrant will not necessarily purchase or sell the same securities at the same time or in the same proportionate amounts for all eligible accounts, particularly if different accounts have materially different amounts of capital under management by First Quadrant or different amounts of investable cash available. As a result, although First Quadrant manages numerous accounts with similar or identical investment objectives, or may manage accounts with different objectives that trade in the same securities, the portfolio decisions relating to these accounts, and the performance resulting from such decisions, may differ from account to account.

Since side-by-side management of various types of accounts raises the possibility of favorable or preferential treatment of an account or a group of accounts, First Quadrant has implemented a series of controls to further the Firm's efforts to treat all accounts fairly and equitably over time. Under the Firm's Trade Allocation Policies and Procedures, pre-trade allocations are normally determined prior to bunched orders being entered for execution. All eligible accounts will generally receive an average share/contract price, pay transaction costs pro rata, and receive pro rata allocation in the event of partial executions in accordance with objective trade allocation algorithms. However, there may be exceptions to these rules as certain specific circumstances may prevent First

Quadrant from allocating transactions strictly pro rata (e.g., the allocation would violate client investment guidelines). In addition, as described further in “Item 12 – Brokerage Practices” of this Brochure, First Quadrant will seek best execution for the Firm’s clients without regard to type of account.

In addition, First Quadrant’s systematic trading recommendation process supports the Firm’s efforts to treat all accounts fairly and equitably over time. Generally, trade recommendations and proposed trade allocations (with limited exceptions such as certain options and futures trades) are generated by First Quadrant’s in-house proprietary portfolio management systems (These systems utilize algorithms that are created to perform systematic analyses of sets of investment factors, and generate trade recommendations based on these analyses for Portfolio Manager consideration, which then may be implemented for applicable client accounts.) With certain limited exceptions (i.e., certain options and futures trades), traders are generally only authorized to execute trades based on authorized trade orders from the Portfolio Implementation group, which typically bases its recommendations on those recommendations generated by the respective asset class portfolio management systems and considered by the Portfolio Manager. Moreover, only authorized personnel can execute trades in the Firm’s trade order management systems. In some limited circumstances for particular strategies, trade orders may flow directly from the portfolio management systems to a trade execution system. In all cases, First Quadrant’s portfolio managers retain ultimate authority over whether to place trades, which trades are to be executed, and the timing of any such trade orders.

Following trade execution, the Firm takes steps to determine that trades have been allocated properly. Compliance typically performs a quarterly review of allocations of futures and options on futures trades, as well as a review of allocations of currency and equities trades on a periodic basis to ascertain that the allocation of trades are fair and equitable and that there are no patterns of favoritism of one or more accounts over others. In addition, the Firm’s Risk Office reviews risk dispersion to identify relevant risk discrepancies among accounts within the same strategies.

Please also see “Item 11 – Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading” for a discussion of allocation practices involving investments in which the Firm has an interest, and the “Trade Aggregation” sub-section of “Item 12 – Brokerage Practices” for a discussion of the Firm’s policy and practices with respect to pro rata allocation.

Performance-Based Fees

For some accounts, First Quadrant receives performance-based fees (or incentive fees) for our investment management services. A performance-based fee is a fee representing an asset manager’s compensation for managing an account which is based upon a percentage of the net profits of the account being managed. When calculating net profits, performance-based fees may be based on absolute or benchmark relative returns. For accounts managed in accordance with certain investment strategies, a performance-based fee represents our standard fee arrangement. However, in certain other instances, we may negotiate performance-based fees with specific clients. In any event, we may have both performance-based fee accounts and asset-based fee accounts within a particular investment strategy.

Performance-based fees create certain inherent conflicts of interest with respect to First Quadrant’s management of assets. Specifically, our entitlement to a performance-based fee in managing one or more accounts may create an incentive for us to take risks in managing assets that we would not otherwise take in the absence of such arrangements. Additionally, since performance-based fees reward us for strong performance in accounts which are subject to such fees, we may have an incentive to favour these accounts over those that have only asset-based fees (i.e., fees based simply on the amount of assets under management in an account) with respect to areas such as trading opportunities, trade allocation, and allocation of new investment opportunities.

To maintain fair and equitable treatment of accounts over time, First Quadrant has implemented a series of controls to further the Firm’s efforts to treat accounts fairly, regardless of their corresponding fee-structure. Those controls are discussed above in the “Side-by-Side Management” sub-section of this Item 6.

In addition, First Quadrant has implemented a series of processes and procedures in furtherance of the Firm's efforts to determine that performance figures (including any performance fees based on these performance figures) are accurately calculated. Typically, account performance is monitored by the Investment team through the receipt of regular performance reporting. Performance calculations are also reviewed by the Accounting department. The development of such calculations, as well as performance composite construction, are separated from the Investment and Trading functions. In addition, the Accounting department typically performs quarterly reviews of performance dispersion among accounts at the composite level.

Item 7 – Types of Clients

Types of Clients

As stated in "Item 4 – Advisory Business" of this Brochure, First Quadrant serves as investment adviser or sub-advisor to various institutional clients around the globe, including, but not limited to, corporations and business entities, pension and profit sharing plans, mutual funds, trusts, private (unregistered) funds, state or municipal government entities, assets managed by First Quadrant's strategic partner using First Quadrant's investment signals, and other investment advisers.

In addition to the direct discretionary asset management services that First Quadrant provides to our clients, the Firm also delivers non-discretionary asset management services through the licensing of First Quadrant's proprietary investment signals.

Please see "Item 4 – Advisory Business" of this Brochure for additional information.

Conditions for Managing Accounts

As a general rule, First Quadrant requires a minimum account size of \$25 million for institutional separate accounts and \$5 million for investments in private funds managed by First Quadrant. However, the minimum account size is negotiable and may be waived or modified at First Quadrant's discretion. In those circumstances where First Quadrant is an adviser or sub-advisor to other funds, the account minimums are generally determined by the relevant fund or by the fund sponsor, and may be waived or modified in First Quadrant's or the sponsor's discretion. Generally, First Quadrant requires each client to execute an investment management agreement that details the nature of the discretionary investment advisory authority given to First Quadrant.

Please see "Item 5 – Fees and Compensation" of this Brochure for a full discussion of fee arrangements.

Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss

Introduction

As discussed in "Item 4 – Advisory Business" of this Brochure, First Quadrant specializes in providing solutions in three primary categories: Diversifying Strategies; Return-seeking Strategies; and Risk-mitigating Strategies. We generally offer investment management strategies in the following areas: macro, currency, commodities, equity market neutral, long/short equities, multi-asset, tax management, tail-risk management and inflation protection. As further described below, each of our investment strategies is managed by a team of investment professionals in a manner consistent with our approach to investing.

Methods of Analysis

As described in Item 4, First Quadrant provides discretionary investment management services to the Firm's clients by generally utilizing, as one component of our investment management process, proprietary investment models to facilitate the management of clients' investment accounts. As described previously, the models and associated software are generally developed internally by First Quadrant. First Quadrant employs a centralized team-based approach to the traditional functions of investment research, portfolio management, and implementation.

First Quadrant's security analysis and overall investment management process is both fundamental and systematic. We are "systematic" in that our investment management process is generally model-driven and systematically implemented under the oversight of our portfolio management team, a process that we believe provides both transparency and risk management. We rely on our fundamental insights into markets and economies as the source of our ideas. The proprietary models we build are the systematic expression of those fundamental ideas. We also look for circumstances in which our models might be more or less effective and will, as necessary, take further actions when such circumstances exist. Such circumstances may include those where we believe there is exogenous influence on the behavior of asset prices or risk in the financial markets not captured by the models. In our overall investment process, portfolio managers maintain ultimate discretion at all times regarding the implementation of trades generated by the Firm's models and programs and may facilitate non-model driven actions within portfolios, when necessary, depending on market conditions.

Accordingly, the Investment team uses fundamental insights and systematic tools to analyze market opportunities. Research generally begins with the formation of a hypothesis that is then examined by our portfolio management team. Thereafter, hypotheses that are accepted by the team are typically systematized via a model. This model is then tested and analyzed by the team. The resulting model, if incorporated into our investment management processes, works in concert with any existing models to generate trade signals that then serve as the building blocks for our portfolio managers' determinations with respect to portfolio construction and risk management for our client accounts.

