

Form ADV Part 2A - The Brochure

**Item 1 – Cover Page**

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This Brochure provides information about the qualifications and business practices of Spectrum Asset Management, Inc., hereinafter referred to as “Spectrum” or “Adviser”. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Spectrum is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training.

If you have any questions about the contents of this Brochure, please contact us at (203) 322-0189 and/or [jhanczor@samipfd.com](mailto:jhanczor@samipfd.com).

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

## **Item 2 – Material Changes**

There have been no material changes since the last annual amendment on March 5, 2019.

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#### **Item 4 – Advisory Business**

Spectrum was founded in 1987 and specializes in the management of portfolios of preferred securities and other junior subordinated capital securities including contingent convertible capital securities (collectively referred to herein as junior subordinated capital securities). These are generally some of the highest-yielding investment grade and below investment grade securities in the U.S. and E.U. capital markets. Spectrum also manages portfolios that include various derivatives-based volatility mitigation strategies relative to interest rate, credit and broad market volatility. Spectrum manages portfolios for a global universe of corporate, pension fund, insurance and endowment clients, open-end mutual funds, including those distributed by Principal Funds, and closed-end mutual funds domiciled in the United States, Ireland (“UCITS”) and Japan, and separately managed account programs for high net worth individual investors sponsored by a variety of broker-dealers, and distributed by Principal Global Investors, LLC (“PGI”). Spectrum is one of the largest investment advisers in the world specializing in the preferred securities and other junior subordinated capital securities market with \$23 billion in assets under management as of 12/31/19. Of this amount, discretionary assets totaled \$18.4 billion and non-discretionary assets totaled \$4.6 billion.

Spectrum was acquired in 2001 by PGI, the asset management arm of The Principal Financial Group® (“PFG”). Spectrum is 100% directly owned by Principal Global Investors Holding Company (US), LLC, which is 100% directly owned by Principal Financial Services, Inc. (“PFSI”). PFSI is 100% directly owned by PFG. The Principal Financial Group was established in 1879 and became a public company listed on the New York Stock Exchange in 2001 under the ticker symbol PFG.

Spectrum is an investment adviser registered with the SEC and is the 100% owner of SAMI Brokerage LLC, its affiliated broker/dealer member firm of the Financial Industry Regulatory Authority (“FINRA”). Spectrum is also a member of the National Futures Association (“NFA”) and is registered with the Commodity Futures Trading Commission (“CFTC”) as a Commodity Trading Advisor.

Spectrum is an investment manager for the separately managed account/wrap fee programs ("wrap programs") listed in Schedule D, Section 5.I(2) of Spectrum's Form ADV Part 1, including wrap programs created and/or serviced by the financial institutions listed in Schedule D, Section 5.I(2) of Spectrum's Form ADV Part 1 that are "private-labeled" by third-parties. (See Section 5 below for a description of these services.)

## Item 5 – Fees and Compensation

Spectrum provides discretionary investment advisory services to institutional clients generally investing at least \$25,000,000 for discretionary individually managed accounts. Spectrum typically offers such services for an advisory fee calculated as a percentage of assets under management as described below, and on a limited basis offers certain investment management services based on a performance fee as described in Section 6. Spectrum charges commissions for certain securities transactions executed by its affiliated FINRA member broker/dealer according to its commission schedule, a copy of which is available upon request. Item 12 herein further describes the factors that Spectrum considers in selecting or recommending broker/dealers for client transactions and determining the reasonableness of their commissions. Clients may also pay custodial fees to the custodian of their choosing, exchange fees and other charges. Spectrum does not reduce its advisory fees to offset commissions.

A client wanting to terminate an investment advisory contract before its expiration date generally may do so by giving 30 days written notice, unless otherwise specified in the negotiated contract.

The investment advisory fees generally charged by Spectrum for each of its products are as follows:

Individually Managed Accounts: Fees are generally charged based on the average daily value or month end value of client assets under management, payable quarterly in arrears. Fees are negotiable and may vary from those shown below to reflect circumstances that may apply to a specific client or account. Accounts with special investment guidelines or other special circumstances or requirements may be charged differently based on the services rendered. Some existing clients may pay different fees that are not available to new clients. Clients may withdraw funds from management at any time, upon delivery of notice to Spectrum. Clients are asked to provide 30 days' notice of a withdrawal so that liquidation may be effected efficiently. Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any paid, unearned fee will be promptly refunded, and any earned, unpaid fee will be due and payable.

Spectrum's current basic fee schedule for individually managed accounts is as follows:

| <u>Account Value</u> | <u>Annual Fee Rate</u> |
|----------------------|------------------------|
| Initial \$50 million | 0.50%                  |
| Next \$200 million   | 0.45%                  |

|                    |       |
|--------------------|-------|
| Next \$750 million | 0.40% |
| Over \$1 billion   | 0.35% |

Investment Companies: Spectrum acts as a sub-adviser to U.S. registered investment companies ("registered funds") and UCITS funds domiciled in Dublin, Ireland. The fees and other contractual arrangements for each of these registered funds are described in the registered fund's registration statement filed with the Securities and Exchange Commission and with the Central Bank of Ireland.

Wrap Programs: Spectrum is an investment manager for the separately managed account/wrap fee programs ("wrap programs") listed in Schedule D, Section 5.1(2) of Spectrum's Form ADV Part 1, including wrap programs created and/or serviced by the financial institutions listed in Schedule D, Section 5.1(2) of Spectrum's Form ADV Part 1 which are "private-labeled" by third-parties. In a typical wrap program, each client enters into an agreement with the sponsor of the wrap program, and each investment manager available in the program maintains a sub-advisory agreement with the sponsor of the wrap program or other service providers involved in the program. Clients typically pay a single all-inclusive "wrap" fee to the wrap program sponsor that covers, among other things, advisory, brokerage execution and custodial services.

