

# Form ADV Part 2A Brochure

December 22, 2021

This brochure provides information about the qualifications and business practices of Lord, Abbett & Co. LLC. If you have questions about the contents of this brochure, please contact us at 201-827-2000 or by email at [ADVINFO@lordabbett.com](mailto:ADVINFO@lordabbett.com). The information in this brochure has not been approved or verified by the U.S. Securities and Exchange Commission ("SEC") or by any state securities authority.

Lord, Abbett & Co. LLC is registered as an investment adviser under the Investment Advisers Act of 1940, as amended (the "Advisers Act"). Lord, Abbett & Co. LLC is subject to the Advisers Act rules and regulations adopted by the SEC. Registration as an investment adviser does not imply any particular level of skill or training.

Additional information about Lord, Abbett & Co. LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



LORD ABBETT®



## MATERIAL CHANGES

This brochure contains a variety of wording changes and clarifications from the last annual update dated December 21, 2020. Among these, we have updated, amended and expanded disclosures in the particular sections noted below. We believe that none of these changes or clarifications constitutes a material change from the last annual update.

Under “Methods of Analysis, Investment Strategies, and Risk of Loss” we added information on the use of environmental, social, and governance factors in investing.

Under “Summary of Proxy Voting Guidelines” we made various clarifications and updates to align these provisions with our current Proxy Voting Guidelines, which includes adding new provisions related to Directors, Corporate Matters, and Environmental, Social, and Governance Issues.

Under “Other Financial Industry Activities and Affiliates” we have listed and described an additional subsidiary entity providing financial or related services.

Under “Other Potential Conflicts of Interest” we have added language describing our account valuation process and proprietary investments.

We updated our “Investment Strategies” list and Appendix 1 listing our standard fee schedule.

We have reorganized and updated certain risk factors in Appendix 2.



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Dear Client:

As a firm that is committed to securing a sustainable future for our clients, our people, and our world, we realize the importance of helping investors to understand and navigate their investment options. With this in mind, we have created this document to provide you with detailed information about Lord, Abbett & Co. LLC. The information included summarizes key aspects of our approach to investment management, the types of strategies we offer, our trading practices, and the policies and procedures we have implemented to manage conflicts of interest.

We appreciate the trust and confidence that our clients have placed in Lord Abbett and hope this information helps you to better understand the structure of our firm, the services we provide, and our efforts to serve each of our clients fairly and equitably.

If you have any questions or would like any additional information regarding specific references within this document, please feel free to contact your relationship manager.

Regards,

Douglas B. Sieg  
CEO & Managing Partner



## ADVISORY BUSINESS

### Firm Overview

Lord, Abbett & Co. LLC (“Lord Abbett” or “the firm”) is an independent money management firm founded in 1929. Lord Abbett provides discretionary and nondiscretionary investment management services to a broad range of clients, including registered investment companies. Managing money is the singular focus of Lord Abbett. Substantially all of Lord Abbett’s investment and operations personnel are primarily located in Lord Abbett’s office in Jersey City, New Jersey. Lord Abbett is owned solely by current and former senior professionals of the firm (or by their estate or members of their family) and is not publicly traded. No individual or company owns 25% or more of Lord Abbett.

As of September 30, 2021, Lord Abbett’s regulatory assets under management were approximately \$262.0 billion, of which approximately \$260.8 billion were managed on a discretionary basis and approximately \$1.2 billion were managed on a nondiscretionary basis.

#### *Investment Advisory Services*

Lord Abbett manages equity, fixed-income, and multi-asset class portfolios across a wide range of investment strategies. Portfolio management teams employ a rigorous investment approach and the firm’s investment processes are supported by a strong internal focus on fundamental and quantitative research.

At Lord Abbett, we take great pride in the efforts of our investment research team. We have dedicated significant resources to this effort and continually work to improve our fundamental and quantitative research.