The portfolio management function typically focuses on systematically constructing accounts based on First Quadrant's investment recommendations. The goal is for accounts to be managed according to each client's pre-established parameters and the investment strategy's stipulated guidelines. Portfolio construction decisions generally incorporate, as one component of our investment process, input from our proprietary portfolio management software. Nonetheless, our portfolio management team may also recommend actions which deviate from the models if they believe such actions are appropriate under the circumstances. We believe this process facilitates the systematic implementation of the Firm's investment strategies.

The Portfolio Implementation and Trading teams generally work in conjunction with the Investment team. The objectives of these teams are to preserve asset value and to generate investment performance for our client accounts. The Trading team focuses on seeking best execution analyzing transaction costs, and identifying ways to improve trading implementation.

As an investment management firm, trading is an important part of our investment management function. We monitor both commission rates and market impact costs in the markets in which we trade. Commission rates are reviewed periodically in each market and with counterparties. Our objective is to maintain low overall commission costs without compromising broker efficiency. Market impact costs are also reviewed in order to analyze each market for liquidity, cost, and depth. This analysis is typically done across market environments. We generally trade in markets that we believe exhibit a consistent level of market depth, liquidity, and cost.

First Quadrant also has a Risk Office responsible for monitoring risk independently from the Investment team. The Risk Office utilizes proprietary systems as well as third-party risk management software to calculate and monitor a number of risk measures with respect to our portfolio holdings. While there can be no assurance that these activities will reduce the risks associated with our investment strategies, we believe that these internal controls facilitate the implementation of our investment strategies in various market conditions.

Information Sources

First Quadrant's research is generally performed by the Firm's Investment team. Investment ideas are generated from multiple sources, including, but not limited to:

- Internal research, based on experience, individual ideas, science, and markets;
- Proprietary information provided by third parties; and
- Various publications, including, but not limited to, market and industry literature, investment journals, and white papers.

First Quadrant receives economic and security-specific data from various sources, which are maintained and validated internally by First Quadrant.

Current Investment Strategies

As noted above, First Quadrant's strategies can be divided into three overall solution categories: Diversifying; Enhancing; and Mitigating.

Diversifying

First Quadrant's Diversifying Strategies invest in various liquid markets within and across asset classes, utilizing various instruments, including derivatives. Derivatives exposures may consist of exchange-traded futures on equity, commodity indices, sovereign debt and commodities, exchange-traded options on global equity indices, index futures and index exchange-traded funds, exchange-traded options on sovereign debt futures, over-the-counter currency forwards, over-the-counter currency options, equity and bond index swaps and exchange-traded funds. Derivatives usage may expand over time into new derivatives instruments.

These solutions are typically long-short and are designed to provide positive returns while being lowly correlated to traditional return streams regardless of market direction. They include the following sub-strategies:

- Global Macro
- Equity Market Neutral
- Global Tactical Asset Allocation
- Macro FX
- Commodities Long/Short

Enhancing

First Quadrant's Enhancing Strategies invest domestically and globally in both derivatives and physical securities and aim to capture the anticipated returns from global growth, but with less downside risk and a more consistent return profile. These strategies are implemented using a fundamentally-based systematic approach, while remaining adaptive for unforeseen market events. They are designed to profit from the cyclical nature of investment styles, industries, and individual assets, and use macro-economic and market information to tactically shift the accounts' exposures according to market cycles.

The Enhancing solutions are generally long-biased and designed to deliver attractive risk-adjusted returns, while allowing some correlation to traditional portfolios. They include the following sub-strategies:

- Long-short equities
- Protected equity plus
- Balanced-risk commodities
- Multi-asset

Within the equity strategies, we seek to purchase stocks that we believe to be undervalued or likely to appreciate in value. In particular, within the long-short equity strategy, we seek to both buy long equities that we expect to increase in value and sell short equities that we expect to decrease in value. (Selling short equities involves selling

equities which we do not actually own, but which we will borrow and then look to cover by buying back the sold securities at a lower price in the future, thus earning a profit.)

Mitigating

First Quadrant's Mitigating Strategies utilize various tools and instruments which are designed to reduce various unwanted liabilities and risks in the investor's portfolio, while simultaneously targeting value-added capital appreciation. Whether it involves risks in the form of unintended currency exposures, risks in the form of rapid market declines, or risks arising from economic factors, such as inflationary pressures, First Quadrant's mitigating solutions are designed to help clients understand and minimize the impact. They include the following solutions:

- Currency management
- Tail-Risk management
- Inflation protection
- Tax-managed equities

Certain Risk Considerations

The investment strategies utilized by First Quadrant carry different levels of risk. In each strategy, all securities include a risk of loss of principal and any profits that have not been realized. The stock markets, bond markets, and derivatives markets fluctuate substantially over time and, as recent global and domestic economic events have indicated, performance of any investment is not guaranteed. As a result, there is a risk of loss of the assets the Firm manages on your behalf, and such a loss may be out of the Firm's control. First Quadrant cannot guarantee any level of performance and cannot guarantee that your account will not experience a loss in value.

First Quadrant's accounts may also be subject to the following risks:

- **Foreign Investment Risk**—securities or other investments of foreign issuers involve additional risks (such as risks arising from less frequent trading, changes in political or social conditions, and less publicly available information about non-U.S. issuers) that differ from those associated with investing in securities of U.S. issuers and may result in greater price volatility.
- **Leverage Risk**—use of leverage, including borrowing and some derivative instruments such as futures, can magnify relatively small market movements into relatively larger losses for an account.
- **Liquidity Risk**—particular investments may be difficult to sell at the best price or at any price.
- **Market Risk**—market prices of securities held may fall rapidly or unpredictably due to a variety of factors, including changing economic, political, market conditions or force majeure events (i.e. events beyond the control of the party claiming that the event has occurred, including, without limitation, acts of God, fire, flood, earthquakes, outbreaks of infectious disease, pandemic or any other serious public health concern, war, terrorism, etc.).
- **Model risk**—our proprietary investment models may produce unintended signals or results which may adversely impact our ability to implement our investment strategy. Please see additional information below under the "Risk Mitigation" section of this Item 8.
- **Political Risk**—changes in the political status of any country can have profound effects on the value of investments exposed to that country.
- **Asset Allocation Risk**—the Fund's investments may not be allocated in the best performing asset classes or markets.
- **Derivatives Risk**—complexity and rapidly changing structure of the derivatives market may increase the possibility of market losses.
- **Commodity Risk**—exposure to the commodities markets may be more volatile than investments in traditional equity securities and is typically achieved through derivative instruments. The value of commodity-linked derivative instruments may be affected by broad market movements, commodity index volatility, interest-rate changes or events affecting a particular commodity or industry.
- **Credit and Counterparty Risk**—issuers of bonds or other debt securities or counterparties to derivatives contracts may not be able to meet interest, principal, or settlement payments or otherwise honor their obligations.

- **Currency Risk**—investments in currencies, currency futures contracts, forward currency exchange contracts or similar instruments, as well as securities that are denominated in foreign currency, are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Currency valuations can fluctuate significantly over short periods of time due to factors such as changes in interest rates, government intervention (e.g., devaluation of a currency by a country's government or central banking authority) and other geopolitical issues.
- **Exchange-Traded Fund Risk**— in less efficient markets, it may be difficult to match an ETF seller with a buyer. In addition, tracking error, management expenses, and the liquidity of the market which the ETF targets can lead to returns that do not meet those of the market. Because ETFs incur their own costs, investing in them could result in a higher cost to the investor.
- **Hedging Risk**—the practice of hedging involves betting against an initial investment; therefore, any profit from the initial investment may be offset by the loss suffered by the derivative. In addition, due to the rapid movement of prices, a loss suffered by the hedging derivative may outweigh gains from the underlying security.
- **Inflation Risk**—the price of an asset, or the income generated by an asset, may not keep up with the cost of living.
- **Interest Rate Risk**—fixed-coupon payments (cash flows) of debt securities may become less competitive with the market in periods of rising interest rates and cause debt security prices to decline.
- **Prepayment Risk**—many bonds and debt securities have call provisions that may result in debtors paying back the debt prior to maturity during periods of decreasing interest rates.
- **Reinvestment Risk**—investors may have difficulty reinvesting payments from debtors and may receive lower rates than from their original investments.
- **U.S. Government Securities Risk**—obligations of certain government agencies are not backed by the full faith and credit of the U.S. government. If one of these agencies defaults on a loan, there is no guarantee that the U.S. government will provide financial support.
- **Small- and Mid-Capitalization Stock Risk**—the stocks of small and mid-capitalization companies often have greater price volatility, lower trading volume, and less liquidity than larger, more established companies.
- **Growth Stock Risk**—growth stocks may be more sensitive to market movements because their prices tend to reflect future investor expectations rather than just current profits.
- **Large Capitalization Stock Risk**—large-capitalization companies are generally more mature and may not reach the same levels of growth as small- or mid-capitalization companies.
- **Short Sale Risk**—the sale of a security that is borrowed may subject an account to potentially unlimited losses if the stock rises in value.
- **Cybersecurity Risk** – With the increased use of technologies to conduct business, First Quadrant is susceptible to operational, information security and related risks. In general, cyber incidents can result from deliberate attacks or unintentional events. Cyber-attacks include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets of sensitive information, corrupting data, or causing operational disruption. Cyber incidents impacting First Quadrant have the ability to cause disruptions and impact business operations, potentially resulting in the inability to transact business, financial losses, violations of applicable privacy and other laws, regulatory fines, penalties or reputational damage. While First Quadrant has established a business continuity plan and risk management systems intended to identify and mitigate cyber-attacks, there are inherent limitations in such plans and systems including the possibility that certain risks have not been identified. Furthermore, First Quadrant cannot control the cybersecurity plans and systems put in place by third party service providers and issuers in which client portfolios invest. Clients could be negatively impacted as a result.