Spectrum handles the placement of trades for some wrap fee programs and provides model portfolio recommendations to the program sponsor. Model portfolio recommendations are provided to the program sponsor throughout each business day. To ensure that over time no account (or group of accounts) will be systematically favored over any other account (or group of accounts), and with respect to certain wrap fee programs for which Spectrum executes step out trades, Spectrum rotates the order of execution of such step out trades. For trade rotation purposes, "model only" wrap fee program sponsors are accorded rotation slots on a similar basis as the slots accorded to other wrap fee program sponsors, the only difference being that the model portfolio is communicated to the "model only" wrap fee program sponsors and the trade orders based on the model portfolio are communicated to the other wrap fee program sponsors.

Spectrum receives fees paid by wrap program sponsors that are generally a per annum percentage of the market value of the accounts in the program. Some wrap programs provide for the wrap fee (including the portfolio management portion payable to Spectrum out of that wrap fee) to be paid by the client before the services are rendered by Spectrum, while some wrap programs provide for the wrap fee to be paid in arrears by the client after Spectrum provides services for the period covered by the fee.

Spectrum, in agreement with certain wrap sponsors, steps-out trades for the benefit of client accounts in certain circumstances such as when, for example, the sponsor and Spectrum believe that Spectrum may be able to achieve better execution, e.g. for larger block trades. In the event Spectrum steps-out trades, Spectrum, through its affiliated broker-dealer, will facilitate the purchase and sale of securities in accordance with its policies and procedures. (See Item 12). Spectrum does not charge commissions for step-out trades. In certain programs, the fees and services may be unbundled, and Spectrum may enter into an investment advisory agreement directly with the clients. Spectrum's fees for portfolio management of wrap fee programs are asset based and generally range between 0.25% and 0.35% annually. The minimum account size may vary by program but is typically \$100,000 – \$500,000. Spectrum provides discretionary and non-discretionary investment management services to the wrap programs. Various other services, including performance review and reporting, may be performed by the wrap program sponsor and/or other service providers.

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

Spectrum, in very limited circumstances, charges performance fees in compliance with Rule 205-3 of the Investment Advisers Act of 1940. Any such performance fees will be negotiated on an individual basis with the client. Spectrum is willing to consider incentive fees in appropriate circumstances. In measuring clients' assets for the calculation of performance-based fees, Spectrum may include realized and unrealized capital gains and losses. Performance based fee arrangements may create an incentive for the adviser to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor performance based fee-paying accounts over other accounts in the allocation of investment opportunities. Spectrum manages investments for a variety of clients including mutual funds, exchange-traded funds, large institutional clients, and SMA program accounts. Potential conflicts of interest may arise from the side-by-side management of these clients based on fee structures. Spectrum has procedures designed and implemented to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

#### **Item 7 – Types of Clients**

Spectrum provides portfolio management services to registered mutual funds, private investment funds, foreign funds such as UCITS, sponsors of wrap account programs, corporate pension and profit-sharing plans, charitable institutions, insurance companies, foundations,

endowments, and other U.S. and international institutions. Generally, the minimum account size for opening and maintaining an account is \$25 million.

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

### **Introduction:**

We believe that the junior subordinated capital securities of a high-quality issuer may offer a superior risk-adjusted return versus the senior debt of a similar and/or lower quality issuer due to relative credit risk premium and recovery characteristics experienced in the asset class. In addition, a preponderance of retail investors in the junior subordinated capital securities market may create inefficiencies or opportunities for a professional investment manager to generate alpha.

Spectrum's investment philosophy is premised on junior subordinated capital securities providing investors with high current income and efficient diversification with diligent management of credit risk. Junior subordinated capital securities are generally the highest-yielding securities available from a universe of issuers that have predominantly investment-grade senior debt ratings.

Important elements of Spectrum's active management strategy of junior subordinated capital securities include:

- A team of junior subordinated capital securities market specialists
- A disciplined, scalable investment process
- Independent fundamental and quantitative research with relative fundamental scoring and concentration tiering that assist with the portfolio management process
- Relative value orientation
- Downside risk management
- Responsiveness to market evolution
- Interest rate volatility mitigation

Spectrum's investment process reflects a core commitment to fundamental credit and security analyses. An integrated global process networked with our parent can also complement our boutique style through a team orientation with Principal Global Investors®. A significant amount of our time and resources are focused on gathering and analyzing the information necessary for

our bottom-up investment process. Specific portfolio risk is managed through credit approval and security selection, and may be complemented systemically by risk management solutions aimed to mitigate market risk.

**Quality:** Spectrum's investment universe comprises securities that are issued primarily by companies with senior unsecured debt rated as investment grade at the time of purchase by Moody's or S&P. Investment-grade-rated debt issuers may also have issued junior subordinated capital securities that are either investment grade at the time of issue, below investment grade at the time of issue, or were investment grade at the time of issue but were subsequently downgraded to below investment grade at the time of purchase, all of which could be included in Spectrum's investment universe.

**Liquidity:** At least US \$250 million of issuance outstanding. Liquidity is considered at the time of potential investment.

#### Credit Process:

The Spectrum credit process comprises our "3R" method of Research, Review (& Analysis) and Recommendation. Based on quantitative and qualitative inputs, we conduct a top-down analysis of global, sovereign and industry risks and opportunities, combined with a bottom-up analysis of individual company fundamentals. The primary focus is on global junior subordinated capital security issuers in the bank, insurance, REIT and financial services sectors. We also provide coverage on issuers in the utility, telecom, energy and other non-financial sectors. The credit team is headed by Executive Director Joseph Urciuoli, and includes Senior Vice President and lead banking and REIT analyst John J. Kriz, and Vice President and lead insurance analyst Chad Stogel.

