

# **Brown Brothers Harriman Mutual Fund Advisory Department**

Form ADV Part 2A

March 30, 2020



**BROWN**   
**BROTHERS**  
**HARRIMAN**

**Brown Brothers Harriman  
Mutual Fund Advisory Department**

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This Brochure provides information about the qualifications and business practices of Brown Brothers Harriman Mutual Fund Advisory Department. If you have any questions about the content of this Brochure, please contact us at 212-493-8981. 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 the investment adviser is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## MATERIAL UPDATES

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Since our annual update dated March 29, 2019, we have not made any material changes.

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**ITEM 4      ADVISORY BUSINESS**

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This Brochure provides an overview of the investment management services of a “Separately Identifiable Department” (the “SID” or the “Adviser”) of Brown Brothers Harriman & Co. (“BBH”). The SID, also known as the “Brown Brothers Harriman Mutual Fund Advisory Department,” is an SEC registered investment adviser. The SID is an adviser or sub-adviser to mutual funds that are registered under the Investment Company Act of 1940, as amended (“Mutual Funds”) and to collective investment funds organized as Undertakings for Collective Investments in Transferable Securities (“UCITS Funds”). In this Brochure, we refer to Mutual Funds and UCITS Funds together as “Funds.” The SID first registered with the SEC in 2001.

BBH is a bank, organized as a New York limited partnership. As a bank, BBH is excepted from registration with the SEC as an investment adviser under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). This Brochure is not intended to state or imply that BBH is a registered investment adviser or that it is subject to the requirements of the Advisers Act, other than as identified below. This Brochure is not an offering document for the Funds, and all descriptions of the Funds and their objectives, strategies, and risks are set forth in their entirety by the Prospectus and Statement of Additional Information for the Mutual Funds and the Prospectus and the Key Investor Information Document for the UCITS Funds.

BBH was founded in 1818 and remains one of the oldest continuously operated partnership banks in the United States. In addition to offering a range of investment management services for individuals, families and institutions, BBH participates in businesses, including, but not limited to: global custody, foreign exchange, lending, private equity investing, and personal trust & estate administration.

Licensed by the New York State Department of Financial Services (“NYSDFS”) as a Private Banker, BBH is authorized to accept deposits, grant loans, and generally conduct a banking business including acting as a custodian of funds and securities. Assets held at BBH are not Federal Deposit Insurance Corporation (“FDIC”) insured and are subject to investment risks, including possible loss of principal invested.

The SID has hired an entity to provide sub-advisory and other investment-related services to a certain Fund. This third-party sub-adviser may itself be an adviser to other investment advisers or vehicles, including their own proprietary products. The SID reviews the sub-advised portfolio’s compliance with portfolio investment guidelines.

As of December 31, 2019, the SID had \$14,205,832,798 in discretionary assets under management (net assets in the Funds).

## ITEM 5 FEES AND COMPENSATION

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### ❖ Management/Sub-Advisory Fees

Generally, the SID charges fees based on a percentage of net assets under management. Fees are negotiable and are set forth in each Fund's prospectus or other offering document or in the sub-advisory agreement with the adviser who has retained the SID. Advisory fees may be billed either monthly or quarterly, in advance or in arrears, and are deducted from the Fund's assets or billed to the Fund or adviser, depending upon the SID's contract with the Fund or adviser.

Typically, either the SID or a Fund may terminate an investment management contract at any time by written notice given to the other party at least 30 days prior to the date on which such termination is to take place, or as may otherwise be provided in the agreement. In the event of termination or if fees are charged in arrears, fees will be pro-rated based on the termination date.

### ❖ Additional Fees

In most cases, the broker executing a trade on the Fund's behalf will charge a commission (equity securities) or earn a markup/mark down (fixed income securities). Neither the SID nor BBH earns commissions or other transaction fees in connection with directing investment advisory trade orders to third party brokers for execution; however, the SID does receive credits from certain brokers toward the receipt of qualifying research or other services in accordance with applicable law. Please refer to Item 12, "Brokerage Practices," for additional information.

## ITEM 6 PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

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The SID offers investment advisory services to multiple Funds with different investment objectives, guidelines and policies, and with different fee structures. The SID does not receive performance-based fees. However, certain supervised persons of the SID manage both BBH client accounts that charge performance-based fees and SID client accounts that charge only asset-based fees. In such cases, BBH may have an incentive to allocate certain investment opportunities to these performance-based fee accounts rather than the Funds in order to increase the account's performance and thus improve BBH's chances of receiving the performance fee. However, BBH and the SID have implemented policies and procedures designed to ensure that investment opportunities are allocated equitably between the Funds and other accounts with similar investment strategies.

## ITEM 7 TYPES OF CLIENTS

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The SID advises or sub-advises Mutual Funds and UCITS Funds.

**ITEM 8 METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

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***Introduction***

The SID's equity investment philosophy centers on active management and fundamental analysis of individual companies. The SID seeks to invest primarily in cash generative businesses that are leading providers of essential products and services. The SID believes that purchasing the equity securities of such companies when they are trading at a discount to its estimate of intrinsic value is an effective way to enjoy the benefits of equity ownership (namely, higher capital appreciation over time) while reducing the risk of permanent capital loss over the long term. While the SID typically takes a long-term investment approach to managing the Funds, the SID may at times engage in short-term trading (i.e., holding securities less than 30 days).

The SID uses a fundamental, value-based approach to fixed income management. Its fixed income management philosophy is grounded in the belief that credit spreads are more volatile than underlying fundamentals, creating substantial misalignments of value and price. To take advantage of these opportunities, the SID follows a value-driven strategy.

The SID's investment approach includes the consideration of a variety of fundamental factors, including industry structure, competitive positioning, financial strength, and environmental, social and governance (ESG) criteria, all of which enhances its ability to manage risk and to achieve its long-term investment objectives.

In response to adverse market, economic, political and other conditions, the SID may make temporary investments that are not consistent with a Fund's investment objective and principal investment strategies. Such investments may be inconsistent with a Fund's ability to reach its investment objective.

***Equity Securities*****❖ Investment Strategies**

The types of equity securities that the SID may invest in on behalf of the Funds include, without limitation, exchange-listed securities, securities traded over-the-counter, foreign securities, and exchange-traded funds ("ETFs"). The SID may also invest, when appropriate, in derivative instruments such as warrants, American depository receipts, global depository receipts, commodity interests (e.g., forwards, futures and swaps) and options. In most cases, derivative investments will involve greater volatility and more limited liquidity than cash market investments. The potential for gain or loss exists in both the cash and derivatives markets. There is no guarantee that a particular Fund will achieve its investment objective.

**❖ Methods of Analysis**

The equity investment team consists of portfolio managers supported by investment analysts who follow specific industry sectors and work collaboratively to identify, analyze, and monitor investments. The

analysts closely study industry structure and competitive trends, communicating regularly with knowledgeable industry participants and company management teams to assess whether companies meet the Adviser's fundamental criteria. They also explicitly identify key business risks and variables outside of management's control. Outside research materials/analytical tools used include: company management meetings; annual reports; prospectuses; filings; company press releases and presentations; inspections of corporate facilities and activities; financial newspapers and industry publications/websites; expert networks; and research provided by third parties.

### Specific Service Offerings

The descriptions of equity strategies below, as applied to a particular Fund, are qualified in their entirety by the Fund's prospectus, Key Investor Information Document (for UCITS Funds), or other offering document. The strategies are offered in diversified and non-diversified portfolios.