Risk Mitigation

First Quadrant has a multi-tiered approach to risk management and monitoring. While the goal of this approach is to identify and mitigate risks proactively, there can be no guarantee that the techniques will be successful.

1. **Model Risk — Investments:** As discussed above, our proprietary investment models generate trade recommendations for consideration by our Portfolio Managers. These models are designed to help manage risk, and seek to limit risks to instances where it may be rewarded.

While First Quadrant maintains a series of controls with respect to the design and implementation of the Firm's investment models, these models, as systematized functions which use external data, may not operate as intended, and accordingly, may produce unintended signals or results which may adversely impact our ability to implement our investment strategy. These models can be extremely complex and may contain an error. Additionally, the investment models rely on research, data and other inputs from various sources, any of which may be inaccurate or flawed. Any such error, inaccuracy or flaw would generally not be considered a trade error and, therefore, would not be subject to First Quadrant's Trade Error Policy.

Models are primarily based on fundamental financial theories. Accordingly, there can be no guarantee that the models will identify investment opportunities that will be profitable, or that the models will generate investment recommendations or other signals that are ultimately beneficial to the Firm's management of client accounts. First Quadrant continues to review and assess the investment models in order to identify potential improvements as part of the Firm's ongoing research effort.

Once trades are implemented and entered into the portfolio management system, each portfolio is typically reconciled. Our Trade Operations team generally reconciles trades and positions with a third-party trade affirmation platform, our portfolio management system, and our trade capture system after each trading day.

2. **Guideline Risk — Proprietary Investment Management Systems:** Our proprietary investment and risk management systems store and manage certain specific portfolio information, including client constraints (e.g., individual asset limits, regional limits, gross leverage limits), client benchmark settings, and aggressiveness/risk settings which allow us to monitor portfolio compliance. Our systems also store and maintain asset attractiveness (i.e. signal) information. This information is generally updated daily, and has the capacity to be updated with more frequency. As described previously, an important component of these systems is the optimizer, which generates new trade recommendations for each portfolio. During the process of generating trade signals, the optimizer takes into account each portfolio's mandated constraints and produces trade recommendations for each portfolio. Although the generation of trade recommendations is typically automated, trades are subject to our portfolio managers' discretion before execution. While we typically rely on our proprietary management systems to determine that portfolios are within mandated guidelines, we generally review trades prior to implementation in an effort to ensure compliance.

The Firm also maintains controls over the set-up of new portfolios and changes to existing portfolios, including protocols for changes to guidelines.

3. **Independent Review and Analytics — Risk Office:** The Risk Office provides an independent oversight of risk models and data sources. The Risk Office reports to First Quadrant's Executive Team. The Risk Office utilizes third-party risk management software to calculate a number of risk measures. The following risk measures are monitored generally on a daily basis: ex-ante tracking error, Value at Risk ("VaR") at identified confidence levels, and tail risk measures such as expected shortfall (average tail) at identified confidence levels. In addition to these portfolio level risk measures, the Risk Office monitors risk decomposition, e.g., by strategy, risk factors, country, sector, and industry where appropriate. The risk analysis also includes portfolio sensitivity measures, stress tests, and tests of the normalcy of the risk distribution. The analysis uses multiple risk models to test for model risk. In addition to the third-party risk software, the Risk Office has developed internal systems to review "non-parametric" risks (e.g., tail risk), as well as to provide an independent measure of more parametric risks (e.g., tracking error).

First Quadrant also has a Risk Committee which generally meets on a monthly basis to review investment, operational, regulatory, and process risks across the Firm. The groups/individuals which comprise the Risk Committee include Compliance, Accounting, Trade Operations, Trading, Investments, Client Service, the Managing Partner, and the Risk Office. Any issues or concerns raised are assigned to a member of the committee, who then manages resolution of the issue and reports back to the committee.

A Counterparty Committee is also responsible for monitoring, analyzing, and approving counterparties. The creditworthiness and operational capability of brokers are analyzed prior to their addition to an approved broker list and are reviewed thereafter on, typically, an annual basis.

Item 9 – Disciplinary Information

In March 2013, the National Futures Association (“NFA”), which regulates First Quadrant’s futures and options trading, brought an action against a former First Quadrant employee and First Quadrant in connection with its review of First Quadrant’s introducing broker and clearing arrangements and the actions of a former employee during the 2004-2008 timeframe. The NFA charged that the former employee violated the NFA code by using unregistered individuals in connection with marketing activity, and concealing that activity from First Quadrant. As part of the NFA’s action, it found that First Quadrant failed to supervise the employee by failing to detect the employee’s actions. In conjunction with the settlement of these matters, the former employee agreed to pay a fine of \$500,000, and First Quadrant agreed to pay a fine of \$250,000.

No new clients were derived from the alleged arrangements, and no First Quadrant clients were adversely affected by these matters. A related investigation by the CFTC was closed without any findings relating to First Quadrant. First Quadrant has taken steps to strengthen our compliance monitoring processes and internal controls over the Firm’s business, and First Quadrant is confident that these enhancements and the controls currently in place at the Firm will continue to serve First Quadrant’s clients’ best interests.

Item 10 – Other Financial Industry Activities and Affiliations

Affiliations

As noted in “Item 4 – Advisory Business” of this brochure, AMG holds an equity interest in First Quadrant through various holding entities. AMG also holds equity interests in certain other investment advisers (“AMG Affiliates”). AMG does not have any role in the day-to-day management of First Quadrant. Each of the AMG Affiliates, including First Quadrant, operates autonomously and independently of AMG and of each other. Except as described in this Brochure, First Quadrant does not have any business dealings with these AMG Affiliates and does not conduct any joint operations with them. First Quadrant carries out the Firm’s asset management activity, including the exercise of investment discretion and voting rights independent of the AMG Affiliates. The AMG Affiliates do not formulate advice for First Quadrant’s clients and do not, in First Quadrant’s view, present any potential conflict of interest with First Quadrant’s clients. More information regarding AMG, including its public filings and a list of all AMG Affiliates, is available at www.amg.com.

First Quadrant has mutual fund sub-advisory agreements with AMG Funds, LLC (“AMGF”), a wholly-owned subsidiary of AMG, under which First Quadrant serves as sub-advisor to mutual funds in the AMGF family of mutual funds, which are sponsored and advised by AMGF. As described in each fund’s prospectus, the funds pay AMGF advisory fees, and AMGF pays First Quadrant sub-advisory fees with respect to the funds. In addition, certain of First Quadrant’s employees are registered representatives of AMG Distributors, Inc. (“AMGDI”), a limited purpose broker/dealer, that is a wholly-owned subsidiary of AMGF and also the underwriter of the AMGF family of funds and placement agent for certain AMG Affiliate private funds.

First Quadrant has a servicing agreement with AMGF under which AMGF provides marketing services to support First Quadrant's provision of advisory services to or through various unaffiliated third-party investment programs. First Quadrant would pay AMGF a fee for the services provided by AMGF under these servicing arrangements.

First Quadrant has a marketing agreement with AMGF under which AMGF markets First Quadrant's investment management services to unaffiliated third-party intermediaries that sponsor sub-advised mutual funds and/or other platforms, such as defined contribution retirement plan platforms. First Quadrant pays AMGF a fee for these services.