#### Research:

In addition to Spectrum leveraging its unique relationship with the Principal Global Investors® fixed income group (a comprehensive network of over 20 domestic and international credit analysts and economists), we utilize a mosaic approach in collecting research data through:

- Audited company financial statements
- Sell-side research and independent third party opinions

- Rating agency research
- Bloomberg news and data
- Industry conferences
- One-on-one meetings with company management
- Analyst dialogue
- Comprehensive Principal Global Investors® research resources
- Financial media

## Review and Analysis:

### Top-Down

- Global: Geopolitical risk, global instability, energy price volatility, man-made/natural catastrophes, war and/or terrorism, spread of infectious diseases, weapons of mass destruction, cyber-attacks
- Sovereign: Macroeconomic conditions, central bank monetary/fiscal policy, competition, indebtedness, weakening/strengthening currency, political uncertainty, ratings, government instability, social unrest
- Industry: Consolidation, life cycle (growth, maturity, decline), defensive/cyclical characteristics, regulation, capital/labor intensive, barriers to entry, market leadership, competitive challenges, emerging technology, demographics

### Bottom-Up -- Company Fundamental Analysis

- Quantitative Metrics: CAMEL - style analysis including a review of capital adequacy, asset quality, management, earnings, liquidity and leverage
- Qualitative Factors: Business line mix, litigation, ownership, acquisitiveness, risk temperament, management style, expense controls, disclosure, track record, strategic direction, company structure, footprint, systemic importance.
- Ratings: Major agencies

#### Recommendation:

Following a comprehensive review and analysis of all relevant information, the credit team renders Buy, Hold, or Sell issuer recommendations to the portfolio management team. Under a “Buy” recommendation the credit team independently sets parameters (sovereign, industry and issuer limits) under which the portfolio management team can purchase selected issuers. The team also identifies those issuers in the portfolio that are a “Hold” whereby the PMs must not add to existing positions, and issuers which are a “Sell.” Using a multi-tier methodology, the team also assigns a maximum concentration ranking to each “Buy” recommendation, predicated on issuer size and risk profile. In general, concentration rankings are tiered from 1% to 5%. The credit team actively monitors its “master list” of approved credits and rankings, with any changes immediately communicated to the investment team.

The credit team formally presents changes in their opinions at the weekly investment committee meetings which, in addition to Mr. Urciuoli and his credit team, John J. Kriz and Chad Stogel, are attended by the entire portfolio management group comprising CEO Mark Lieb, CIO Phil Jacoby, and portfolio managers Fred Diaz, Bob Giangregorio, Manu Krishnan and Kevin Nugent. These meetings also provide a forum for investment committee members to discuss important topics related, but not limited to, portfolio management, the junior subordinated capital securities market, interest rates, and the US and global economic outlook. Outside of these formal committee meetings, the credit team routinely communicates directly with the portfolio managers regarding salient credit issues or opportunities.

**Security Analysis Process:** Once the credit analysis of the issuer is complete, Spectrum analyzes the various junior subordinated capital securities in issuance. The focus of Spectrum’s security analysis is to assess the relative value among various junior subordinated capital securities on the basis of key features, which could include call protection, subordination, option-adjusted spread and security credit rating.

Spectrum compares yields and option-adjusted spreads (OAS) of a particular issue relative to:

- The issuer’s senior debt
- The issuer’s junior subordinated capital securities of a different trading market sector, such as US\$25 par issues versus US\$1,000 par issues.

- The issuer's junior subordinated capital securities of the same type, such as US\$25 par issues. vs. other US\$25 par issues, or US\$1,000 par vs. other US\$1,000 par issues.
- Junior subordinated capital securities of other issuers.

Spectrum has built a system that sources US\$25 par security prices from FINRA brokers and NYSE floor specialists, and combines them with IDC and Bloomberg prices for US\$1,000 par junior subordinated capital securities and senior debt. This tool allows Spectrum to compare the spreads described above on a real time basis. It allows Spectrum not only to highlight possible attractive relative securities, but to also identify potential market inefficiencies or trading opportunities.

Security Selection: Key drivers in the security selection process are credit strength and yield. For a security to be considered for investment, the credit status of the issuer generally must be stable to improving. The security yield must be appealing, given the credit rating and trend relative to other junior subordinated capital securities. In addition, the junior subordinated capital issue is analyzed relative to the real or theoretical level of the same issuer's corporate debt. Features such as call protection, subordination, and option-adjusted spreads are assessed to help determine if a given issue may provide a yield premium to justify its inclusion in the portfolio.

Portfolio Construction: Portfolio construction is a bottom-up approach whereby the credit team initially conducts extensive analysis described above. Parameters of credit risk tolerances are determined for all issuers held or expected to be held in the portfolios. Initial emphasis is on industries which are considered by the credit team to possess stable and/or improving fundamentals. The credit and research team then categorizes the various issuers into tiers which set the concentration limits for the portfolio managers to follow in constructing the portfolios.

The next step in the process is for the portfolio managers to construct junior subordinated capital security model portfolios which are suitably diversified with the objective of obtaining optimum potential income and capital preservation. The portfolio managers are responsible for constructing individualized portfolios that capture desired return objectives while adhering to specified client policy guidelines and preferences. Portfolios are continuously reviewed for opportunities to increase yield while balancing risk.

Sell decisions can be either a function of a credit development or recognition that the junior subordinated capital yield has become "rich" in the absolute or relative to the yield of senior debt. Diversification is a primary consideration, and while most portfolio guidelines specify 5% as the maximum position for an individual credit, holdings are typically in the 0.5% to 3.0% issuer concentration range.