- ❖ Large Cap. The "Large Cap" strategy seeks to provide investors with long-term growth of capital. The strategy normally will invest at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in large capitalization publicly traded equity securities. Such securities will be issued by domestic and foreign issuers both directly and in the form of depository receipts representing an interest in these securities. The Adviser considers large cap securities to be equity securities that the time of purchase have a market capitalization within the range of companies included in the S&P 500 Index. The Large Cap strategy is based on fundamental business analysis and a long-term orientation that blends aspects of growth and value investing. The Large Cap strategy seeks to invest in approximately 25-35 different companies that meet the Adviser's prescriptive fundamental criteria. The strategy typically invests in companies that are headquartered in North America, as well as in certain global firms located in other developed regions. The SID selects companies based on their qualitative merits, competitive profile and prospective value creation potential. The strategy follows a "buy and own" approach that does not typically make use of short-term trades in pursuit of small gains. The criteria that the SID seeks in each area, where appropriate, are as follows:
  - Business Criteria – (i) essential products or services, (ii) loyal customers, (iii) leadership in an attractive market niche or industry, (iv) sustainable competitive advantages, (v) high returns on invested capital, and (vi) strong free cash flow;
  - Management Criteria – (i) high levels of integrity, (ii) excellent operators, and (iii) good long-term strategy and capital allocation; and
  - Valuation Criteria – a meaningful discount to a growing estimated intrinsic value per share. Intrinsic value calculations are based on the SID's analyses of free cash flow and return on invested capital.

The Adviser's time horizon when purchasing a company is typically three to five years but is not subject to any minimum or maximum period. Investments may be sold if they appreciate to levels at or near the higher end of the Adviser's estimated ranges of intrinsic value.

❖ Global Core Select. The “Global Core Select” strategy seeks to provide investors with long-term growth of capital. Global Core Select will invest primarily in publicly traded equity securities of companies that are located anywhere in the world, including in the United States. Global Core Select will invest in equities issued by U.S. and non-U.S. firms both directly and in the form of depository receipts representing an interest in these securities. Although the portfolio will invest primarily in common stock, the portfolio may purchase other types of securities as long as they meet the investment criteria. Global Core Select will invest in companies that are organized, have a majority of their assets, or generate the majority of their operating income in any country, including emerging markets countries, but Global Core Select intends to invest primarily in the equity securities of companies in countries with developed economies. The strategy blends aspects of growth and value investing. The Adviser is not required to allocate its investments among any countries or in set percentages. Under normal circumstances, however, Global Core Select is comprised of at least three different countries and invests at least 40% of its net assets in securities of non-U.S. companies. For these purposes, “non-U.S. companies” are firms that are organized, have a majority of their assets, or generate the majority of their revenues and/or operating income outside the United States. The strategy seeks to invest in approximately 30-40 different companies that meet its demanding investment criteria. Investments in equity securities will generally be in large and mid-capitalization publicly traded securities with a market capitalization of \$3 billion or greater, although the strategy may invest in companies with market capitalizations below this amount. The Adviser will generally select companies based on their long-term investment potential and follows a “buy and own” approach. The Adviser does not seek to trade in and out of stocks over short time periods for small gains. The strategy may invest in equity securities, depository receipts, participation agreements and other derivative instruments to gain exposure to non-U.S. companies. Securities may be purchased in currencies other than the U.S. dollar. The Adviser may enter into foreign currency exchange transactions from time to time to convert to and from different foreign currencies and to convert foreign currencies to and from the U.S. dollar. The Adviser may purchase currency forwards for the purpose of hedging the value of securities purchased or intended to be purchased. However, the Adviser will have no obligation to hedge against these risks and there can be no assurance that hedging transactions, if undertaken, will be effective. As a result of the Adviser’s disciplined investment process, the portfolio may, at times, hold large amounts of cash. The business, management, and valuation criteria that the Adviser seeks in each area, where appropriate, are as follows:

- Business Criteria – (i) essential products or services, (ii) loyal customers, (iii) leadership in an attractive market niche or industry, (iv) sustainable competitive advantages, (v) high returns on invested capital, and (vi) strong free cash flow;
- Management Criteria – (i) high levels of integrity, (ii) excellent operators, and (iii) good capital allocation; and
- Valuation Criteria – a meaningful discount to a growing estimated intrinsic value per share. Intrinsic value calculations are based on the SID’s analyses of free cash flow and return-on-invested capital.



- ❖ International Equity. The “International Equity” strategy seeks to provide investors with long-term maximization of total return, primarily through capital appreciation. The strategy primarily invests at least 80% of the net assets of the Fund, plus any borrowing for investment purposes, in the equity securities of companies in the developed and emerging markets of the world, excluding the United States. Developed markets include markets of securities listed in the Morgan Stanley Capital International – Europe, Australasia, and Far East Index (“MSCI-EAFE”) and Canada. The strategy may invest up to 35% of its assets, at the time of purchase, in emerging markets of the world. An emerging market is generally considered to be a securities market located in any country that is defined as having an emerging or developing economy by the World Bank or its related organizations, or the United Nations or its authorities. The strategy primarily invests in equity securities of companies with large market capitalizations.

Although the strategy is expected to invest primarily in common stocks, it may also invest in other securities with equity characteristics. Securities may be purchased in currencies other than the U.S. dollar.

In managing International Equity, the Adviser employs a “manager of managers” investment approach, whereby it allocates the Fund’s assets to the Fund’s sub-adviser. Subject to the general supervision by the Fund’s Board of Trustees (the “Board”), the SID oversees the sub-adviser and evaluates its performance results. The SID reviews portfolio performance, characteristics and changes in key personnel of the sub-adviser. The sub-adviser is primarily responsible for the day-to-day management of the Fund’s portfolio, including purchases and sales of individual securities. Other sub-advisers may be added in the future to complement the sub-adviser’s investment style. However, the SID may, when it deems appropriate, manage all or a portion of the Fund’s assets according to the Fund’s principal investment strategies.

The sub-adviser focuses on identifying attractive businesses and investing opportunistically in these businesses when it believes that good long-term returns can be achieved. The sub-adviser defines attractive businesses as those that have achieved leading and defensible market positions through the creation of enduring franchise value. They are, in the view of the sub-adviser, both well positioned for long term growth and resilient in difficult economic environments. The sub-adviser employs intensive and rigorous fundamental equity research in order to identify these investment opportunities. The strategy may, from time to time, invest in a limited number of issuers.

### ***Fixed Income***

#### ❖ **Investment Strategy**

The SID uses a fundamental, value-based approach to fixed income management. Its fixed income management philosophy is grounded in the belief that credit spreads are more volatile than underlying fundamentals, creating substantial misalignments of value and price. To take advantage of these opportunities, the Adviser follows a patient, value-driven strategy.



The Adviser uses a team approach to execute its strategy, reviewing the research and knowledge of analysts, portfolio managers and traders in a process of transparent and open debate. The team uses well-established credit criteria to identify potential credits for portfolio inclusion. Credit valuations drive portfolio construction, that is, the Adviser builds sector allocations and portfolios "bottom-up" based on the quantity and intensity of available individual valuation opportunities.

The Adviser believes that preservation of capital is critical to investing success. It attempts to manage this risk through independent fundamental research and valuation discipline rather than any particular benchmark. There is no guarantee that a particular Fund will achieve its investment objectives.

### ❖ Investment Types

Fixed income investments may include cash market corporate debt, asset-backed securities ("ABS"), commercial mortgage-backed securities ("CMBS"), municipal securities, U.S. and non-U.S. government securities and investment-grade securities issued by U.S. and non-U.S. corporations and financial institutions. Certain fixed-income strategies may also include investments in commodity interests (e.g., treasury futures), 144A securities, derivative/structured products, including swaps, fixed or floating rate loans or similar instruments that may be more volatile and less liquid than cash market fixed-income securities. Cash market and derivatives fixed income instruments can create gains or losses in Funds depending upon security-specific, market and macroeconomic factors.