First Quadrant is party to client service/marketing agreements with subsidiaries of AMG under which the AMG subsidiaries introduce First Quadrant's investment management services to prospective institutional clients and/or provide institutional client services to certain of the Firm's clients in various foreign jurisdictions. First Quadrant pays the AMG subsidiaries a fee for these services. The AMG subsidiaries are not broker-dealers, investment advisers, or any of the other financial institutions described in Item 7.A. of Form ADV Part 1A. Depending on the foreign jurisdiction, the AMG subsidiaries may be registered or exempt from registration, as appropriate, with the relevant foreign financial regulatory authorities.

Other Financial Activities

First Quadrant is registered as a commodity pool operator and a commodity trading advisor with the Commodity Futures Trading Commission and the National Futures Association.

Item 11 – Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading

First Quadrant has established various internal controls and procedures designed to address potential conflicts of interests arising between client accounts, First Quadrant, and our personnel.

Code of Ethics

As a registered investment adviser, First Quadrant has a fiduciary duty to the Firm's clients, and accordingly has adopted a Code of Ethics (the "Code") that applies to all employees. The Code describes the standard of conduct First Quadrant requires of our employees and sets forth restrictions on certain activities, including personal trading in accounts owned, managed or beneficially owned by the employees. The Code's provisions also include requirements relating to areas such as ethics, compliance with federal securities laws, gifts and business entertainment, confidentiality of information, insider trading, and the provision and solicitation of political and charitable contributions. By setting forth the regulatory and ethical standards to which First Quadrant's employees must adhere, the Code supports the Firm's efforts to promote a high level of professional ethical conduct in furtherance of our fiduciary duty to clients.

Personal Trading

Among other things, the Code limits and monitors the personal trading activity of our employees, including certain members of our employees' households. These limitations seek to further First Quadrant's efforts to prevent employees from personally benefiting from First Quadrant's investment decisions for the Firm's clients and/or any short-term market effects of First Quadrant's recommendations to clients. Specifically, the Code requires employees and certain members of their households to "pre-clear" their personal securities transactions with the Firm's Compliance Department prior to execution, with some limited exceptions. Other than those securities specifically exempted, the Code also prohibits such persons from trading in securities during specific periods of time when they are on a list of those being considered for purchase or sale by the Firm for our clients' accounts (i.e., "blackout periods"). Limitations also exist for such persons on participation in initial public offerings and private securities offerings. All employees must provide First Quadrant with a listing of their securities holdings annually, as well as duplicate copies of monthly or quarterly statements and/or transaction reports with respect

to their brokerage accounts. These restrictions and requirements of the Code apply to all accounts over which employees have investment discretion, or in which they have a direct or indirect beneficial ownership interest.

Participation or Interest in Client Transactions

Certain principals of First Quadrant and certain employees invest their own or the Firm's assets in accounts managed by First Quadrant. These accounts may hold, purchase, or sell the same securities in which clients have interests. For example, First Quadrant is general partner and investment adviser for certain unregistered funds which are exclusive to certain First Quadrant principals/employees. These funds are used to incubate new strategies. First Quadrant may also allow a Firm principal and certain employees to invest in certain registered and unregistered funds managed by First Quadrant. We may have an incentive to favor accounts in which our employees invest with respect to trading opportunities, trade allocation, and allocation of investment opportunities. To address these potential conflicts of interest, First Quadrant has implemented a series of controls in furtherance of the Firm's goal to treat all accounts in a fair and equal manner over time.

Please see the "Side-by-Side Management" sub-section of "Item 6 – Performance-Based Fees and Side-by-Side Management" for a description of these controls.

From time to time, due to the nature of our clientele, First Quadrant may trade in securities issued by our clients. In such instances, First Quadrant will do so in what it believes to be the best interest of the Firm's clients who are trading in such securities. First Quadrant will not, under any circumstances, consider a security issuer's status as a client of the Firm when determining to trade in that issuer's security on behalf of other client accounts.

First Quadrant serves as investment adviser for several unregistered, offshore private funds, for which the Firm receives management and incentive fees from these private funds, and ultimately their investors.

Please see "Item 5 – Fees and Compensation" for additional information on these funds.

First Quadrant may recommend these funds to clients who meet certain minimum net worth and asset qualifications. However, First Quadrant will only invest client assets in such funds if it believes that such investment is in the best interest of the client.

Please see "Item 13 – Review of Accounts" for a description of First Quadrant's efforts to assess the appropriateness of holdings within client accounts.

Principal Trades

First Quadrant does not engage in principal trades with our clients.

Insider Trading/Material Non-Public Information

All employees of First Quadrant are subject to AMG's Insider Trading Policy and Procedures ("AMG Insider Trading Policy"). AMG Insider Trading Policy broadly prohibits the use of material, non-public information, and also imposes restrictions on the trading of AMG's stock. In addition, First Quadrant's Code of Ethics also prohibits the use of material non-public information and is designed to prevent insider trading by an officer or employee of First Quadrant.

In accordance with these policies, whenever an employee of First Quadrant receives material, non-public information about a company, that individual may not trade or recommend trading on the basis of such information or divulge such information to persons other than the CCO until the information is public. If the employee has any question at all as to whether they are in possession of information that is material or not public, that individual must resolve the question or questions before trading, recommending trading, or divulging the information.

Gifts and Business Entertainment

First Quadrant's Code of Ethics includes policies and procedures regarding giving or receiving gifts and business entertainment between the Firm's employees and certain third parties (e.g., vendors, broker/dealers, consultants, etc.) to help mitigate the potential for conflicts of interest surrounding these practices. In general, First Quadrant limits the dollar amount of gifts and business entertainment that may be provided by employees to these parties, and requires the pre-approval of certain items by our Compliance department. First Quadrant generally monitors for potential conflicts of interest with respect to individual instances of gifts or entertainment, as well as patterns of the same over time, to prevent the interests of First Quadrant and the Firm's employees from being placed ahead of the interests of our clients.

As noted in "Item 10 - Other Financial Industry Activities and Affiliations" of this Brochure, certain employees of First Quadrant are also registered representatives of AMG Distributors, Inc. and are subject to additional procedures and restrictions with respect to gifts and business entertainment activities.

Charitable Contributions

First Quadrant's Code addresses the giving or receiving of charitable donations by First Quadrant employees. Under no circumstances should a First Quadrant employee ask a business or business contact to make a donation on behalf of First Quadrant or the employee.

In addition, from time to time, First Quadrant may donate to charitable enterprises that are clients, are supported by clients, and/or are supported by an individual employed by one of our clients. In general, those donations are made in response to requests from clients and/or their personnel. Such charitable contributions must follow Code of Ethics guidelines

Political Contributions

First Quadrant prohibits the Firm's employees from making political contributions on behalf of First Quadrant or to be reimbursed for personal political contributions, or from making political contributions for the purpose of securing or retaining business. First Quadrant maintains policies and procedures that set forth specific limitations as to whom employees may make contributions to and the amounts of such contributions, as well as preclearance requirements for certain political contributions.

Distribution of Code

All of our employees are provided with a copy of our Code of Ethics at the time of hire, and each employee must affirm that they have received a copy it and that they have read and understood its provisions. In addition, as material amendments are made, employees are provided with a copy of such amendments and must submit an acknowledgement that they have received, read, and understood the amendments to the Code. Further, on an annual basis, employees are required to certify that they have read, understood, and complied with the Code. The Compliance department conducts periodic compliance training addressing the requirements of the Code and the other policies described in this Item. A copy of First Quadrant's Code is available to clients or prospective clients upon request, and may be obtained by contacting First Quadrant using the contact information on the cover page of this Brochure.

Item 12 – Brokerage Practices

Generally, First Quadrant is retained on a discretionary basis and is authorized to determine and direct execution of portfolio transactions within the client's specified investment strategies. Some clients limit First Quadrant's authority in terms of the selection of broker-dealers in favor of their own brokerage arrangements. First Quadrant has a fiduciary duty to seek best execution, and to ensure that trades are allocated fairly and equitably among clients over time.

Brokerage Relationships

First Quadrant's relationships with broker/dealers, particularly those affiliated with large financial services organizations, are complex. First Quadrant uses various broker/dealers to execute trades on behalf of clients, but First Quadrant may also have additional relationships with such firms. For example:

- First Quadrant may invest client assets in securities issued by broker/dealers or their affiliates.
- First Quadrant may provide investment management services to certain broker/dealers or their affiliates.
- Certain broker/dealers may provide both internally-generated and third-party research to First Quadrant, as part of a bundled service.
- Certain brokers/dealers may refer clients to First Quadrant.