The process is designed to actively manage the portfolios. This involves formally establishing target duration, industry allocation, credit quality and liquidity parameters relative to predetermined benchmarks and risk management guidelines. The portfolio managers are assigned the ultimate responsibility for constructing individualized portfolios for our clients.

The main drivers of our portfolio risk management process are:

#### Credit Risk

Spectrum actively manages credit risk by monitoring global, sovereign, industry and issuer trends for potential improvement or deterioration in credit quality. Diversification is a core action which may mitigate certain risks. Typically, no single issue will represent more than 5% of the portfolio. In addition to internally generated analyses, Spectrum communicates with Principal Global Investors®, and utilizes the services of the major rating agencies, third-party research opinions as well as industry analysts at our counterparty investment banks.

#### Spread Risk

Spread risk refers to the risk that valuation yield spreads on corporate debt securities, and on junior subordinated capital securities in particular, may widen relative to US Treasury bond yields. This market risk is also known as systematic risk. Systematic risk may be reduced through structure selection, duration choice and hedging solutions.

#### Liquidity Risk

The junior subordinated capital securities market is often less liquid than the US Treasury, agency, corporate and asset-backed markets. Our minimum liquidity requirements serve to mitigate this risk. Securities are initially screened for minimum size preference of US \$250 million of issuance outstanding. In addition, Spectrum is an active participant in the junior subordinated capital securities secondary markets which trade over-the-counter. Spectrum also maintains a direct presence in junior subordinated capital securities that trade on the floor of the New York Stock Exchange, which enables us to add value via trading as an agent.

Trading Risk: There can be risks to a portfolio when there is frequent trading of securities. Spectrum does not engage in what we believe to be frequent trading or portfolio turnover.

Portfolio Guideline Risk: This risk is monitored daily. All investment guidelines and other account rules are contained in our proprietary allocation model. All prospective trades are run through the model and checked against investment guidelines prior to execution. Spectrum uses Bloomberg AIM for guideline compliance monitoring which provides a centralized and organized view of investment guideline compliance operations.

Difficult Market Conditions: Spectrum clients may be materially adversely affected by conditions in the global financial markets and economic conditions throughout the world, including pandemics. The global market and economic climate may be adversely affected by factors beyond Spectrum's control, including rising interest rates or accelerating asset deflation or inflation, deterioration or volatility in the credit and finance markets, deterioration in the credit of sovereign nations, terrorism or political uncertainty.

#### Volatility Mitigation Strategies

Spectrum employs volatility mitigation strategies relative to interest rate, credit and broad market volatility for certain accounts that have authorized such strategies.

Spectrum's Volatility Mitigation for Bonds (VMB") strategy is an active strategy that trades listed options on U.S. Treasury long bond futures and U.S. Treasury long bond futures. The Volatility Mitigation for Stocks ("VMS") strategy is an active strategy that buys vertical put spreads and vertical call spreads on the S&P 500\* Index (or S&P 500 ETF options on S&P 500 Index futures). The strategies employ quantitative, rules-based processes to determine both the entry to and exit from options and futures positions.

The primary risks with these strategies are those associated with purchasing option spreads. These include: 1) premium reduction as time passes, and 2) option expiration with no option value. Volatility management strategies may increase transaction costs, which could increase losses or reduce gains. These strategies may not protect against market declines and may reduce participation in market gains. Transactions in derivatives may increase volatility, cause the liquidation of portfolio positions when not advantageous to do so and produce disproportionate losses.

\*Note: "Standard & Poor's 500" and "S&P 500®" are trademarks of The McGraw-Hill Companies, Inc. and have been licensed by Principal. The strategies are not sponsored, endorsed, sold, or promoted by Standard & Poor's and Standard & Poor's makes no representation regarding the advisability of investing in the strategies.

## **Item 9 – Disciplinary Information**

Spectrum, as a registered investment adviser, is required to disclose all material facts regarding any legal or disciplinary events that would be material to the evaluation of Spectrum or the integrity of Spectrum's management. Spectrum has no items that are reportable under this item.

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

Spectrum is an investment adviser registered with the SEC and the 100% owner of SAMI Brokerage LLC its affiliated broker/dealer FINRA member firm. (See the discussion in Section 12 of the conflicts of interest that arise from this affiliation). Spectrum is also a member of the National Futures Association and registered with the Commodity Futures Trading Commission as a Commodity Trading Adviser.

Spectrum was acquired by Principal Global Investors ("PGI") in 2001. PGI is the asset management arm of The Principal Financial Group® (The "Principal"). The Principal Financial Group was established in 1879 and became a public company listed on the New York Stock Exchange in 2001 under the ticker symbol PFG. ("The Principal Financial Group" and "The Principal" are registered trademarks of Principal Financial Services, Inc., a member of the Principal Financial Group).

Spectrum has various financial industry affiliations including with Principal Global Investors and subsidiaries of The Principal as set forth in Section 7. A. of Spectrum's Form ADV Part 1 and with the majority owned affiliates of Principal International, Inc. Assets under management include assets managed by investment professionals of Principal Global Investors under dual employee arrangements with other subsidiaries of The Principal.

PGI is an investment advisor registered with the SEC. PGI provides Spectrum various resources and services, including but not limited to, legal, compliance, internal audit, human resources, and sales and marketing. Spectrum has common directors with PGI.

Spectrum is under common control with Principal Securities, Inc., a broker-dealer registered with the SEC and a FINRA member firm that markets a variety of mutual funds, unit investment trusts and limited partnerships. Principal Securities is the principal underwriter and distributor of institutional shares of a family of mutual funds organized by Principal Life Insurance Company ("Principal Life"). Spectrum currently does not conduct any brokerage business with Principal Securities. Spectrum personnel are not eligible to receive compensation for any sales of securities made to Principal Securities clients or prospective clients.