Lord Abbett provides investment advisory services to the following types of clients:

- **Institutional Clients**—Lord Abbett provides discretionary investment advice to U.S. and non-U.S. retirement and benefit plans, corporations, public funds, foundations, endowments, unions, insurance companies, religious and healthcare organizations, pooled investment vehicles, and family trusts. Lord Abbett also sponsors and provides discretionary investment advisory services to commingled funds offered on a private placement basis to eligible institutional investors.
- **Registered Investment Companies**—Lord Abbett provides investment advisory services to a family of SEC-registered investment companies (the “Lord Abbett Funds”) and registered investment companies sponsored by unaffiliated third parties.
- **Foreign Pooled Investment Vehicles**—Lord Abbett provides investment advisory services to a family of funds that are authorized and regulated by the Central Bank of Ireland pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations, 2011 (the “Lord Abbett UCITS Funds”), and to an alternative investment fund that is authorized and regulated by the Commission de Surveillance du Secteur Financier (“CSSF”) in Luxembourg pursuant to Part II of the Luxembourg Law of 17 December 2010 relating to undertakings for

collective investment (the “Lord Abbett Luxembourg Fund”), and to a Cayman Islands exempted company that is a feeder fund into one of the Lord Abbett Funds (the “Lord Abbett Cayman Fund” and, together with the Lord Abbett UCITS Funds and Lord Abbett Luxembourg Fund, the “Lord Abbett Global Funds”). In addition, Lord Abbett provides investment sub-advisory services to foreign pooled investment vehicles.

- **Managed Account Services**—Lord Abbett provides investment advisory services, as well as nondiscretionary security recommendations in the form of model portfolios, through its participation in two types of managed account or “wrap fee” programs. These programs are referred to as Managed Accounts and Model Portfolios.

—**Managed Accounts**—In traditional Managed Account programs, a client selects a financial institution sponsor (a “Sponsor”), which provides a bundle of services for a single fee. Typically, this bundle of services includes the research of firms such as Lord Abbett in order to be included as a discretionary investment adviser in the Sponsor’s program, payment of Lord Abbett’s investment advisory fee, ongoing monitoring and evaluation of Lord Abbett’s performance, execution of the client’s portfolio transactions, and/or custodial services for the client’s assets. In some Managed Account programs, so-called “dual contract” programs, the client enters into both an investment management agreement with Lord Abbett and a program agreement with the Sponsor. In a dual contract program, the investment management fee may not be included in the Sponsor’s bundled fee and, in those cases, the client pays the investment management fee directly to Lord Abbett.

—**Model Portfolios**—Pursuant to a master investment advisory services agreement, Sponsors of Model Portfolios receive Lord Abbett’s model securities portfolio for a particular investment style. Based on the model, the Sponsor or its designated representative, often referred to as an “overlay manager,” exercises investment discretion and executes each client’s portfolio transactions predicated on the Sponsor’s or overlay manager’s own investment judgment. Lord Abbett does not provide Model Portfolios based on the individual needs of any program client.

#### *Differences in Investment Management Services*

Lord Abbett provides investment management services through Managed Account and Model Portfolio programs, which generally differ from the investment advisory services it furnishes to other clients. Many of the primary differences include the investment types and strategies used. Managed Accounts and Model Portfolios generally tend to limit eligible investments to publicly traded equity securities and fixed-income securities, while other Lord Abbett client accounts may also invest in private placements and derivatives, as well as other instruments that are less liquid or not as freely traded. In addition, equity Managed Accounts do not participate in initial or secondary offerings because of the difficulty in obtaining sufficient allocations to distribute fairly across all client accounts.

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Managed Accounts also at times have lower portfolio turnover than other Lord Abbett client accounts, especially in certain strategies. Finally, Managed Accounts and Model Portfolios typically have fewer holdings than other client portfolios. Lord Abbett typically relies on the program Sponsor or consultant/financial adviser to provide client portfolio reporting. Additional differences include the following:

- Equity securities transactions in Managed Accounts and Model Portfolios generally are executed through the Sponsor without a separate commission charge or at a fixed commission amount per trade negotiated by the Sponsor. Equity securities transactions for other Lord Abbett investment management clients are placed through broker-dealers selected by Lord Abbett and are subject to separate commission charges that are negotiated by Lord Abbett.
- In Managed Account and Model Portfolio programs, Lord Abbett will generally rely exclusively on the Sponsor's determination that its particular investment strategy is suitable for a Managed Account or Model Portfolio client, and will not seek to collect and conduct a review of any client information separate from the Sponsor.

Please refer to the sections entitled *Methods of Analysis, Investment Strategies, and Risk of Loss* and *Investment Discretion* below for discussions of how Lord Abbett tailors its advisory services to the individual needs of its clients.

## FEES AND COMPENSATION

Lord Abbett's investment advisory fees typically are based on a percentage of the value of the account. Fees are set based on the investment strategy and the type and level of services provided. Fees for institutional client accounts normally are billed and payable in arrears based on month- or quarter-end assets, subject to adjustments for interim contributions to or withdrawals from an account.