### ❖ Methods of Analysis

The majority of the Adviser's fixed income analysis and research is performed internally. Both credit and quantitative analysis are fundamental parts of the investment management process. The Adviser has structured its fixed income team to allow for functional specialization in the following areas:

Credit	Quantitative
Security Analysis	Expected Returns
Monitoring	Model Development
Industry Trends	Optimization
Credit Trends	Risk Quantification
	Return Attribution

Outside research materials/analytical tools used include: company management meetings; financial newspapers and industry publications/websites; inspections of corporate facilities and activities; research prepared by third parties; rating services; collateral tracking and data services; annual reports, prospectuses, and filings; and company press releases and presentations.

## Specific Service Offerings

Fixed income investment management services provided to the Funds include one or more of the following:

- ❖ Limited Duration and Short Duration. The “Limited Duration” and “Short Duration” strategies seek to provide maximum total return, consistent with preservation of capital and prudent investment management. The strategies seek to invest in well diversified portfolios of durable performing fixed income instruments. These investments will be primarily focused in ABS, notes and bonds issued by domestic and foreign corporations and financial institutions and the U.S. Government, government agencies and government guaranteed issuers. The Adviser may purchase mortgage backed securities and sovereign debt when it believes that the additional income from these securities justifies the higher risk of allocations to these asset classes. The Adviser may invest in money market instruments, repurchase agreements, reverse repurchase agreements, derivative instruments and private placement securities, including Rule 144A and Regulation S securities to meet its investment objective. The Adviser employs fundamental analysis and seeks certain criteria for different investments.

The Adviser seeks to preserve capital and to generate a positive absolute return, while attempting to avoid instances of negative total return over extended periods of time. The Adviser has the flexibility to invest in the sectors, industries, securities and durations that it identifies as offering attractive risk-adjusted returns consistent with the strategies’ objectives.

- ❖ Structured Fixed Income. The “Structured Fixed Income” strategy seeks to maximize total return (capital appreciation and income) consistent with reasonable risk. The strategy seeks to invest in high quality structured fixed income securities, with a particular focus on ABS backed by assets other than prime auto and credit card loans (also known as non-traditional ABS). The Adviser may also invest a limited amount in CMBS, agency-backed securities, and corporate and municipal debt instruments that are secured by tangible asset collateral or revenue streams. The strategy may also invest in bonds issued by financial institutions, the U.S. Government, Government agencies and Government guaranteed issuers. Investments may include securities rated below investment grade if the Adviser believes that the additional income from these securities justifies the higher risk. The Adviser employs fundamental analysis and seeks certain criteria for different investments.
- ❖ Intermediate Municipal Bond. The “Intermediate Municipal Bond” strategy seeks to protect investors’ capital and generate attractive risk-adjusted returns. The strategy seeks to primarily invest in a diversified portfolio of investment grade municipal bonds rated in the four highest credit ratings categories (AAA to BBB, or equivalent) at the time of purchase by at least one nationally recognized credit rating agency, or, if unrated, deemed to be of comparable quality by the Adviser. Under normal circumstances, the portfolio will invest at least 80% of its net assets, plus any borrowings for investment purposes, in municipal bonds that pay interest that is generally excludable from gross income for federal income tax purposes (except that the interest paid by certain municipal securities may be includable in taxable income for purposes of the federal alternative minimum tax). The portfolio may invest up to 20% of its total assets in securities that are not municipal securities, including the following: notes and bonds issued by domestic or foreign corporations, notes and bonds issued by financial institutions, various ABS, repurchase agreements, derivatives, and sovereign debt. The portfolio will not invest 25% or more of its total assets in any one municipal revenue sector relating to bonds backed by revenues

from similar types of projects (such as those relating to higher education, healthcare, housing, airports or utilities) or with other similar economic, business or political characteristics. For purposes of this policy, securities of the U.S. Government, its agencies, or instrumentalities and municipal obligations backed by the taxing power of governmental entities, such as general obligation bonds, are not subject to this 25% limit. The portfolio may invest more than 25% of its total assets in municipal securities whose issues are located in any one state. The primary criteria that the Adviser seeks are: (i) provides essential services, (ii) strong competitive position, (iii) financial strength, (iv) robust operating model with pricing flexibility, (v) strong revenue stream, (vi) strong coverage and covenant protection, and (vii) on-time financial filings.

The strategy seeks to target between 75-125 credits in major sub-sectors of the municipal bond market. Tax considerations play an important part in the Adviser's buy and sell decisions. As a result, the Adviser takes a long-term, tax aware investment approach and typically holds securities for four to five years.

- ❖ Income. The "Income" strategy seeks to provide maximum total return, with an emphasis on current income, consistent with preservation of capital and prudent investment management. The strategy seeks to invest in a well-diversified portfolio of fixed income instruments, including floating or variable rate debt instruments, using a value-oriented approach. The strategy's investments will be primarily focused in notes and bonds issued by domestic and foreign corporations, financial institutions, the U.S. Government, and government agencies and government guaranteed issuers, ABS, consisting of consumer and commercial ABS; CMBS and residential mortgage-backed securities; and loan transactions. The strategy, under normal circumstances, will maintain a portfolio that is 75% investment grade and maintain a duration between 80% and 120% of the Bloomberg Barclays US Aggregate Index.
- ❖ Credit Value. The "Credit Value" strategy seeks to invest in fixed income securities the Adviser believes have the potential for excess return. The portfolio is built from the bottom up, with securities the Adviser assesses as both durable and attractively priced. The Adviser seeks to invest in fixed income securities from a wide variety of sectors, including ABS, CMBS, corporate bonds, floating-rate loans and municipal bonds. The strategy will typically invest in A/BBB-rated asset backed securities and BBB/BB-rated corporate securities and will not typically own CCC rated or distressed securities. The Adviser will also invest in U.S. Treasury futures to manage the duration of the portfolio, which allows individual security selection to be managed without regard to portfolio duration. The strategy's duration is flexible, and the Adviser seeks to maintain a duration that is consistent with positive returns over longer time periods.

U.S. Government Money Market. The "U.S. Government Money Market" portfolio seeks to provide investors with as high a level of income as is consistent with the preservation of capital and the maintenance of liquidity. The portfolio, under normal circumstances, seeks to invest at least 99.5% of its total assets in cash and short-term U.S. Treasury securities and securities issued by U.S. government agencies or government-sponsored enterprises and repurchase agreements fully collateralized by such instruments. Additionally, under normal circumstances, at least 80% of the value of the portfolio's net assets will be invested in U.S. government securities and repurchase agreements fully collateralized by

U.S. government securities.

In selecting securities, the Adviser seeks to maximize current income within the limits of the portfolio's credit, maturity and diversification policies. As a U.S. government money market fund, in order to preserve the value of investors' capital, the Fund seeks to maintain a stable \$1.00 per share price. The Fund may hold uninvested cash reserves pending investment, during temporary defensive periods, or if, in the opinion of the Adviser, suitable obligations are unavailable. Uninvested cash reserves will not earn income.

### **Treasury Futures**

The SID may use U.S. Treasury futures contracts for a variety of purposes in connection with the management of the interest rate exposure of Funds. The SID's use of such contracts for a portfolio could include, but is not limited to, adjusting the overall interest rate exposure, or "duration," of the portfolio; changing the exposure of the portfolio to different parts of the yield curve; offsetting the impact of special situations that affect specific securities (e.g., tender offers); and maintaining portfolio interest rate exposure as large portfolio contributions or withdrawals occur. The SID's use of Treasury futures is subject to a Fund's investment guidelines and the Fund's completion of the necessary documentation with a futures commission merchant. The SID is not a futures commission merchant.