Spectrum is under common control with Principal Funds Distributor, Inc. ("PFD"), a broker-dealer registered with the SEC and a FINRA member firm. PFD is the principal underwriter and distributor of retail and institutional shares of a family of mutual funds organized by Principal Life. Spectrum currently does not conduct any brokerage business with PFD.

Spectrum is under common control with Principal Life, a life insurance company licensed in all 50 states and the District of Columbia.

We are part of a diversified, global financial services organization with many types of affiliated financial services providers, including but not limited to broker-dealers, insurance companies and other investment advisers. We may enter into arrangements to provide services or otherwise enter some form of business relationship with our foreign affiliates. Additional disclosure of these relationships will be provided upon request.

## **Item 11 – Code of Ethics, Participation in Client Transactions and Personal Trading**

Code of Ethics: Pursuant to Rule 204A-1 under the Investment Advisers Act of 1940, Spectrum has adopted a Code of Ethics (the "Code"), which sets forth standards of business and personal conduct for directors, officers and employees of Spectrum. The Code addresses conflicts that may arise from personal trading by Spectrum's employees, all of whom are deemed to be Access Persons. The Code is predicated on the principle that directors, officers and employees of Spectrum will adhere to the highest ethical standards and fiduciary principles, and must:

- place client interests first;
- engage in personal securities transactions consistent with the Code and avoid any actual or potential conflict of interest or any abuse of their position of trust and responsibility;

- not take inappropriate advantage of their positions;
- keep security holdings and financial circumstances of clients confidential; and
- adhere to the principle that independence in the investment decision-making process is paramount.

Spectrum maintains high ethical standards and requires employees to conduct themselves in an appropriate manner, as more fully described in the Code. All employees of Spectrum receive a copy of the Code at the beginning of their employment by or association with Spectrum and certify that they understand and will abide by the Code. Employees are also provided a copy of the Code whenever material amendments are made and they are required to certify, upon such amendment, as well as on an annual basis, that they understand and have complied with the Code.

The Code requires that employees report any violations of the Code promptly to Spectrum's Chief Compliance Officer ("CCO"). Material violations of the Code will be reported to Spectrum's Board of Directors.

As part of the Code, Spectrum has adopted personal securities transaction reporting policies. Each Access Person is required to report to Spectrum via FIS PTA transactions in reportable securities in personal accounts.

Access Persons are prohibited from purchasing individual junior subordinated capital securities. Therefore, Spectrum employees are prohibited from buying the type of securities that are purchased for client portfolios. Also, Spectrum employees may not purchase common stock of Spectrum clients. Access Persons also are prohibited from acquiring any securities in an initial public offering. Access Persons may not, directly or indirectly, acquire any security in a private placement transaction without obtaining prior approval of the Chief Compliance Officer of Spectrum.

Access Persons are discouraged from frequent personal securities trading. Access Persons who purchase shares of mutual funds advised or sub-advised by Spectrum are instructed that they should retain such shares for a minimum of 30 days, and redemptions or exchanges of such shares within 30 days of purchase must be pre-cleared by the CCO, who will grant approval only under special circumstances. Additional requirements apply to transactions in investment products of Spectrum's parent company or stock of such company.

Access Persons generally are prohibited from serving as board members of publicly traded companies, and exceptions will be made by the CEO and CCO only when it does not conflict with the interests of Spectrum or its clients. Access Persons may not undertake other business activities outside of Spectrum that may cause, or appear to cause, any conflict of interest, and Access Persons must disclose all directorships in businesses and other interests in businesses where they either have a controlling or influencing position or receive monetary compensation for their involvement in that business.

In accordance with Section 204-A of the Investment Advisers Act of 1940, Spectrum also maintains and enforces written policies reasonably designed to prevent the misuse of material non-public information by the firm or any person associated with the firm.

Spectrum recommends the purchase of shares of affiliated mutual funds for which Spectrum and its affiliates provide advisory services. Spectrum may recommend securities to unaffiliated clients that are currently held in affiliated client portfolios or personally held by Spectrum's employees. Spectrum does not buy or sell for itself securities that it also recommends to clients.

Clients of Spectrum can obtain a copy of the Code of Ethics by contacting Joseph Hanczor, Chief Compliance Officer at (203) 322-0189, or [jhanczor@samipfd.com](mailto:jhanczor@samipfd.com).

Cross Trades: Spectrum may occasionally conduct cross trades for client accounts. A cross trade occurs when Spectrum purchases and sells a particular security between two or more accounts under Spectrum's management. Spectrum utilizes cross trades when it deems the practice to be advantageous for each participant. Spectrum has a conflict of interest when effecting a cross trade because Spectrum must consider the interests of both the selling account and the buying account in the same transaction. This conflict of interest may be greater in situations where one of the clients involved in the transaction pays Spectrum a higher management fee or a performance-based fee. Additionally, clients might have received a more favorable price if the transaction were executed in the open market rather than having the security bought or sold through a cross trade.

To address these concerns, Spectrum's procedures require that cross trades be effected at the independent current market price of the security as determined by reference to independent third-party sources. Under Spectrum's policy, cross trades are currently not permitted in accounts that are subject to the Employee Retirement Income Security Act ("ERISA"). Spectrum

does not receive brokerage commissions when conducting cross trades for client accounts. Spectrum will seek to ensure that the terms of the transactions, including the consideration to be paid or received, are fair and reasonable, and the transactions are executed in a manner that is in the best interest of the clients involved in the cross trade.

## **Item 12 – Brokerage Practices**

To the extent permissible under applicable law, Spectrum will generally effect through its affiliated broker all securities transactions on behalf of Spectrum's clients, including securities traded on an exchange or in the over-the-counter ("OTC") market, unless a client directs the execution of its transactions to another broker-dealer. The affiliated brokerage services include placing and monitoring buy and sell orders on the floor of the exchange or with broker-dealers in the OTC market, and monitoring the markets. Spectrum obtains client consent to effect all brokerage transactions through its affiliated broker/dealer, consistent with regulatory requirements.