Notwithstanding such relationships or business dealings with these broker/dealers, First Quadrant has a fiduciary duty to the Firm's clients to seek best execution when trading with these firms, and has implemented policies and procedures to monitor our efforts in this regard as described further below.

Best Execution – Selection Factors for Broker/Dealers

As noted above, First Quadrant has a duty to seek best execution of transactions for client accounts. "Best execution" is generally understood to mean the most favorable cost or net proceeds reasonably obtainable under the circumstances. In seeking best execution, First Quadrant looks for the best combination of transaction price, quality of execution (such as the speed of execution and the likelihood the trade will be executed), and other valuable services that an executing broker/dealer may provide.

As described further below, in some cases, clients may provide certain specific instructions or requirements regarding the execution of their transactions. Depending on the specific execution instructions or requirements, such clients may not be able to obtain the most favorable execution due to First Quadrant's inability to aggregate/bunch trades on behalf of such clients with other client trades or execute at the time when First Quadrant believes is most advantageous.

Clients often grant First Quadrant the authority to select the broker/dealer to be used for the purchase or sale of securities. First Quadrant, in seeking best execution, will make this selection based on a number of factors, which may include, but are not limited to, the following: the broker/dealer's financial soundness; the broker/dealer's ability to effectively and efficiently execute, report, clear, and settle the order; the broker/dealer's ability to maintain confidentiality; the broker/dealer's ability to commit capital; the broker/dealer's ability to timely and accurately communicate with First Quadrant's trading desk and operations team; the broker/dealer's ability to provide valuable research; the broker/dealer's commission rates; and similar factors. First Quadrant does not consider any client referrals from a broker/dealer when determining best execution, or when placing client trades. For a description of First Quadrant's consideration of research provided by a broker/dealer, please see the "Soft Dollars/Broker Research" sub-section below in this Item 12.

Recognizing the value of these factors, First Quadrant may select a broker/dealer that charges a commission in excess of that which another broker/dealer might have charged for effecting the same transaction. First Quadrant is not obligated to choose the broker/dealer offering the lowest available commission rate if, in First Quadrant's reasonable judgment, the total cost or proceeds from the transaction may be less favorable than what may be obtained elsewhere or if a higher commission is justified by the service and/or research provided by another broker/dealer.

Purchase and sales of portfolio securities other than on a securities exchange are generally executed with primary market makers acting as principals, except where, in the Firm's judgment, better prices and execution may be obtained on a commission basis or from other sources.

First Quadrant has implemented a series of internal controls and procedures to address the conflicts of interest associated with the Firm's brokerage practices. To determine that First Quadrant is receiving competitive

commission rates for the Firm's transactions over time, First Quadrant will periodically evaluate commission rates being charged by the Firm's executing brokers. First Quadrant periodically reviews the past performance of the exchange members, brokers, or dealers with whom it has been placing orders to execute portfolio transactions in light of the factors discussed above. To the extent First Quadrant has been paying higher commission rates for our transactions, First Quadrant will generally determine if the quality of execution and the services provided by the broker/dealer justify these higher commissions. First Quadrant may cease to do business with certain exchange members, brokers or dealers whose performance may not have been competitive or may demand that such persons improve their performance before receiving any further orders.

First Quadrant's Broker/Counterparty Committee meets regularly to review brokers or counterparties currently utilized by the Trading group, giving consideration to credit risk, regulatory compliance, trade execution and operational efficiency. The Committee must approve any broker or counterparty to be added to the Approved Counterparty/Broker Lists, and such lists are updated as necessary based on these meetings. The Committee also develops a "watch list" that is used to monitor counterparties that may require additional scrutiny.

Directed Brokerage

First Quadrant does not direct or require the Firm's clients to use a specific broker/dealer for portfolio transactions in their accounts.

In some cases, clients may direct First Quadrant to use specific broker/dealers for portfolio transactions in their accounts. Under such client directives, First Quadrant is not obligated to, and will generally not, solicit competitive bids for each transaction or seek the lowest commission rates for the client, as the commission rates have typically been pre-negotiated between the client and the designated broker/dealer ("directed broker"). Since First Quadrant has not negotiated the commission rate and may not be able to obtain volume discounts, the commission rate charged by the directed broker may be higher than what First Quadrant could receive from another broker/dealer. In addition, the client may be unable to obtain the most favorable price on transactions executed by First Quadrant as a result of First Quadrant's inability to aggregate/bunch the trades from this account with other client trades. There may be also cases where clients only maintain a limited number of permitted/approved broker/dealer relationships. These limitations may inhibit First Quadrant's ability to solicit competitive bids from the broker/dealers with which First Quadrant generally trades and, as a result, such clients may not benefit from the competitive bidding process.

In some situations, First Quadrant may not execute a client's securities transactions with the client's directed broker until non-directed brokerage orders are completed. Accordingly, clients who direct commissions to specified broker/dealers or have limited broker/dealer relationships may not generate returns equal to clients that do not have such arrangements or limitations. Clients who direct brokerage or have limited brokerage relationships should understand that similar brokerage services may be obtained from other broker/dealers at lower costs and possibly with more favorable execution. In some instances, pre-negotiated rates have not been made by the client with the directed broker. In those cases, the client will be charged the broker's applicable commission rates.

First Quadrant reserves the right to reject or limit client requests for directed brokerage, and clients may be charged a premium for such arrangements.

In certain cases, First Quadrant believes that the potential cost associated with client directed brokerage can be reduced through the use of "step-out" trades. In these cases, orders directed to multiple brokers may be executed by a single broker and the trades then stepped out for settlement to the directed broker. All commissions, fees, and charges for the trades done in directed portfolios will be paid to the directed broker (see the "Step-Outs" sub-section below).

Step-Outs

First Quadrant may use "step-out trades" when we determine that it may facilitate better execution for certain client trades. Step-out trades are transactions which are placed at one broker/dealer and then "given up" or

“stepped out” by that broker/dealer to another broker/dealer for credit. Step-out trades may benefit the client by finding a natural buyer or seller of a particular security so that First Quadrant can trade a larger block of shares more efficiently. Unless directed otherwise by the client, First Quadrant may use step-out trades for any client account.

First Quadrant may use step-out trades to accommodate a client’s directed brokerage mandate. In the case of directed brokerage accounts, trades are often executed through a particular broker/dealer and then “stepped-out” to the directed brokerage firm for credit.

Cross Trades

First Quadrant generally does not engage in cross trades in the Firm’s client accounts.

Opposing Orders in the Same Security

From time to time, First Quadrant may execute orders for the same security on opposite sides of the market for accounts in a manner designed to provide adequate market exposure to both orders. When doing so, First Quadrant places such orders in a manner that is consistent with seeking best execution for both buying and selling accounts. First Quadrant does not consider these types of opposing orders to be cross trades so long as they are separate and independent transactions.

Liquidity Rebates

In selecting broker/dealers to execute transactions for the accounts we manage, First Quadrant does not consider any “liquidity rebates” that may be available to those broker/dealers. Broker/dealers may earn “liquidity rebates” (i.e., a certain cash rebate) when placing orders in certain market centers while trading on behalf of First Quadrant. As discussed above, First Quadrant chooses broker/dealers based on our policy of seeking best execution, which is determined by various quantitative and qualitative factors.

Soft Dollars/Broker Research

First Quadrant does not engage in soft dollar arrangements for third-party products or services (arrangements through which an investment adviser may direct certain transactions for execution to certain broker/dealers in recognition of brokerage and research services provided by third-party providers).

First Quadrant, however, does receive proprietary research products and services (together, “research”) from broker-dealers in connection with commissions paid on transactions it places for client accounts. Proprietary research is generally part of a “bundle” of brokerage and research and the research is not separately priced. The research that First Quadrant receives is within the eligibility requirements of Section 28(e) of the Securities Exchange Act of 1934 and provides assistance to First Quadrant in the provision of investment advice to client accounts. The research may include proprietary research reports on issuers, industries and the economy, market data analysis, market impact analysis and models, risk measurement analysis, pre- and post-trade analytics and other analyses or information relating to the economy and/or security prices, including access to analysts and executives of issuers.