While transactions in Treasury futures may reduce certain risks, these transactions themselves entail certain other risks. Unanticipated changes in interest rates or securities prices may result in a poorer overall performance for a portfolio than if it had not entered into any Treasury futures transactions. In the event of adverse price movements, a portfolio may be required to make daily cash payments to maintain its required margin. If the portfolio has insufficient cash, it may have to sell portfolio securities to meet daily margin requirements at a time when the portfolio manager would not otherwise elect to do so. In addition, a portfolio may be required to deliver or take delivery of instruments underlying the Treasury futures it holds. A portfolio may suffer losses if it is unable to close out its position because of an illiquid secondary market, and there is no assurance that a portfolio will be able to close out its position when the SID considers it appropriate or desirable to do so. In general, derivatives, including Treasury futures, may involve risks different from, and potentially greater than, those of the underlying securities. To the extent a portfolio uses Treasury futures, it is exposed to additional volatility and potential losses resulting from leverage. Losses (or gains) involving Treasury futures contracts can sometimes be substantial—in part because a relatively small price movement in a Treasury futures contract may result in an immediate and substantial loss (or gain) for a portfolio.

### **Credit Default Swaps**

The SID may use credit default swaps ("CDS") to either gain exposure or to hedge a Fund's exposure to issuer credit risk. CDS agreements specify that one party pays a fixed periodic coupon for the life of the agreement to another party. The other party makes no payment unless a credit event relating to a predetermined security occurs. If such an event occurs, the party will make a payment to the other party and the swap will be terminated. The size of the payment is usually linked to the decline in the reference security's market value following the occurrence of the credit event. The SID's use of CDS is subject to a

Fund's investment guidelines. Most CDS agreements entered into by a Fund calculate the obligations of the parties to the agreement on a "net basis." Consequently, a Fund's current obligations (or rights) under a swap agreement will generally be equal only to the net amount to be paid or received under the agreement based on the relative values of the positions held by each party to the agreement (the "Net Amount"). A Fund's current obligations under a swap agreement will be accrued daily (offset against any amounts owed to a counterparty) and any accrued but unpaid Net Amounts owed to a swap counterparty will be covered by the segregation of assets determined to be liquid by the SID in accordance with its procedures. Transactions in CDS can entail counterparty risk (i.e., the counterparty's ability to pay on its obligations) as well as other market risks. The leverage used in many CDS transactions and a widespread market downturn could lead to defaults thereby reducing the ability of the risk buyer to meet its obligations.

### **Loan Participations and Assignments and Other Direct Indebtedness**

The SID may purchase, for fixed income funds, fixed and floating-rate loans, which generally will be in the form of loan participations and assignments of portions of such loans. Loan participations and assignments involve special types of risk, including credit risk, interest rate risk, liquidity risk, and the risks of being a lender.

The SID may purchase participations in commercial loans. Such indebtedness may be secured or unsecured. Loan participations typically represent direct participation in a loan to a corporate borrower, and generally are offered by banks or other financial institutions or lending syndicates. A Fund may participate in such syndications, or can buy part of a loan, becoming a lender. When purchasing loan participations, the portfolio assumes the credit risk associated with the corporate borrower and may assume the credit risk associated with an interposed bank or other financial intermediary. The participation interests that a portfolio manager intends to purchase may not be rated by any nationally recognized rating organization.

A loan is often administered by an agent bank acting as agent for all holders. The agent bank administers the terms of the loan, as specified in the loan agreement. In addition, the agent bank is normally responsible for the collection of principal and interest payments from the corporate borrower and the apportionment of these payments to the credit of all institutions that are parties to the loan agreement. Unless the Fund has direct recourse against the corporate borrower under the terms of the loan or other indebtedness, the Fund may have to rely on the agent bank or other financial intermediary to apply appropriate credit remedies against a corporate borrower.

A financial institution's employment as agent bank might be terminated in the event that it fails to observe a requisite standard of care or becomes insolvent. A successor agent bank would generally be appointed to replace the terminated agent bank, and assets held by the agent bank under the loan agreement should remain available to holders of such indebtedness. However, if assets held by the agent bank for the benefit of a portfolio were determined to be subject to the claims of the agent bank's general creditors, a portfolio might incur certain costs and delays in realizing payment on a loan or loan participation and could suffer a loss of principal and/or interest. In situations involving other interposed financial institutions (e.g., an insurance company or governmental agency), similar risks may arise.

## ***Valuation***

Where permitted, the SID typically values exchange-traded securities using the most recent sale price on the relevant exchange on the value date as of the value time. If no such sales price is reported, the SID will generally use readily-available indicative prices that it receives from independent, third-party pricing services. The SID may use broker quotes when third-party pricing services do not provide values, although broker quotes are not necessarily determinative of fair value if an active market does not exist for the security. In regard to both exchange-traded, equity, equity derivatives, and fixed income securities, in the event indicative prices are unavailable, or the SID determines in good faith that such prices may be unreliable, or when an active market for a security does not exist (such as the case during periods of extreme market uncertainty), the SID may price the securities using an internal methodology. These prices will be estimates of fair value as of the valuation date, and the SID makes no representation or warranty that a security can be sold at the estimated price. The SID may face a conflict of interest in valuing the securities or assets in a portfolio that lacks a readily ascertainable market value as the value of the assets will affect the SID's compensation. The SID values such securities and other assets in accordance with established valuation policies and procedures.

## ***Investment Risks***

Investing in securities involves risk of loss that shareholders should be prepared to bear. Certain types of investments may pose greater risks and, in some instances, increased volatility and lack of liquidity. The descriptions of risks below, as applied to a particular Fund, are qualified in their entirety by the Fund's prospectus, Key Investor Information Document (for UCITS Funds), or other offering document.

### **General Investment Risks**

- ❖ **Market Risk.** Market risks, including political, regulatory, economic and social developments, can result in market volatility and can affect the value of a Fund's investments. Natural disasters, the spread of infectious illness and other public health emergencies, recession, terrorism and other unforeseeable events may lead to increased market volatility and may have adverse effects on world economies and markets generally.
- ❖ **Liquidity Risk.** Liquidity risk is the risk that an investment cannot be bought or sold in the market in a timely manner. The levels of liquidity may depend on the asset type, the size of a position and the liquidation horizon. Securities that are subject to legal or contractual restrictions (such as private placements and certain restricted securities) may be difficult to value accurately and sell at a price deemed to be representative of their value.
- ❖ **Interest Rate Risk.** Interest rate risk refers to the price fluctuation of a bond in response to changes in interest rates. A Fund's investments in bonds and other fixed income securities will change in value in response to fluctuations in interest rates. In general, fixed-rate bonds with shorter maturities are less sensitive to interest rate movements than those with longer maturities, (i.e., when interest rates increase, bond prices fall). Rising interest rates tend to cause the prices of debt securities (especially those with longer maturities) to fall which could result in a decrease of the net asset value of a Fund. A Fund may



invest in variable and floating rate securities. Although these instruments are generally less sensitive to interest rate changes than fixed rate instruments, the value of variable and floating rate securities may decline if their interest rates do not rise as quickly, or as much, as general interest rates. A Fund's fixed income investments may be subject to heightened risk associated with rising interest rates given the current historically low interest rate environment.

A rising interest rate environment may also result in periods of volatility and increased redemptions. As a result of increased redemptions, a Fund may have to liquidate fixed income securities at disadvantageous prices and times, or at a loss, which could adversely affect the performance of a Fund.