In addition to the advisory fees Spectrum receives, Spectrum generally receives a brokerage commission, net of commission costs, for certain transactions executed through its affiliated broker/dealer in accordance with the firm's commission schedule which is available to all clients. Depending upon the size of a client account, the volume of securities traded for the account, and other factors, the commissions Spectrum charges may vary by client, and some clients may pay a lower or no commission. Spectrum believes that the brokerage commissions and fees charged by Spectrum for its services are commercially reasonable and consistent with its best execution responsibilities.

In addition, a client may direct Spectrum to effect futures transactions on the client's behalf as a commodity trading advisor. Such trades would be cleared through a third-party futures clearing firm and clients would pay commissions and charges for such transactions in accordance with Spectrum's commission schedule.

Conflicts of Interest: Spectrum has a conflict of interest in directing clients' brokerage to its affiliated FINRA member broker/dealer and generally executing its clients' transactions through its affiliated broker/dealer because the commissions described above are an incentive for Spectrum to effect the transactions through its affiliated broker/dealer rather than direct trades to other broker/dealers. Spectrum addresses this conflict of interest as described in this section.

Also, Spectrum recommends, and buys and sells securities for accounts of its related persons; and Spectrum may buy or sell for clients securities in which Spectrum's related persons have a financial interest or position. Spectrum addresses this potential conflict of interest by, among things, the trade allocation practices described herein.

Selection of Brokers or Dealers: As stated above, Spectrum generally executes all transactions on behalf of its clients with client consent through its affiliated broker/dealer and has the authority to determine, without client consultation or consent, the clearing broker through which securities or other instruments are cleared and the commission rates or dealer spreads at which transactions are effected.

Certain clients limit Spectrum's discretionary authority over their accounts and instruct Spectrum which brokers and dealers to use or not to use to execute securities transactions. These clients may pay different transaction costs (including commissions) because Spectrum does not negotiate commissions. They also may obtain different prices for securities than if Spectrum executed the client's trades through its affiliated broker/dealer because Spectrum may not be able to aggregate these transactions with trades for its other clients. In addition, guidelines employed by Spectrum to distribute investment opportunities fairly among all clients may occasionally limit these clients' ability to participate in a particular investment.

Because Spectrum does not negotiate brokerage commissions on behalf of its advisory clients, clients may pay different commissions than if Spectrum negotiated commissions with a third party. The total commissions for transactions Spectrum effects through its affiliated broker/dealer on an exchange may be higher or lower than that which might have been charged by other broker/dealers for the same transactions. Also, the cost of an OTC trade effected by Spectrum through its affiliated broker/dealer may be higher or lower than if Spectrum, in its capacity as investment adviser, caused its client to transact directly with a dealer in the OTC market.

All clients other than those discussed above consent to the use of Spectrum's affiliated broker/dealer to execute all their transactions as broker/dealer. Spectrum believes that this provides significant advantages. These advantages include expertise in trading junior subordinated capital securities, client anonymity, direct access to the floor of the NYSE, minimizing the chance of error otherwise associated with a large number of individual purchases and delivery instructions, a greater ability to purchase and allocate blocks of junior subordinated capital securities to Spectrum separate accounts, and the potential for price improvements on securities transactions for the benefit of clients. Additionally, Spectrum's affiliated broker/dealer is able to aggregate all or a portion of a block of client trades before selling them to a dealer, which may minimize the opportunity for third party errors, increase overall speed and efficiency,

and result in price improvements. Spectrum cannot quantify the value of the advantages described above.

It is possible that a client could obtain better execution of transactions in junior subordinated capital securities by using another broker/dealer. Spectrum cannot conclusively demonstrate whether the commissions charged by other broker/dealers are less than, equal to or exceed the commissions that Spectrum charges on such transactions. Additionally, determining best execution for junior subordinated capital securities is difficult, particularly junior subordinated capital securities traded in the OTC market, due to the limited number of investment advisers specializing in junior subordinated capital securities, the structure of the junior subordinated capital securities market, and the lack of timely consolidated tape reporting in parts of the OTC market. Thus, it is possible that Spectrum, executing trades through its affiliated broker/dealer, will not achieve best execution in all cases.

In the event that junior subordinated capital securities trade in odd lots, a client account may not receive the best execution possible when trading in odd lots compared to the execution they would receive trading in round lots.

Aggregation and Allocation: If Spectrum believes that the purchase or sale of a security is in the best interest of more than one client, it may (but is not obligated to) aggregate the orders to be sold or purchased to seek favorable execution or lower brokerage commissions, to the extent permitted by applicable law and regulation. Aggregation of orders under this circumstance should, on average, decrease the costs of execution. Each client that participates in an aggregated transaction will receive the average share price calculated for all trades. Transaction costs may vary by client according to each client's level of participation in the transaction and its commission rate.

Allocations will be designed to ensure that over time no account (or group of accounts) will be systematically favored over any other account (or group of accounts). Allocation methodologies may include pro rata based on account size, percentage of account size, and random allocation.

The accounts aggregated may include registered funds advised by Spectrum, as well as accounts of Spectrum's related persons. Spectrum may not be able to aggregate securities transactions for clients who direct Spectrum to use another broker-dealer. Such clients would not benefit from any improved execution or lower commissions that may be available for aggregated transactions.

For purchases, available cash or the lowest issue/issuer/sector concentration may also be factors used to determine allocations. For sales, the lowest cash percentage, the highest concentration in the issue/issuer/sector, or the current need for cash may also be factors used to determine

allocations. In addition, account specific investment restrictions may affect allocation methodology.