Appendix 1 to this brochure contains Lord Abbett's standard institutional separate account fee schedules and the typical range of fees payable to Lord Abbett for Managed Account programs. Lord Abbett retains discretion to negotiate, and does negotiate, the fees charged to clients for investment advisory services, subject to applicable law. When Lord Abbett negotiates investment advisory fees, it takes into consideration a client's special circumstances, asset levels, service requirements or other factors, each as determined in Lord Abbett's sole discretion. Some fee schedules provide additional breakpoints on larger accounts, including investment companies or other pooled investment vehicles. Lord Abbett charges different advisory fees for different strategies and accounts, and permits clients and financial advisors to aggregate the assets of related accounts to take advantage of breakpoints. Fees for Managed Account programs (other than dual-contract programs) are paid to Lord Abbett by the program's Sponsor from the single fee a client pays to the Sponsor.

From time to time, Lord Abbett has agreed on a performance-based fee structure with a qualified client, which fee structure will be designed to be in compliance with the Advisers Act and other applicable law.

Lord Abbett's management fees do not include fees charged by a client's custodian or the fees and other expenses deducted by or paid to third party service providers from the assets of a non-proprietary fund in which a client account may invest. In addition, client accounts usually incur transaction costs when they buy and sell securities. For more information, please see the *Brokerage Practices* section below.

Lord Abbett provides investment advisory and administrative services to the Lord Abbett Funds. Lord Abbett receives investment advisory and administrative fees for its services typically paid monthly in arrears based on the average daily net assets of each Fund at annual rates described in each Lord Abbett Fund's Prospectus and Statement of Additional Information. Similarly, Lord Abbett receives investment advisory fees for its services to the Lord Abbett Global Funds, which fees accrue daily and are calculated and payable monthly in arrears at annual rates as described in each fund's offering documents.

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

Lord Abbett charges both performance-based fees and asset-based fees. The management of accounts with performance-based fees has the potential to cause a conflict of interest by creating an incentive to favor accounts with performance-based fees in order to generate greater revenue for Lord Abbett. A similar conflict exists from managing client accounts paying a higher asset-based fee than other accounts or accounts containing assets owned by Lord Abbett, its employees, or its owners.

Lord Abbett has adopted securities allocation policies and procedures to address these potential conflicts of interest. These policies and procedures are reasonably designed to monitor and prevent Lord Abbett from inappropriately favoring one type of account over another. Further details on Lord Abbett's securities allocation policies and procedures are provided in the *Brokerage Practices* section below.

## TYPES OF CLIENTS

Lord Abbett provides advisory services to a variety of institutional clients, the Lord Abbett Funds and other registered investment companies sponsored by third parties, the Lord Abbett Global Funds, other foreign funds, privately offered commingled funds and various Managed Accounts. For institutional separate accounts, Lord Abbett typically requires a minimum account size that ranges between \$10–100 million based on the particular strategy being used for the account. Lord Abbett reserves the right, in its sole



discretion, to waive or change investment minimums in certain circumstances.

Managed Accounts are typically smaller in size. The minimum account size for Managed Accounts is generally \$100,000, depending on the Sponsor's requirements, with the exception of accounts investing in municipal securities, for which the minimum account size is generally \$250,000. The minimum account size for a Managed Account under a dual contract program is generally \$100,000, with accounts investing in municipal securities generally subject to a \$250,000 to \$500,000 minimum. For one Model Portfolio program, the minimum account allocation can be as low as \$40,000.

## METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS

### Methods of Analysis

Lord Abbett provides investment advisory services across a broad range of strategies and asset classes. The method of analysis varies based on each strategy. Our general investment approach and a brief description of the risks associated with our investment programs are described in this section. Please see Appendix 2 to this brochure and, if applicable, the disclosures or risk factors contained in any offering materials or other disclosure statements provided to you separately for a more complete description of the risks associated with Lord Abbett's investment activities.

#### *Equities*

Lord Abbett manages a wide range of equity investment products, including growth, core, and value oriented products. Some approaches focus on specific capitalization ranges—micro cap, small cap, mid cap, and large cap. Other approaches look for investment opportunities in more than one capitalization category or across all capitalization levels. Lord Abbett manages both domestic and international equity strategies. Lord Abbett's investment approach at its core is based on a belief in active management and risk controls. This belief is grounded in a foundation of fundamental and quantitative research.