- ❖ Credit Risk. Credit risk refers to the likelihood that an issuer, guarantor, or the counterparty to a derivative contract or repurchase agreement, will default on interest or principal payments. For ABS and CMBS, there is risk that the impairment of the value of the collateral underlying the security, such as non-payment of loans, will result in a default on interest or principal payments. Credit risk is heightened to the extent a Fund invests in below investment grade securities.
- ❖ Leverage Risk. Leverage includes borrowing or from an investment in reverse repurchase agreements and, in some cases, derivative contracts that may result in leverage to a Fund. Leverage risk is created when an investment exposes a Fund to a level of risk that exceeds the amount invested. Leveraging is speculative, tends to exaggerate the effect of any increase or decrease in the value of a Fund's securities and may cause a Fund to be more volatile.
- ❖ Derivatives Risk. Derivatives are financial contracts whose value depends on, or is derived from, the value of an underlying asset or index. Risks of investing in derivatives are different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments. Risks include liquidity risk, interest rate risk, market risk, credit risk, risk of mis-pricing or improper valuation and the risk of miscorrelation. A Fund could lose more than the principal amount invested.
- ❖ Foreign Exchange Risk. Changes in currency exchange rates and the relative value of non-U.S. currencies will affect the value of the shareholder's investment and the value of a Fund's shares. Currency exchange rates can be especially volatile and can change quickly and unpredictably. Changes can result due to political, legal or economic conditions in the country issuing the currency of other foreign countries, or the United States. As a result of currency rate movements, the value of an investment may change quickly and without warning and with no change in the underlying investments fundamentals. The SID may or may not hedge the foreign exchange exposure associated with a particular investment or a particular currency.
- ❖ Capital Controls Risk. Capital controls imposed by foreign governments may adversely affect the trading market and may cause a Fund to decline in value.
- ❖ Emerging Markets Risk. Emerging markets involve risks greater than those generally associated with investing in more developed foreign markets. These risks include: (i) expropriation, confiscatory taxation, nationalization, and less social, political and economic stability than in more developed economies; (ii) the small current size of the securities markets and lower trading volume; (iii) certain



national policies related to national interests, which may restrict investment opportunities; and (iv) the absence of developed legal structures governing private or foreign investment and private property.

- ❖ Foreign Investment Risk. Investing in equity or fixed income securities of foreign-based companies involves risks not typically associated with investing in equity securities of companies organized and operated in the United States. These risks include changes in political, social or economic conditions, diplomatic relations, confiscatory taxation, expropriation, nationalization, limitation on the removal of funds or assets, or imposition of (or change in) exchange control or tax regulations. In some foreign countries, less information is available about foreign issuers and markets because of less rigorous accounting and regulatory standards than in the United States. In addition, foreign stock exchanges and brokers could have less government supervision and regulation than in the United States. Dividends and interest on foreign securities may be subject to foreign withholding taxes, which may reduce the net return to Fund shareholders. Foreign securities are often denominated in a currency other than the U.S. dollar, which will subject a Fund to the risks associated with fluctuations in currency values. Currency fluctuations could erase investment gain or add to investment losses. All of these factors can make foreign investments more volatile and potentially less liquid than U.S. investments.
- ❖ Lack of Diversification Risk (not applicable to UCITS Funds). “Non-diversified” portfolios are not limited with regard to the portion of their assets that may be invested in the securities of a single issuer, industry sector and/or market. A non-diversified Fund may be subject to greater risk than a diversified Fund because changes in the financial condition of individual issuers, as well as political, regulatory or economic occurrences affecting such issuers may cause greater fluctuation in the value of a non-diversified Fund’s shares.
- ❖ Shareholder Concentration Risk. From time to time, an investment adviser may allocate a portion of the assets of its discretionary clients to a Fund. There is a risk that if a large percentage of Fund shareholders consists of such investment adviser’s discretionary clients, such asset allocation decisions, particularly large redemptions, may adversely impact remaining Fund shareholders.
- ❖ Management Risk. The success of actively managed Funds relies on the investment skills and analytical ability of the Adviser to develop and effectively implement strategies that achieve a Fund’s investment objective. Subjective decisions made by the Adviser may result in losses or missed profit opportunities.
- ❖ Regulatory Risk. Regulators may adopt additional regulations in the future, which may impact the operation and performance of a Fund.

### Equity Investment Risks

- ❖ Equities Risk. The price of equity securities may rise or fall because of changes in the market, changes in a company’s financial condition, or other macroeconomic variables - sometimes rapidly or unpredictably. These price movements may result from various factors affecting individual companies, sectors or industries selected for a portfolio or the securities market as a whole, such as

changes in economic or political conditions. Fund portfolios may decrease in value as a result.

### Fixed Income Investment Risks

- ❖ Bond Risk. Compared to other markets, the bond market is relatively volatile, and investments in bonds carry interest rate risk. Bonds also carry the risk of issuer or counterparty default, issuer credit risk, and inflation risk.
- ❖ Call Risk. During periods of declining interest rates, issuers of callable bonds may repay securities with higher interest rates before maturity. This could cause a Fund to lose potential price appreciation and reinvest the proceeds at lower interest rates.
- ❖ Auction Rate Securities Risk. Auction rate securities may differ substantially from cash equivalents with respect to liquidity and price stability because an auction may result in lower prices if there is insufficient demand for the auction securities.
- ❖ ABS Risk. Investments in asset-based securities are subject to prepayment and extension risks, as well as risk that the underlying borrower will be unable to meet its obligations. In addition, during periods of falling interest rates ABS may be called or prepaid, which may result in a Fund having to reinvest proceeds in other investments at a lower interest rate. The ability of an issuer of ABS to enforce its security interest in the underlying assets may be limited. A Fund holding ABS may exhibit additional volatility during periods of fluctuating interest rates.
- ❖ Mortgage-Backed Securities Risk. Borrowers may default on their mortgage obligations or the guarantees underlying the mortgage-backed securities will default or otherwise fail and that, during periods of falling interest rates, mortgage-backed securities will be called or prepaid, which may result in a Fund having to reinvest proceeds in other investments at a lower interest rate (pre-payment risk). During periods of rising interest rates, the average life of a mortgage-backed security may extend, which may lock in a below-market interest rate, increase the security's duration, and reduce the value of the security (extension risk). Enforcing rights against the underlying assets or collateral may be difficult, or the underlying assets or collateral may be insufficient if the issuer defaults. As a result, in a period of fluctuating interest rates, a Fund that holds mortgage-related securities may exhibit additional volatility.
- ❖ Agency Bond Risk. Certain U.S. government agency securities are not supported by the U.S. Government. Thus, in times of financial stress, such securities are not guaranteed by the U.S. Treasury.
- ❖ Municipal Bond Risk. Like other debt securities, municipal bonds are subject to credit risk, interest rate risk and call risk. Obligations of issuers of municipal bonds are generally subject to the provisions of bankruptcy, insolvency, and other laws affecting the rights and remedies of creditors. However, the obligations of certain municipal issuers may not be enforceable through the exercise of traditional creditors' rights. The reorganization under the federal bankruptcy laws of a municipal bond issuer or payment obligor bonds may result in, among other things, the municipal bonds being cancelled without repayment or repaid only in part. In addition, Congress or state legislatures may seek to extend

the time for payment of principal or interest, or both, or to impose other constraints upon enforcement of such obligations. Litigation and natural disasters, as well as adverse economic, business, legal, or political developments (including challenges to the continued tax-exempt status of various municipal bonds), may introduce uncertainties in the market for municipal bonds or materially affect the credit risk of particular bonds.