First Quadrant may direct certain transactions for execution to certain broker/dealers in recognition of brokerage and research services provided by those broker/dealers. Such transactions generally cause clients to pay a commission rate higher than would be charged for execution only. To the extent that First Quadrant is able to obtain such products and services through the use of clients’ commission dollars, it reduces the need to produce the same research internally or through purchases from outside providers and thus provides an economic benefit to First Quadrant and our clients. First Quadrant may have an incentive to select a broker/dealer in order to receive such products and services whether or not the client receives best execution. However, First Quadrant may give trading preference to those broker/dealers that provide research products and services, either directly or indirectly, only so long as First Quadrant believes that the selection of a particular broker/dealer is consistent with First Quadrant’s duty to seek best execution.

The research products/services provided by broker/dealers benefit First Quadrant's investment process for client accounts and may be used in formulating investment advice for any and all clients of First Quadrant, including accounts other than those that paid commissions to the broker/dealers on a particular transaction. In addition, not all research generated by a particular client's trade will benefit that particular client's account. In some instances, the other accounts benefited may include accounts for which the accounts' owners have directed their portion of brokerage commissions to go to particular broker/dealers other than those that provided the research products/services. However, research services obtained through broker/dealers may be used in advising all accounts, and not all such services would necessarily be used by First Quadrant in connection with the specific account that paid commissions to the broker/dealer providing such services.

First Quadrant periodically reviews the past performance of broker/dealers with whom it has been placing orders in light of the factors discussed above. Notwithstanding any research provided, First Quadrant may cease to do business with certain broker/dealers whose performance may not have been competitive, or we may demand that such broker/dealers improve their performance before receiving any further orders. The overall reasonableness of commissions paid is evaluated by reviewing what competing broker/dealers were willing to charge for similar types of services. The evaluation would also consider the timeliness and accuracy of the research received. Reasonableness is evaluated on an ongoing basis.

As noted previously, First Quadrant maintains a series of internal controls and procedures relating to the Firm's brokerage practices. Please see the "Best Execution" sub-section above for a description of these controls. These controls and procedures are designed to mitigate the potential conflicts of interest described in this Item.

Trade Aggregation

When two or more portfolios are simultaneously engaged in the purchase or sale of the same security, First Quadrant may, but is not obligated to, combine and aggregate the transactions to form a "bunched trade" or "block trade." In such cases, these accounts will generally receive the average price of the transactions in that security for the day. First Quadrant may, but is not required to, aggregate orders into block trades where First Quadrant believes this to be appropriate, in the best interests of the client accounts, and consistent with applicable legal requirements. Transactions executed in a block will typically be allocated to the participating client accounts before the close of the business day.

Since more than one account's orders are included in a block trade, First Quadrant has adopted a policy of generally using a "pro rata allocation" to allocate the trade among each account whose order makes up part of the block. Under a pro rata allocation, as securities are being purchased or sold as part of the block trade, the securities are being allocated to (or away from, in the case of a sale) accounts in the proportion by which each account's order size (at the time of order entry) makes up a percentage of the entire block. In cases where First Quadrant is unable to fulfill a block trade the same day (i.e., purchase or sell all securities within the block trade), those securities that have been purchased or sold by the end of the day will generally be allocated pursuant to First Quadrant's pro rata allocation methodology. In situations where pro rata allocation is not possible (i.e., multiple fills on a futures trade), First Quadrant will seek to allocate based on an objective trade allocation algorithm that seeks to allocate the trade so that each account participating in the trade will receive an average price as close as possible to other accounts.

First Quadrant believes that, in most instances, a pro rata allocation of block trades will assure fairness. However, we also recognize that no rigid formula will necessarily lead to a fair and reasonable result, and that a degree of flexibility to adjust the formula to accommodate specific circumstances is necessary when determining how to allocate block trades. Therefore, under certain circumstances, allocation of block trades on a basis other than strictly pro rata may occur if we believe that such allocation is fair and reasonable. Nevertheless, all securities purchased or sold through a block trade, including expenses incurred in the transaction, will be allocated on a fair and equitable basis over time, to the extent practicable, without favoring any account or type of account or client (including any proprietary or affiliated account). On a periodic basis, our Investment team and Compliance personnel monitor the proportional amounts allocated to all portfolios to determine whether such allocations are fair and equitable over time.

The ability of a client account to participate with other accounts in bunched/block transactions may produce better execution for the individual client account. However, in some instances, a client may have designated a specific broker/dealer to whom the client's trades must be directed. (See the "Directed Brokerage" sub-section above.) This designated broker/dealer may not (or, in some cases, will not) execute bunched or block trades, and even if it does, First Quadrant may not be able to direct the entire block trade to this designated broker/dealer because it would conflict with First Quadrant's duty to obtain best execution. In such cases, since First Quadrant will typically place the client's trade with the designated broker/dealer as instructed rather than include the client's order in the block trade, the client may not necessarily get the better price and/or level of execution that those clients who participate in the block may receive.

Initial Public Offerings

First Quadrant does not purchase securities in initial public offerings (i.e., a company's first offer of stock for sale to the public) for client accounts or proprietary accounts.

Prime Brokers

Some of First Quadrant's private funds, sub-advised mutual funds, and separate accounts utilize prime brokers for trade clearance. In addition, First Quadrant employs certain FX prime brokers for some of our private funds. Certain separate account clients may also select these same entities as an FX prime broker or FX counterparty.

Trade Errors

First Quadrant has established a Trading Errors policy which provides that the resolution of all errors be made consistent with First Quadrant's fiduciary duties to the Firm's clients. It is First Quadrant's policy to resolve any error identified in a client account in a manner which ensures that the account is not harmed.

First Quadrant has established a series of controls designed to prevent errors from occurring, as well as minimizing the period of time that lapses before their detection. Examples of First Quadrant's current controls include the portfolio management systems' ability to apply guidelines and restrictions that are account-specific to trade recommendations. Trade recommendations generated by First Quadrant's portfolio management systems, as described in Item 6, are designed to adhere to client investment guidelines and restrictions that are delineated in a client's investment management agreement. Client guidelines are also shared with relevant Firm personnel and any changes to guidelines are reported to appropriate personnel. Post-trade compliance reports, along with any identified exceptions, are periodically reviewed by the CCO, the Portfolio Implementation team and the Risk Office. Additionally, First Quadrant has procedures for the recommendation, execution, and settlement of trades, thus providing a system of checks and balances to the Firm's trading system. Please see "Item 13 – Review of Accounts" for a description of controls related to portfolio holdings.

Once a trading error is detected, action is taken to minimize the impact to our client(s), first and foremost, and secondarily, to First Quadrant. The circumstances related to the error (regardless of the dollar amount) are typically communicated to members of senior management to determine further action. Any corrective action is generally approved by the CCO or a designated member of senior management.

Errors that occur as a result of First Quadrant's design, implementation, and/or use of systematic investment models and/or data sources generally are not considered by First Quadrant to be trade errors except to the extent that an error of this type (i) results in a breach of a client's investment guidelines or restrictions or applicable legal and/or regulatory restrictions; or (ii) causes First Quadrant to deviate materially from what has been disclosed to clients as First Quadrant's investment strategy even if no breach of a guideline or restriction occurs. Such errors are not subject to First Quadrant's Trade Error Policy and will be reviewed and assessed by First Quadrant on a case-by-case basis.

Item 13 – Review of Accounts

First Quadrant's Investment, Trading, and Operations teams are responsible for the regular review of the assets of the accounts under their supervision. The number of reviewers and accounts assigned to each varies depending on the nature of the product or strategy. In addition, certain events may trigger additional review, as described below.

Through First Quadrant's portfolio management systems, portfolios are typically reviewed on a daily basis by the Investment team to determine that they are invested in a manner consistent with First Quadrant's investment models. Portfolio reviews may also be triggered by numerous factors, including without limitation: changes to investment models; significant market movements; changes in counterparty creditworthiness; receipt of client instructions changing investment objectives or guidelines; and withdrawals from or additions to a portfolio. During these reviews, consideration may be given to, without limitation, compliance with investment guidelines, compliance with applicable laws, rules and regulations, performance, and counterparties' creditworthiness.

Accounts are also regularly monitored by the Investment team to determine if their tracking error deviates to a significant degree from that of the selected investment strategies. To the extent the deviation is deemed significant, the Investment team will research the issue.

First Quadrant also performs reconciliations of the Firm's records of the securities and cash within our clients' accounts against the records of the custodians who actually hold the securities and cash. These reconciliations are performed by First Quadrant's Trade Operations and Portfolio Accounting personnel between First Quadrant, the clearing broker, and the custodian. Generally, cash positions are reconciled on a daily basis by First Quadrant's Accounting department. In addition, portfolio margin requirements are typically monitored on a daily basis. Our Accounting department typically reconciles all positions to the custodian bank and, where applicable, the prime broker at each month end as well. To the extent any discrepancies are identified through the performance of these reconciliations, our operations personnel will generally work with both our internal team and the custodian to resolve any such discrepancies. The statements and records of the custodian are the official books and records for the account.