Investments in equity markets are subject to many risks, including the risk of general market fluctuations and company-specific changes in profitability. Also, small and micro cap company securities tend to be more sensitive to changing economic conditions and tend to be more volatile and less liquid than equity securities of larger companies. In addition, investments in foreign companies may be adversely affected by political, economic, and social volatility, lack of transparency or inadequate regulatory and accounting standards, inadequate exchange control regulations, foreign taxes, higher transaction and other costs, and delays in settlement.

#### *Fixed Income*

Lord Abbett invests in fixed-income instruments across the spectrum of duration (from money market and short duration to intermediate to long bond) and credit (from investment grade to high yield and

distressed) in both the taxable and tax-exempt marketplaces. Some approaches seek investment opportunities across various sectors, including government, mortgage, corporate, municipal, bank loan, and emerging markets currency and debt, while others are limited to one or more of those sectors. Lord Abbett's fixed-income investment teams generally rely on a combination of fundamental and quantitative research capabilities to aid security selection within their portfolios.

Investments in both taxable and tax-exempt fixed-income securities are subject to many risks, including interest-rate, regulatory, liquidity, mortgage prepayment, issuer or credit, and distressed debt/default risks. With respect to interest rates, investors should be aware of the potential for unanticipated rapid changes in interest rates that could adversely affect investment performance. Tax-exempt bonds may be subject to adverse effects due to governmental actions, including actions by local, state, and regional governments, as well as municipal bankruptcies or credit events. Finally, convertible securities are subject to risks affecting both equity and fixed-income securities, including market, credit, and interest-rate risk.

#### *Environmental, Social, and Governance*

Lord Abbett considers environmental, social, and governance ("ESG") factors in all of our strategies. In formulating its investment advice, Lord Abbett seeks to analyze and understand the ESG factors in order to properly assess the risk and return of the investment under consideration. In analyzing the risk/reward profile of an investment, Lord Abbett evaluates the impact of ESG risks on enterprise value and, as with any other risks, seeks to ensure that the expected return for every investment is commensurate with those risks.

The relevance of ESG factors will vary by asset class, sector, and strategy, and the use of ESG factors will depend in part on the portfolio management team and any regulatory, operational, or account considerations. Accordingly, Lord Abbett's use of ESG factors might differ from how other advisers use ESG factors. In most of our strategies, the identification of an ESG-related risk in a security will not necessarily exclude that particular security from investment if it might otherwise be a suitable and attractive investment. When we invest in securities with some ESG risk, we ordinarily seek to engage with the management of those issuers with the intention to promote change. On the other hand, Lord Abbett's Climate Focused Bond strategy limits investments to those that we believe have, or will have, a positive impact on the climate, and we may in the future introduce additional strategies where ESG factors specifically limit what we may invest in.

#### *Counterparty Risk*

By its nature, investing in securities involves exposure to the risk that the counterparty to a transaction will fail to perform its obligations under the transaction. This risk arises in the context of ordinary securities purchases and sales, where a counterparty may be unable to satisfy its obligation to deliver cash or securities necessary to settle the transaction, and is especially pronounced in derivative or





other transactions that may not close or settle for an extended period of time and for which there may be no central clearinghouse or other facility that requires daily mark-to-market valuations, margin payments or other protections that are designed to reduce the financial impact of counterparty failure. In an effort to mitigate counterparty risk, Lord Abbett has adopted policies and procedures governing the evaluation and monitoring of counterparties and the manner in which it enters into transactions with such counterparties. As part of these policies, Lord Abbett reviews each counterparty through an initial approval process and then engages in ongoing monitoring to seek to identify changes in counterparty creditworthiness and to limit concentrated exposure to a single counterparty. While it is Lord Abbett's general policy to mitigate counterparty risk by trading with a range of counterparties, at times Lord Abbett will concentrate its trading in certain types of securities with a small number of counterparties or clearing firms, including in some cases a single counterparty, where it believes the risk of doing so is reasonable in relation to the benefits of such concentration.

## *General Risks*

In addition to the strategy-specific risks identified above, there are more general risks associated with investing. Investing in securities involves a risk of loss that all clients should be prepared to bear. If a security is denominated in a currency other than the U.S. dollar, there is a risk that the value of that security will be diminished due to fluctuations in the relative value of the foreign currency against the U.S. dollar. In some strategies Lord Abbett uses derivatives, such as swaps, forwards, futures, options on futures and other options, which are subject to additional risks, including that the value of the derivative does not correlate with the value of the underlying security, rate or index, that portfolio volatility increases due to the leverage associated with the use of derivatives, and that the counterparty to the derivative is unable to satisfy its obligations or Lord Abbett is not otherwise able to sell or close out its position.