- ❖ Money Market Funds Risk. An investment in a money market fund is neither insured nor guaranteed by the FDIC or any other government agency. Although money market funds seek to preserve the value of an investment at \$1.00 per share, there is no assurance that will occur, and it is possible to lose money if the fund value per share falls. Moreover, in some circumstances, money market funds may be forced to cease operations when the value of a fund drops below \$1.00 per share. In that event, the fund's holdings are liquidated and distributed to the fund's shareholders. This liquidation process could take up to one month or more.
- ❖ Sovereign Debt Risk. Bonds issued by foreign governments, sometimes referred to as "sovereign" debt, present risks not associated with investments in other types of bonds. The government or agency issuing the debt may be unable or unwilling to make interest payments and/or repay the principal owed. In such instance, a Fund may have limited recourse against the issuing government or agency.

### ***Information Security Risks***

As with any entity that conducts business through electronic means in the modern marketplace, the SID may be susceptible to potential risks resulting from cyber-attacks or data loss incidents (collectively, "cyber-events"). Cyber-events may include, among other behaviors, illegally accessing or corrupting data maintained online or digitally, denial of service attacks on websites, the unauthorized monitoring, release, misuse, loss, destruction or corruption of confidential information, infection from computer viruses or other malicious software code, unauthorized access to or compromises to relevant systems, networks or devices that the SID uses, operational disruption or failures in the physical infrastructure or operating systems, or various other forms of cybersecurity breaches. In addition to intentional cyber-events, unintentional cyber-events can occur, such as, for example, the inadvertent release of confidential information. Cyber-events affecting the SID may adversely impact the Funds, potentially resulting in, among other things, financial losses or the inability of the Fund to transact business. For instance, cyber-events may cause the release of confidential business information, impede trading, subject the SID and Funds to regulatory fines or financial losses and/or cause reputational damage.

The SID and Funds may also incur additional costs for cyber security risk management purposes designed to mitigate or prevent the risk of cyber-events. Such costs may be ongoing because threats of cyber-attacks are constantly evolving as cyber attackers become more sophisticated and their techniques become more complex. Similar types of cyber security risks are also present for issuers of securities in which the Fund may invest, which could result in material adverse consequences for such issuers and may cause the Fund's investment in such companies to lose value. The SID has established risk management systems reasonably designed to manage the risks associated with cyber-events. However, there can be no assurance that the SID, the Funds, the Funds' other service providers, or the issuers of the securities in which the Funds invest will not suffer losses relating to cyber-attacks or other information security breaches in the future.

## ITEM 9 DISCIPLINARY INFORMATION

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There are no material disciplinary events involving the SID or its personnel involved in providing investment advice. However, in September 2014, as a result of a broad sweep investigation involving over 30 individuals and entities, the SEC issued an administrative order citing BBH for failure to make certain required filings under the Securities Exchange Act of 1934. Without admitting or denying the findings, BBH entered into a settlement agreement with the SEC and agreed to pay a civil penalty. As a result, BBH has enhanced its policies, procedures and controls related to the reporting of beneficial ownership. The settlement has no impact on BBH's financial status or its ability to conduct business or provide services to its clients.

In 2013, FINRA conducted an examination of BBH, which included a Financial Operations, Sales Practice and Anti-Money Laundering ("AML") review. In 2014, without admitting or denying the findings, BBH entered into a settlement agreement with FINRA addressing BBH's policies and procedures relating to the surveillance and processing of U.S. low-priced securities on behalf of certain of bank clients located outside of the United States and paying a fine to FINRA. There were no limitations on BBH's ability to conduct business as a result of the settlement. However, as part of the settlement agreement with FINRA, BBH filed a Corrective Action Statement which noted, among other things, that BBH has made changes to its processes and procedures for handling low-priced securities for the firm's bank intermediary clients, including additional policies and procedures to enhance compliance with its obligations under Section 5 of the Securities Act of 1933, and enhanced employee training with respect to low priced securities transactions and enhanced standards for filing Suspicious Activities Reports ("SARs").

## ITEM 10 OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

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Some of the SID's management are registered representatives of Brown Brothers Harriman Investments, LLC ("BBHI"), a wholly owned subsidiary of BBH, but do not generally conduct trades for the Funds. Neither the SID nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor ("CTA"), and an associated person of the foregoing. The SID relies on applicable exemptions from CTA registration when conducting trading activities with respect to commodity interests, including futures. Consistent with such exemptions, when appropriate, the SID may also trade futures and CDS on behalf of the Funds.

The SID is a separately identifiable department of BBH and is controlled by BBH. Certain employees, directors and members of the SID's executive management also serve as employees, directors and/or executive management of BBH and/or registered representatives of BBHI.

**ITEM 11 CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING****❖ Code of Ethics and Professional Conduct**

The SID has adopted a Code of Ethics and Professional Conduct (the “Code”) that requires SID personnel to (a) conduct personal securities transactions that are in accordance with the Code and with the SID’s Personal Trading and Information Barrier and Insider Information Policies, and in such a manner as to avoid any actual or potential conflict of interest; (b) comply with applicable laws and regulations; and (c) annually provide an acknowledgment of compliance with the Code. The Code contains provisions reasonably designed to identify and address potential conflicts of interest between personal investment activities and the interests of the Funds. Of course, there can be no assurance that the Code will be effective in identifying and addressing all conflicts of interest relating to personal securities transactions. The SID will provide a copy of the Code to any of its clients or prospective clients upon request.

BBH, including the SID, and any of their respective partners, principals, directors, officers, employees, affiliates or agents, face conflicts of interest when transacting in securities for their own accounts because they could benefit by trading in the same securities as the Funds, which could have an adverse effect on the Funds. However, BBH, including the SID, has implemented policies and procedures concerning personal trading by BBH Partners and employees. Trading in personal accounts is permitted pursuant to these policies and procedures, which include a pre-clearance process for transactions by certain defined insiders or access persons, as well as minimum holding periods. These procedures seek to minimize conflicts of interest by restricting the type and timing of employees’ trades and are designed to prevent and detect account activity that may violate policy or applicable laws. SID personnel are generally not permitted to purchase and sell securities that the SID or the sub-adviser purchases and sells for the Funds.

From time to time, employees of BBH, including the SID, and any of their respective partners, principals, directors, officers, employees, affiliates or agents, give or receive gifts and/or entertainment to or from clients, intermediaries, or service providers to the Fund or BBH, including the SID, which could have the appearance of affecting or may potentially affect the judgement of the employees, or the manner in which they conduct business. BBH, including the SID, has implemented policies and procedures concerning gifts and entertainment to mitigate any impact on the judgement of BBH Partners and employees.

**❖ Non-Exclusive Management**

SID personnel render investment management services to, and execute transactions for, affiliated accounts and for the accounts of other persons. The accounts of other persons include BBH partners and investment advisory accounts of BBH and SID personnel including discretionary accounts that are centrally managed as well as other Funds managed by the SID. The advice given to one client at times will differ from advice given to other client accounts, and transactions may be effected for the account of any client at prices, in amounts, or relating to securities which are not purchased or sold for other accounts.

In order to seek to avoid potential conflicts of interest, the SID may preclude Funds from making an investment or selling its existing investment in, or taking other actions with respect to, securities of a company where the SID is advising another Fund who is making or selling an investment in the securities of the same company. In addition, there may be certain investment opportunities, investment strategies or actions that the SID determines not to undertake on behalf of a Fund in view of the SID's other Fund or firm activities.