Soft Dollars: Spectrum does not maintain any "soft dollar" arrangements. However, various broker-dealers provide Spectrum with proprietary research and other products and services. Spectrum believes that it would obtain this research and other products and services regardless of the amount of business that it directs to such firms throughout the year, and, therefore, Spectrum does not believe it is "paying up" for the proprietary research and other products and services offered by the various broker/dealers utilized by Spectrum.

Choice of Futures Commission Merchant: Spectrum may execute futures transactions on behalf of its clients, with client consent. In such cases, Spectrum has the authority to determine, without further client consultation or consent, the futures firm through which those futures transactions are cleared, and the rates or spreads at which the transactions are effected. A client may pay lower commissions on futures transactions by using another futures commission merchant.

Cross Trades: See discussion in Section 11 above.

### **Item 13 – Review of Accounts**

Senior members of Spectrum's Investment Committee, typically the firm's Chief Investment Officer and Portfolio Managers generally review client accounts each business day. In addition, Spectrum has weekly meetings of the Investment Committee to review client accounts.

A complete set of accounting and performance reports generally is provided to each client monthly.

Special reports are furnished to the Board of Directors/Trustees of registered funds, to assist in compliance with the Investment Company Act of 1940, regulations of the Central Bank of Ireland and as otherwise requested.

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

Spectrum may pay fees to persons, including affiliates of Spectrum, who refer advisory clients to Spectrum. In addition, Spectrum may pay a portion of its advisory fees to Spectrum affiliates for

referrals of advisory clients. Any compensation paid for referrals to Spectrum of advisory clients will be done in compliance with applicable law and any other applicable obligations of the persons receiving such compensation.

### **Item 15 – Custody**

All client assets are held in custody by unaffiliated broker/dealers or banks. However, Spectrum is deemed to have access to the assets of its one privately offered fund since it or an affiliate serves as the managing member or general partner of the private fund. Limited partners (or members or owners) of a limited partnership or other investment vehicle will not receive statements from the custodian. Instead the private fund is subject to an annual audit and the audited financial statements are distributed to each limited partner (or member or owner). The audited financial statements will be prepared in accordance with generally accepted accounting principals and distributed within 120 days of the partnership's fiscal year end.

Other than this one privately offered fund, Spectrum does not have custody of any other client's securities, cash or any other form of assets and our clients select their own custodians. Clients should receive at least quarterly statements from the broker/dealer, bank or other qualified custodian that holds and maintains clients' investment assets. Spectrum urges our clients to carefully review such statements and compare such official custodial records to the account statements that we may provide. Our statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies for certain securities.

### **Item 16 – Investment Discretion**

Spectrum usually receives discretionary authority from clients at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold, the broker/dealer to be used to execute trades (typically Spectrum's affiliated broker/dealer) and the commission rates to be paid. This discretionary authority is documented through an investment management agreement and the accompanying investment guidelines. Clients are free to restrict the discretionary authority they grant to Spectrum. In all cases discretion as granted is exercised in a manner consistent with the stated investment objectives, limitations and restrictions for the particular client account. Investment guidelines and restrictions must be provided to Spectrum in writing.

For registered investment companies, Spectrum's authority to trade securities may also be limited

by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

### **Item 17 – Voting Client Securities**

Spectrum has adopted a Policy on Proxy Voting for Investment Advisory Clients (the "Voting Policy"), which provides that Spectrum aims to ensure that, when delegated proxy voting authority by a client, Spectrum acts (1) solely in the interest of the client in providing for ultimate long-term stockholder value, and (2) without undue influence from individuals or groups who may have an economic interest in the outcome of a proxy vote. Spectrum relies on the custodian bank to deliver proxies to Spectrum for voting.

Spectrum has selected Institutional Shareholder Services, Inc., ("ISS") to assist with Spectrum's proxy voting responsibilities. Spectrum generally follows ISS's standard proxy voting guidelines, which embody the positions and factors Spectrum considers important in casting proxy votes. In connection with each proxy vote, ISS prepares a written analysis and recommendation based on its guidelines. To avoid any conflict of interest for ISS, the CCO will require ISS to deliver additional information or certify that ISS has adopted policies and procedures to detect and mitigate such conflicts of interest in issuing voting recommendations. Spectrum also may obtain voting recommendations from two proxy voting services as an additional check on the independence of ISS's voting recommendations.

Spectrum may, on any particular proxy vote, diverge from ISS's guidelines or recommendations. In such a case, the Voting Policy requires: (i) the requesting party to document the reason for the request; (ii) the approval of the Chief Investment Officer; (iii) notification to appropriate compliance personnel; (iv) a determination that the decision is not influenced by any conflict of interest; and (v) a written record of the process.

When Spectrum determines not to follow ISS's guidelines or recommendations, Spectrum classifies proxy voting issues into three broad categories: (1) Routine Administrative Items; (2) Special Interest Issues; and (3) Issues having the Potential for Significant Economic Impact, and casts proxy votes in accordance with the following philosophy and decision guidelines developed for that category in the Voting Policy:

- Routine Administrative Items – Spectrum is willing to defer to management on matters of a routine administrative nature. Examples of issues on which Spectrum will normally defer to management's recommendation include selection of auditors, increasing the authorized number of common shares and the election of unopposed directors.

- Special Interest Issues – In general, Spectrum will abstain from voting on shareholder social, political and environmental proposals because their long-term impact on share value cannot be calculated with any reasonable degree of confidence.
- Issues Having the Potential for Significant Economic Impact - Spectrum is not willing to defer to management on proposals which have the potential for major economic impact on the corporation and the value of its shares and believes such issues should be carefully analyzed and decided by shareholders. Examples of such issues are classification of board of directors, cumulative voting and supermajority provisions, defensive strategies (e.g., greenmail prevention), business combinations, restructurings and executive and director compensation.