Compliance performs a quarterly review of allocations of futures and options on futures trades, as required by NFA Compliance Rule 2-10, as well as a review of the allocation of currency and equities trades on a periodic basis to ascertain compliance with our procedures and to determine that the allocation of trades is fair and equitable over time. Compliance also generally reviews post-trade alerts from the portfolio management systems. Please see the "Risk Mitigation" sub-section of "Item 8 – Methods of Analysis, Investment Strategies, and Risk of Loss" of this Brochure for a description of the use of the portfolio management systems to monitor investment guidelines.

Reporting

Clients receive performance reports from First Quadrant. Performance reports are typically prepared and sent to clients monthly, quarterly and/or annually, depending upon a client's specification. These reports generally include actual performance against objectives, and comments on markets and strategy. Due to the variety of managed accounts, we typically customize these reports to meet each client's individual needs. These reports are generally supplemented by trade confirmations and the other reports on clients' portfolio holdings and transactions provided to clients from their respective custodians and/or broker/dealers, as described above. As noted, the custodian statements, rather than First Quadrant's statements, reflect the official books and records for the accounts we manage.

Item 14 – Client Referrals and other Compensation

Relationships with Consultants

Many of our clients and prospective clients retain investment consultants to advise them on the selection and review of investment managers. First Quadrant may have certain accounts that were introduced to First Quadrant through consultants. These consultants or their affiliates may, in the ordinary course of their investment consulting business, recommend First Quadrant's investment advisory services, or otherwise place First Quadrant into searches or other selection processes for their clients.

First Quadrant has extensive dealings with investment consultants, both in the consultants' role as adviser for their clients and through independent business relationships. Specifically, we provide consultants with information on portfolios we manage for our mutual clients, pursuant to our clients' directions. First Quadrant also provides information on our investment styles to consultants, who use that information in connection with searches they conduct for their clients. First Quadrant may also respond to "Requests for Proposals" from prospective clients in connection with those searches.

Clients obtained from these consultants may instruct First Quadrant to direct some or all of their brokerage transactions to these consultants, which may also be a broker/dealer, or to the particular broker/dealers with whom they have relationships. First Quadrant may also allocate brokerage to such consultants or broker/dealers in the ordinary course of business.

Other interactions that First Quadrant may have with consultants include, but are not limited to, the following:

- First Quadrant may invite consultants to events or other entertainment hosted by First Quadrant.
- First Quadrant may, from time to time, purchase software applications, access to databases, and other products or services from some consultants.
- First Quadrant may pay registration or other fees for the opportunity to participate, along with other investment managers, in consultant-sponsored industry forums or conferences. These conferences or forums provide First Quadrant with the opportunity to discuss a broad variety of business topics with consultants, clients, and prospective clients.
- In some cases, First Quadrant may serve as investment adviser for the proprietary accounts of consultants or their affiliates, or as adviser or sub-advisor for funds offered by consultants and/or their affiliates.
- First Quadrant may trade with consultants who are broker dealers.

In general, First Quadrant relies on each consultant to make appropriate disclosure to its clients of any conflict that the consultant may believe to exist due to its relationship with our Firm.

Consulting Databases

First Quadrant may pay consultants or other third parties to include information about First Quadrant's investment approaches in databases that they maintain to describe the services provided by investment managers to prospective clients.

Broker-Dealer Referrals

First Quadrant may receive client and/or investor referrals from some of the broker-dealers the Firm uses to execute and/or settle the Firm's transactions. First Quadrant does not pay any fees to such broker-dealers for these referrals. Although such referrals may benefit First Quadrant by increasing the Firm's assets under

management, the Firm does not direct brokerage transactions to any broker/dealer based on the referral of clients or investors.

Relationships with Solicitors

First Quadrant is not currently a party to any agreements with unaffiliated third-party solicitors. However, First Quadrant may decide to enter into a solicitation agreement whereby the solicitor is compensated to introduce prospective investment advisory clients to First Quadrant. Clients introduced by the solicitor will be required to enter into an investment management agreement with First Quadrant directly. In such an arrangement, the solicitor will typically be compensated with either a percentage of the investment advisory fee or a flat fee. Details of such arrangement, including the compensation arrangement, will be provided to each prospective clients through the solicitor disclosure document as required.

First Quadrant is a party to agreements with certain affiliates pursuant to which First Quadrant pays the affiliate a fee for services rendered to First Quadrant to support First Quadrant's provision of investment advisory services to clients.

Please see "Item 10 – Other Financial Industry Activities and Affiliations" for additional details about these arrangements.

Compensation from Third Parties

First Quadrant does not receive any monetary compensation from non-clients for First Quadrant's provision of investment advisory services to clients.

Item 15 – Custody

All clients must have a custodial relationship with respect to their funds and securities with a qualified custodian as a prerequisite to First Quadrant's management of their assets. First Quadrant does not act as a custodian over the assets in the accounts we manage for our clients (except as deemed a "custodian" by applicable law, as discussed below). Clients must make their own arrangements for custody of securities in their accounts. Such custodians may be broker/dealers, banks, trust companies, or other qualified institutions.

Many broker/dealers designated by our clients for directed brokerage provide custodial service to those clients, often as part of an array of services obtained by such clients from these directed brokers in addition to execution, confirmation, and clearance and settlement services. In instances where First Quadrant is given discretion to choose a broker/dealer for a client's transactions, the broker/dealer generally does not provide custodial services to the client as part of the commissions negotiated by First Quadrant. Under such circumstances, the client will arrange custodial services with the custodian of their choice.

The qualified custodian will typically provide the client with at least quarterly account statements relating to the assets held within the account managed by First Quadrant. Each client should carefully review the qualified custodian's statement upon receipt to determine that it completely and accurately states all holdings in the client's account and all account activity over the relevant period. Any discrepancies identified by a client should be immediately reported to First Quadrant and the qualified custodian.

In addition to the account statements provided by qualified custodians to our clients, First Quadrant may also provide performance reports to certain clients on generally a monthly, quarterly, or annual basis, depending on the client's request. We encourage those clients to compare the reports provided to them by First Quadrant against those provided to them by the qualified custodians who hold the assets of their accounts, and to report any questions, concerns, or discrepancies to both First Quadrant and the qualified custodian promptly. Such questions, concerns, or discrepancies may be communicated to First Quadrant by writing, e-mailing, or telephoning us using the contact information found on the cover page of this Brochure.

Our statements may vary from custodial statements based on accounting procedures, reporting dates, and/or valuation methodologies of certain securities. However, please note that custodian statements are the official books and records for the accounts we manage.

First Quadrant is deemed, under the federal securities laws, to have custody of client assets by virtue of the Firm's role as general partner of the limited partnerships or managing member of certain pooled vehicles discussed in "Item 5 – Fees and Compensation" of this Brochure. First Quadrant does not have actual physical custody of any client assets or securities invested in such funds; rather, all such assets are held in the name of each of the applicable funds by an independent qualified custodian, which may include futures clearing merchants or prime brokers. Such funds holding client assets are audited annually, and investors receive annual financial statements, as required by applicable law.

Item 16 – Investment Discretion

First Quadrant is typically granted discretionary authority by a client at the outset of an advisory relationship to determine the identity and amount of securities to be bought or sold. However, such discretion is exercised in a manner consistent with the stated investment objectives for the particular client account. When selecting securities and determining amounts of securities for purchase or sale, First Quadrant observes the investment policies, limitations, and restrictions that are set forth by our clients. For example, some clients restrict the percentage of a stock relative to portfolio size or percentage of a particular issuer, industry or sector based on portfolio size. Any investment guidelines and restrictions, including amendments to such, must be provided to First Quadrant by our clients in writing. A client will grant First Quadrant discretionary authority by executing an investment management agreement and/or a separate power of attorney, which includes, among other items, a statement giving First Quadrant authority to invest the assets identified by the client in a manner consistent with the investment objectives and limitations delineated by the client, and to engage in transactions on a discretionary basis in the client account.

As noted in "Item 4 – Advisory Business," First Quadrant provides advice for various types of clients. First Quadrant may advise some clients or take actions for them that differ from recommendations or actions taken for other clients. First Quadrant is not obligated to recommend to any or all clients any investments that it may recommend to, or purchase or sell for, certain other clients.