The SID maintains policies, procedures and related controls to appropriately maintain and guard against misuse of Confidential and Material Non-Public Information ("MNPI"). Information barrier controls include both physical and virtual barriers including segregation of systems, all of which are designed to control and contain the flow of confidential information and MNPI. Specific information barrier controls include, but are not limited to, control lists (e.g., restricted list and watch list), personal account trading surveillance, electronic communications surveillance and related information barrier training. From time to time, the SID may come into possession of MNPI or other information that could limit the ability of the Funds to buy and sell investments, and investment flexibility may be constrained as a consequence.

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## ITEM 12 BROKERAGE PRACTICES

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### ❖ Best Execution

Generally, the SID directs equity and fixed income orders for the Funds to unaffiliated brokers and dealers for execution. The SID seeks to obtain best execution of such orders (where the relevant market recognizes concepts of best execution), which does not necessarily mean best price. In this regard, trades will be directed to brokers and dealers based on a number of factors including: the broker's or dealer's ability to execute orders without disturbing the market price; the broker's or dealer's reliability for on-time delivery of securities; the broker's or dealer's financial condition and responsibility; the research and other investment information provided by the broker or dealer, notwithstanding that a particular client account may not be the direct or exclusive beneficiary of such service; and the commission or mark-up/mark-down charged by the broker or dealer. Accordingly, the commissions or fees charged by a broker or dealer may be greater than the amount another firm might charge provided that the SID determines, in good faith, that the amount of such commissions or fees is reasonable in relation to the value of the brokerage and research information provided. The SID has established an oversight committee to monitor its efforts to meet best execution obligations. Please also refer to the below sections entitled "*Soft Dollar or Research/Execution Arrangements*" and "*Aggregation and Allocation of Transactions*" for additional information on allocation.

### ❖ Soft Dollar or Research/Execution Arrangements

The SID directs brokerage transactions and/or payment of a portion of client commissions ("soft dollars") to specific brokers or dealers or other providers to pay for research or other appropriate services which provide, in the SID's view, appropriate assistance to the SID in the investment decision-making process. The SID has adopted soft dollar policies and procedures that seek to address potential conflicts of interest.

Research and services include information on the economy, industries, groups of securities, individual



companies, statistical information, accounting and tax law interpretations, political developments, legal developments affecting portfolio securities, technical market action, credit analysis, risk measurement analysis, performance analysis, and analysis of corporate responsibility issues. In the past year, the SID has utilized soft dollars to acquire research provided directly by brokers and by third party research providers that include historical financials, corporate data and consensus estimates that analysts, including a third-party consultant, use to assist in their decision-making responsibilities. Along those lines, the SID has also used pricing and news services, order management systems, attended conferences, attended management meetings, used models and consulted with industry experts that were paid for through soft dollars.

The SID's evaluation of the brokerage and research services provided by the broker-dealer may be a significant factor in selecting a broker-dealer to effect transactions. For this purpose, the SID has established a voting process where equity analysts vote to establish a budget and allocation model to research providers based on the value and importance of the research, which is reviewed by an oversight committee. The committee also monitors the SID's efforts to meet its best execution obligations.

The use of a broker that provides research and securities transaction services may result in a higher commission than that offered by a broker who does not provide such services. The Adviser will determine in good faith whether the amount of commission is reasonable in relation to the value of research and services provided and whether the services provide lawful and appropriate assistance in its investment decision-making responsibilities.

Research or other services obtained in this manner are sometimes used in servicing any or all the Funds and other BBH client accounts, including in connection with BBH client accounts that do not pay commissions to the broker related to the research or other service arrangements. Such products and services may disproportionately benefit other BBH client accounts relative to a Fund based on the amount of brokerage commissions paid by a Fund and such other BBH client accounts. For example, the Adviser generally may not use research or other services that are paid for through one client's commissions in managing that client's account. However, research may be shared with another BBH strategy from time to time if approved in accordance with policies and procedures. In addition, other BBH client accounts may receive the benefit, including disproportionate benefits, of economies of scale or price discounts in connection with products and services that are provided to a Fund and to such other BBH client accounts. The SID does not attempt to track the benefits of brokerage and research services to the commissions associated with a particular Fund. When the SID uses client brokerage commissions (or markups or markdowns) to obtain research or other products or services, it receives a benefit because it does not have to produce or pay for the research, products or services. The SID may have an incentive to select or recommend a broker-dealer based on its interest in receiving the research or other products or services, rather than on its clients' interest in receiving most favorable execution.

BBH, at times, receives research that is bundled with the trade execution, clearing, and/or settlement services provided by a particular broker-dealer. To the extent that BBH receives research on this basis, many of the same conflicts related to traditional soft dollars exist. For example, the research effectively will be paid by client commissions that also will be used to pay for the execution, clearing, and settlement services provided by the broker-dealer and will not be paid by BBH.

BBH endeavors to execute trades through brokers who, pursuant to such arrangements, provide research or other services that BBH believes are useful in its investment decision-making process. From time to time, BBH chooses not to engage in the above described arrangements to varying degrees. BBH also enters into commission sharing arrangements under which BBH executes transactions through a broker-dealer, and request that the broker-dealer allocate a portion of the commissions or commission credits to another firm



that provides research to BBH. To the extent that BBH engages in commission sharing arrangements, many of the same conflicts related to traditional soft dollars will exist.

In connection with receiving brokerage and research services from broker-dealers, the SID, at times, receives “mixed use” services where a portion of the service assists the SID in its investment decision-making process and a portion is used for other purposes. Where a service has a mixed use, the SID will make a reasonable allocation of its cost according to its use and will use client commissions to pay only for the portion of the product or service that assists the SID in its investment decision-making process. The SID has an incentive to underestimate the extent of any “mixed use” or allocate the costs to uses that assist the SID in its investment decision-making process because the SID pays for such costs with client commissions rather than the SID’s own resources. The SID maintains policies and procedures reasonably designed to identify and address these potential conflicts of interest.

#### ❖ Brokerage for Client Referrals

The SID does not select nor recommend broker-dealers in exchange for client referrals.

#### ❖ Client-Directed Brokerage Transactions

The SID does not permit the Funds to direct brokerage to particular broker-dealers.

#### ❖ Aggregation and Allocation of Transactions

BBH, including the SID, has adopted trade allocation policies and procedures that seek to address the conflicts associated with portfolio managers managing multiple Funds and BBH client accounts. As a result of allocation issues, the amount, timing, structuring or terms of an investment by some Funds may differ from, and performance may be lower than, investments and performance of other Funds and/or accounts. Funds that do not receive allocations that perform well may experience lower performance as a result.

Certain conflicts of interest may arise in connection with a portfolio manager’s management of a Fund’s investments and the investments of other funds or accounts for which the portfolio manager is responsible. For example, it is possible that the various funds or accounts managed by BBH could have different investment strategies that, at times, might conflict with one another to the possible detriment of a Fund. Alternatively, the investment methods and strategies that the SID utilizes in managing a Fund are utilized by BBH, including the SID, in managing investments for other funds and accounts. From time to time, BBH, including the SID, establishes, sponsors and is affiliated with other investment pools and accounts which engage in the same or similar businesses as a Fund using the same or similar investment strategies. To the extent that the same investment opportunities might be desirable for more than one account or fund, possible conflicts could arise in determining how to allocate them because BBH may have an incentive to allocate investment opportunities to certain accounts or funds. For example, BBH may act as adviser to private funds with investment strategies similar to a Fund. Those private funds may pay BBH a performance fee in addition to the stated investment advisory fee. In such cases, BBH may have an incentive to allocate certain investment opportunities to the private fund rather than a Fund in order to increase the private fund’s performance and thus improve BBH’s chances of receiving the performance fee. However, as noted above, BBH has implemented policies and procedures designed to ensure that information relevant to investment decisions is disseminated promptly within its portfolio management

teams and investment opportunities are allocated equitably among different clients. The policies and procedures require, among other things, objective allocation for limited investment opportunities, and documentation and review of justifications for any decisions to make investments only for select accounts or in a manner disproportionate to the size of the account. Nevertheless, access to investment opportunities may be allocated differently among accounts due to the particular characteristics of an account, such as size of the account, cash position, tax status, risk tolerance and investment restrictions or for other reasons.