Conflicts of Interest: There may be a material conflict of interest when Spectrum votes, on behalf of a client, a proxy that is solicited by an affiliated person of Spectrum or another Spectrum client. To avoid such conflicts, Spectrum has established procedures under its Voting Policy to seek to ensure that voting decisions are based on a client's best interests and are not the product of a material conflict. In addition to employee monitoring for potential conflicts, the CCO reviews Spectrum's and its affiliates' material business relationships and personal and familial relationships of senior personnel of Spectrum and its affiliates to monitor for conflicts of interest. If a conflict of interest is identified, Spectrum considers both financial and non-financial materiality to determine if a conflict of interest is material. If a material conflict of interest is found to exist, the CCO discloses the conflict to affected clients and obtains consent from each client as to the way Spectrum proposes to vote.

Spectrum clients can obtain a copy of the Voting Policy or information on how Spectrum voted their proxies by calling Spectrum's Compliance Department at (203) 322-0189.

## **Item 18 – Financial Information**

Registered investment advisers are required to provide clients with certain financial information or disclosures about their financial condition. Spectrum has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients and has not been the subject of a bankruptcy proceeding.

Form ADV Part 2B  
Brochure Supplement to Form ADV Part 2A

## **Spectrum Asset Management, Inc.**

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Stamford, CT 06905

(203) 322-0189

[www.samipfd.com](http://www.samipfd.com)

March 16, 2020

### **Supervised Persons**

Mark Lieb

L. Phillip Jacoby

Fernando Diaz

Roberto Giangregorio

Manu Krishnan, CFA

Kevin Nugent

This brochure supplement provides information about the above-referenced individuals (collectively, the “Supervised Persons”) which supplements the brochure of Spectrum Asset Management, Inc. (“Spectrum”). You should have received a copy of that brochure. Please contact Joseph Hanczor, Chief Compliance Officer at (203) 322-0189 if you did not receive Spectrum’s brochure or if you have any questions about the content of this supplement.

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

## **Item 2 – Educational Background and Business Experience**

Listed below is the name, year of birth, formal education after high school, and business background for the preceding five years for each Supervised Person.

### **Mark Lieb:**

- 1950
- MBA Finance, University of Hartford
- BA Economics, Central Connecticut State College
- President and Chief Executive Officer of Spectrum- 2010 to present
- Executive Director/Senior Officer of Spectrum- 1987 to 2010
- Founder of Spectrum 1987

### **L. Philip Jacoby IV:**

- 1959
- BSBA Finance, Boston University Questrom School of Business
- Executive Director and Chief Investment Officer of Spectrum- 2010 to present
- Senior Portfolio Manager/Senior Officer of Spectrum- 1995 to 2010

### **Fernando Diaz:**

- 1961
- Aviation High School
- Vice President and Portfolio Manager of Spectrum- 2000 to present

### **Roberto Giangregorio:**

- 1968
- MBA Finance with Distinction Cornell University
- MS Mechanical Engineering University of Wisconsin-Madison
- BS Mechanical Engineering S.U.N.Y. at Stony Brook
- Vice President and Portfolio Manager of Spectrum- 2003 to present

### **Manu Krishnan, CFA:**

- 1976
- MBA Finance Cornell University
- MS Mechanical Engineering University of Delaware
- BS Mechanical Engineering College of Engineering, Osmania University, India

- Vice President and Portfolio Manager of Spectrum- 2004 to present

Kevin Nugent:

- 1958
- BA Political Science Ohio Wesleyan
- Vice President and Portfolio Manager of Spectrum- 2012 to present
- Bishop Asset Management: 2007-2012

**Item 3 – Disciplinary Information**

The Supervised Persons have not been involved in any legal events or subjected to any disciplinary actions which are material to Spectrum’s clients or prospective clients.

**Item 4 – Other Business Activities**

No Supervised Person is actively engaged in any other investment-related businesses or other occupations, except that all supervised persons are registered representatives of Spectrum’s FINRA member broker/dealer and associated persons with Spectrum which is a Commodity Trading Advisor member of the National Futures Association and registered with the Commodity Futures Trading Commission.

**Item 5 – Additional Compensation**

The Supervised Persons do not receive from Spectrum, its clients or third parties, any special economic benefits, including sales awards, commissions, prizes or bonuses, which are based upon the number or amount of sales, client referrals or new accounts. The Supervised Persons receive regular fixed salary and incentive-based compensation from Spectrum. Incentive-based compensation is determined by an evaluation of each Supervised Person’s professional performance and firm profitability.

**Item 6 – Supervision**

Spectrum manages client portfolios using a team approach. Mark Lieb serves as the President and Chief Executive Officer of Spectrum and is responsible for supervising Messrs. Jacoby and Byer. Mr. Lieb reports to Spectrum’s board of directors. Mr. Lieb may be reached at (203) 322-0189 or via email at [mlieb@bloomberg.net](mailto:mlieb@bloomberg.net). Mr. Jacoby, as Chief Investment Officer, and Spectrum’s Investment Committee, monitor all client portfolios on a regular basis, but no less frequently than weekly, and may initiate a more detailed review of a client account if a

situation warrants. The Investment Committee is composed of Spectrum's President/CEO, CIO and the other Portfolio Managers. Mr. Jacoby supervises Messrs. Diaz, Giangregorio, Krishnan and Nugent. Mr. Jacoby may be reached at (203) 322-0189 or via email at [pjacoby@samipfd.com](mailto:pjacoby@samipfd.com). Spectrum senior personnel monitor the advice rendered by Supervised Persons to clients by, among other things, reviewing electronic and hard copy communications, participating in and overseeing client meetings, and reviewing client reports and market commentaries.