In addition to the discretionary asset management services that First Quadrant provides to our clients, the Firm also provides non-discretionary asset management services in certain cases.

Please see "Item 4 – Advisory Business" of this Brochure for additional information.

Generally, First Quadrant does not commit to act in any capacity on our clients' behalf with respect to class actions and similar matters. While First Quadrant is not obligated to take any legal action with regard to class action suits relating to securities purchased by First Quadrant for the Firm's clients, First Quadrant may provide the client or the client's legal counsel with information that the Firm believes may be needed.

Item 17 – Voting Client Securities

Since client accounts may hold stocks or other securities with voting rights, our clients often have the right to cast votes at the corporate issuers' shareholder meetings. However, since shareholders often do not attend shareholder meetings, they have the right to cast their votes by "proxy." In such cases, First Quadrant's clients will either retain proxy voting authority or delegate it to First Quadrant. If a client has delegated such authority to First Quadrant (whether in the client's investment management agreement with First Quadrant or otherwise), First Quadrant will vote proxies for that client. Subject to applicable regulations, if a particular client for whom First Quadrant has investment discretion has not explicitly delegated proxy voting authority to First Quadrant, First Quadrant will not vote such client's proxies, and the client will retain the voting authority for its account. In such cases, the client will receive proxy solicitations from the custodian, and the client may contact First Quadrant with any questions about a particular solicitation by using the contact information on the cover page of this Brochure.

Where clients have delegated proxy voting authority to First Quadrant, as an investment adviser and fiduciary of client assets, First Quadrant has implemented proxy voting policies and procedures intended to protect the value of shareholder investments and designed to reasonably ensure that First Quadrant votes proxies in the best interest of clients. In voting proxies, we seek to both maximize the long-term value of our clients' assets and to cast votes that we believe to be fair and in the best interest of the affected client(s).

First Quadrant's Trade Operations team, working with Investment team, also monitors corporate actions, ensuring notifications from custodians and/or information from Bloomberg or other electronic surveillance systems is recorded in our portfolio management and accounting systems.

Voting Agent

First Quadrant has contracted with an independent third-party provider of proxy voting and corporate governance services (the "proxy voting agent") which specializes in providing a variety of services related to proxy voting. The proxy voting agent has been retained to act as agent for the proxy process, conduct proxy research, execute proxy votes, and keep various records necessary for tracking proxy voting materials and proxy voting actions taken for the appropriate client account. In addition, the proxy voting agent provides independent research on corporate governance, proxy, and corporate responsibility issues.

First Quadrant has adopted the proxy voting agent's proxy voting policy guidelines as our own and, as such, the proxy voting agent votes First Quadrant's clients' proxies (for those client accounts over which the Firm has proxy voting authority) according to those policy guidelines. First Quadrant maintains a Proxy Committee (the "Committee"), made up of senior members of the Investment team, which is responsible for deciding what is in the best interests of each client when deciding how proxies are voted. The Committee meets at least annually to review, approve, and adopt the proxy voting agent's proxy voting guidelines. Any changes to the proxy voting agent's voting guidelines must be reviewed, approved, and adopted by the Committee at the time the changes occur.

When a new portfolio is opened and First Quadrant is responsible for voting its proxies, a letter is sent to the custodian informing them that the proxy voting agent will act as First Quadrant's proxy voting agent and advising them to forward all proxy material pertaining to the portfolio to the proxy voting agent for execution. First Quadrant notifies the proxy voting agent in the event that there is a change to the list of accounts that have delegated proxy voting authority.

With respect to the proxy voting process, First Quadrant's Client Services Department is responsible for: setting up new portfolios; determining which portfolios First Quadrant has proxy voting responsibilities; ensuring the custodians and the proxy voting agent are appropriately notified; receiving and forwarding to the Committee, and ultimately the proxy voting agent, any direction received from a client to vote a proxy in a specific manner; and maintaining client documentation and any communications received by First Quadrant related to proxy voting, including records of all communications received from clients requesting information on how their proxies were voted and First Quadrant's responses.

As First Quadrant retains ultimate responsibility for proxies voted by the proxy voting agent, First Quadrant will monitor the proxy voting agent's proxy voting to ensure it is completed in accordance with the proxy voting guidelines adopted by First Quadrant. This monitoring may be accomplished through discussions with the proxy voting agent, reports, reviews, or a combination of these approaches.

If a client has delegated proxy voting authority to First Quadrant, but would nevertheless like to direct our vote on a particular proxy solicitation, the client may indicate the same in a written statement directed to First Quadrant, and the Committee will ensure that the vote be made in accordance to their written requests. Any such written direction should be sent to the contact information set forth on the cover page of this Brochure.

Conflicts of Interest

As noted above, First Quadrant has an agreement with an independent proxy agent, and has adopted the proxy voting agent's proxy voting policy guidelines (the "Policies"). The adoption of the Policies, which provide pre-determined guidelines for voting proxies, was designed to remove any potential conflicts of interest First Quadrant may have that could affect the outcome of a vote. By adopting the Policies, First Quadrant has essentially removed itself from having to determine how to vote proxies in cases where First Quadrant may have a material conflict of interest.

Notwithstanding the appointment of the proxy agent, there may be some instances where First Quadrant votes proxies. Specifically, there may be a situation where the proxy agent itself may have a material conflict of interest with respect to a proxy vote that it is voting. In those situations, the proxy agent is obligated to fully or partially abstain from voting the proxy, and First Quadrant's Proxy Committee will provide the voting recommendation after a review of the proxy materials. First Quadrant's Proxy Committee must approve any decision made on such vote prior to the vote being cast. First Quadrant's CCO may also become involved in other situations, though expected to be rare, where First Quadrant determines to remove voting discretion from the proxy agent. In both of the preceding circumstances, First Quadrant will work to ensure that prior to casting a vote, conflicts of interest are identified and material conflicts are properly addressed such that the proxy may be voted in the best interest of clients. The Committee will monitor any situation where First Quadrant has any discretion to vote.

If you would like a copy of First Quadrant's Proxy Policy, if you would like to review how First Quadrant voted on a particular security in your account, or if you would like further information on the proxy agent's proxy voting policy guidelines, please contact First Quadrant using the contact information set forth on the cover page of this Brochure.

Item 18 – Financial Information

First Quadrant has no financial condition that impairs our ability to meet our contractual and fiduciary commitments to our clients, and First Quadrant has not been the subject of a bankruptcy proceeding.

Addendum – Privacy Notice

IMPORTANT INFORMATION ABOUT PRIVACY AND CERTAIN INFORMATION SHARING

In compliance with SEC regulations, First Quadrant is pleased to provide you with the Firm's Privacy Policy. At First Quadrant, we appreciate the trust our clients place in us and we recognize the importance of protecting the confidentiality of non-public personal information that we collect about them. Keeping this information confidential and secure is a top priority. The following guidelines are designed to help you understand how we gather, use, and protect your personal and financial information.

First Quadrant collects and maintains non-public personal information to enable us to provide investment management services to our clients. The types and sources of information that we collect may include:

- Information obtained from agreements, applications, account opening forms, questionnaires, or other documents and correspondence, such as name, address, phone number, assets, and income;
- Information we generate, such as portfolio appraisals and trade tickets; and
- Information provided to us by authorized parties acting on behalf of our clients, such as accountants, attorneys, or investment consultants.

We do not disclose non-public personal information about our current, prospective, or former clients, except as required or permitted by law. The types of information that may be shared include:

- Information to companies that is necessary in order to service client accounts, such as providing account and trade information to brokers and custodians;
- Information that we generate, such as portfolio appraisals, to authorized persons;
- Information that is necessary for non-affiliated companies, including third-party service providers, such as accounting firms, to perform services for First Quadrant and our clients; and
- Data that we provide to certain affiliates, who use the information only for internal reporting, record-keeping, and other legitimate business purposes.

We maintain firm-wide physical, electronic, and procedural safeguards designed to comply with federal standards to protect our clients' non-public personal information.

- Access to electronic client information is limited by electronic safeguards, such as passwords for access to our networks, data, and programs;
- Records are kept in First Quadrant's office or stored by a records management firm or a secure offsite facility;
- Third parties who do work on our behalf are specifically instructed that client information must remain confidential; and
- All safeguards apply to non-public personal information of current and former clients.

For questions concerning our Privacy Policy, please contact First Quadrant using the contact information set forth on the cover page of this Brochure.