Actual or potential conflicts of interest may also arise when a portfolio manager has management responsibilities to multiple accounts or funds, resulting in unequal commitment of time and attention to the portfolio management of the funds or accounts.

Additionally, investment opportunities are appropriate, at times, for more than one Fund or account. The SID's policy is generally to share investment opportunities with other Funds and/or accounts, provided the opportunities meet the relevant investment criteria for the other Funds and/or accounts. If it is determined that an investment opportunity will be purchased for a Fund and/or accounts, such opportunities will generally be allocated pro rata based on each Fund's and/or account's available capacity for such investment. Sometimes, specific Funds in an investment strategy will not purchase a specific security or will be allocated a lower amount of a particular security than the target percentage for the strategy because of the Funds' particular investment restrictions (including regulatory restrictions), risk tolerance, time horizon, tax sensitivity, nature and size, security availability, existing holdings or exposure, tolerance for portfolio turnover, liquidity and size limitations, and/or availability of cash or buying power. Additionally, certain fixed income strategies may have a narrower investment focus and may have fewer opportunities presented to them. Therefore, priority may be given to these strategies based on a pre-defined waterfall for each bond sector.

Funds and accounts that participate in the purchase or sale of fixed income or equity securities that are block traded will generally be allocated a pro-rata portion of the executed block trade. In the event an order is only partially filled, the SID will allocate executed shares/bonds on a pro-rata basis based on the amount of assets in each order, subject to limited exceptions including, but not limited to, minor adjustments for rounding, odd-lots and de minimis considerations. Partially filled orders raise a potential conflict of interest because BBH has an incentive to allocate trades to certain accounts or funds. Equity allocations may also be completed using a random allocation methodology which randomly selects accounts if less than 15% of the original order is executed or if less than 15% of the original batch order remains to be executed.

As previously discussed, the SID typically directs order instructions for the Funds to a list of unaffiliated brokers and dealers for handling and execution. When it is determined that aggregation (or "batching") of order instructions is consistent with the SID's duty to seek best execution for the Funds and with operational efficiency, BBH, including the SID, may, in its discretion, permit brokers or dealers to combine trades for one Fund with trades for other funds and accounts. When trades are combined, no account (including those of BBH partners and BBH and SID personnel) will be favored over any other account with respect to allocation percentages or execution price over an extended period of time.

Allocations for equity and fixed income trades are generally made by the end of the day on which the trade is executed, absent atypical circumstances.

Trade allocation when both Funds and BBH accounts (Pension or Capital) are involved in the same trade of a non-fungible security are allocated pro-rata based on the desired share amount if a full allocation cannot be obtained or sold. If a security trade is executed through more than one dealer at different prices, allocations will be completed in such a way that both the BBH accounts and Funds receive the same weighted average price.

#### ❖ Cross Trades

Under certain circumstances, the SID, on behalf of the Fund, may seek to buy from or sell securities to another fund or account advised by BBH or the SID. Subject to applicable law and regulation, BBH or the SID may (but is not required to) effect purchases and sales between BBH or the SID's clients ("cross trades"), including a Fund, if BBH or the SID believe such transactions are appropriate based on each party's investment objectives and guidelines. The SID represents that any such transaction will be "crossed" or transferred, generally through the use of a third party, between the relevant accounts at an independently determined market price and without either client incurring brokerage commissions, although customary custodian and transfer fees will normally be incurred. There may be potential conflicts of interest or regulatory issues relating to these transactions which could limit the SID's decision to engage in these transactions for a Fund. BBH or the SID may have a potentially conflicting division of loyalties and responsibilities to the parties in such transactions.

#### ❖ Foreign Exchange Trading

In connection with transactions in foreign securities for the Funds, the SID enters into transactions for the purchase and sale of one or more foreign currencies. The SID may combine foreign currency transactions for several Funds. The Funds do not trade with BBH's Foreign Exchange Department on a principal basis. However, BBH may process certain transactions in restricted markets on an agency basis.

#### ❖ Trade Errors

The SID will investigate trade errors and determine whether reimbursement to the Funds is warranted. The SID will not be responsible for trade errors resulting from an act or omission by any unaffiliated person (including unaffiliated persons the SID retains to provide services to a Fund, unless the SID was grossly negligent in such selection) and any act or omission of any unaffiliated custodian, broker, transfer or similar agent of an issuer of securities. The SID will not retain a net profit from trade errors resulting from its gross negligence or willful misconduct and will reimburse the Fund for security-related market value loss plus trading costs.

### **ITEM 13      REVIEW OF ACCOUNTS**

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The Mutual Funds and the UCITS Funds are reviewed by the SID at least annually. Generally, Fund reviews will include, where applicable:

- Checks for portfolio compliance with Fund investment objectives/guidelines;
- Checks for portfolio compliance with applicable law; and
- Checks that Fund performance is consistent with the strategy.

All reviews are reviewed and approved by applicable supervisors.

### **ITEM 14      CLIENT REFERRALS AND OTHER COMPENSATION**

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No person who is not a client provides an economic benefit to the SID for providing investment advice to its clients. Neither the SID nor any of its related persons directly or indirectly compensates any person for client referrals.

### **ITEM 15      CUSTODY**

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Not applicable.

### **ITEM 16      INVESTMENT DISCRETION**

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The SID has investment discretion over the Funds, including the discretion to determine the securities to be bought or sold and their amount, the broker-dealers to be used, and the commission rates or fees to be paid for those executions. This discretionary authority is limited by the Funds' offering documents and applicable law.

When the SID engages a sub-adviser, the sub-adviser has trading and brokerage discretion over the sub-advised Fund. As part of that engagement, the SID considers the sub-adviser's compliance policies and procedures, including those relating to trading, brokerage and the allocation of trading opportunities and requires them, among other things, to adhere to best execution standards. It should be noted that, when deemed appropriate, the SID may manage all or a portion of a sub-advised Fund's assets according to the Fund's principal investment strategies.

### **ITEM 17      VOTING CLIENT SECURITIES**

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The SID has adopted a Proxy Voting & Class Action Policy and Procedure, available to Fund investors upon request, which is designed to prevent conflicts of interest from influencing proxy voting decisions that the SID makes on behalf of the Funds. Actual proxy voting decisions of the SID may have the effect of favoring the interests of certain clients or businesses of other divisions or units of BBH or its affiliates provided that the SID believes such voting decisions to be in accordance with its fiduciary obligations. Unless otherwise stated in the investment management agreement, the SID maintains the right to vote proxies on behalf of the Funds and utilizes the services of a third-party proxy agent in making voting

decisions. The SID reserves the right to vote proxies in a manner that is different than the vote recommended by third- party proxy agents. When the SID uses a sub-adviser, the sub-adviser generally votes proxies on behalf of the Fund. BBH has engaged the services of a third-party service provider to participate in class action shareholder lawsuits, on a best efforts basis, in connection with securities beneficially owned by the Funds during relevant class action periods. BBH is solely responsible for any fees paid to such third party.

#### **ITEM 18 FINANCIAL INFORMATION**

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The SID does not require or solicit prepayment of more than \$1,200 in fees per client six months or more in advance and, thus, has not included a balance sheet of its most recent fiscal year.

The SID is not aware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients, nor has the SID been the subject of a bankruptcy petition at any time during the past ten years.