## Research Information

Portfolio management teams generally use both qualitative and quantitative research in the investment process. Generally, each investment team leverages analysts who are organized by investment style along sector lines to conduct company research, including through on-site visits to companies, competitors, suppliers, and customers. Analysts also attend management meetings that occur at our offices in New Jersey and relevant industry conferences. Analysts may also use expert networks to conduct research. Sharing of information between investment teams occurs on a formal and informal basis. Regular investment meetings facilitate communication between the research analysts and among different portfolio management teams.

## Investment Guidelines, Client Requests, and Account Management

Lord Abbett seeks to manage accounts with the same strategy in a uniform manner. However, Lord Abbett agrees in some cases to accommodate requests to incorporate specific client direction into Lord Abbett's investment approach.

Lord Abbett seeks to accommodate reasonable requests by equity Managed Account clients or their investment consultants to consider tax-optimization strategies. In doing so, Lord Abbett generally will invest in exchange traded funds, or ETFs, to maintain a particular investment exposure while it seeks to avoid a tax "wash sale" result. This could result in a taxable event for that client leading to results that may differ from those of other Managed Account clients that are not seeking to optimize their tax profile.

Lord Abbett invests in unaffiliated ETFs, investment companies, and other commingled or pooled vehicles (e.g., CLOs, CDOs) for a variety of investment reasons, including to facilitate the handling of cash flows or trading, or to provide a more efficient means to obtain market exposure. Fees and expenses associated with investing in an investment company or other commingled or pooled vehicle, potentially including an embedded investment management fee, are in addition to the advisory fees paid by the client to Lord Abbett, and reduce the account's performance.

## *Litigation, Class Actions and Bankruptcies*

In its capacity as an investment manager, Lord Abbett is made aware of litigation and similar matters related to investments in client accounts. Where appropriate, Lord Abbett will consult with clients on such matters, but it is the client's responsibility to monitor and analyze its portfolio and consult with its own advisers and custodian about whether it may have claims that it should consider pursuing. As a general matter, Lord Abbett cannot, without client written authorization, exercise any rights a client may have in participating in, commencing or defending suits or legal proceedings, such as class actions for investments held currently or previously in a client's account, although we ordinarily do so for the Lord Abbett Funds and may do so for the Lord Abbett Global Funds. Institutional separate account and Managed Account clients' custodians will ordinarily receive all documents relating to class action, bankruptcy, or other litigation matters because the client's securities are held in the client's name at its custodian, and such clients should direct their custodian and/or legal counsel as to the manner in which such matters should be handled.

In appropriate circumstances, Lord Abbett will actively seek to influence the direction and outcome of bankruptcies, reorganizations or other similar transactions, by serving on ad hoc creditor committees or taking similar discretionary actions. Lord Abbett is aware that such activities have a likelihood of imposing unique challenges and administrative burdens on institutional separate account clients and investors in commingled investment funds. For this reason, prior to commencing such activities with respect to a particular security, Lord Abbett generally will seek to liquidate such security from the portfolios of institutional separate account clients and commingled investment funds. Nonetheless, at times it will be impossible or unusually challenging to liquidate such assets. Where an account holds a security that has entered into bankruptcy, reorganization or a similar transaction, subject to the terms of the investment management agreement with the applicable client, in certain cases Lord Abbett will enter into debtor-in-possession financing arrangements, restructuring support agreements, or



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other related arrangements (some of which involve releases of certain claims) on behalf of institutional separate account clients in order for those clients to participate in the bankruptcy, reorganization or other transaction. Any such actions taken by Lord Abbett will bind the client and limit the actions that the client can take with respect to the affected investments. For example, lockup agreements limit the ability of Lord Abbett and the client to sell a security for a certain time period, and nondisclosure agreements restrict the ability of Lord Abbett to communicate freely with clients regarding an investment or limit the client's ability to disclose certain information that it may receive from Lord Abbett relating to the investment.

## Investment Strategies

The following table lists Lord Abbett's investment strategies:

Domestic Equity	
Value Equity	Focused Small Cap Value
Large Cap Value	Large Cap Durable Growth
Mid Cap Value	Durable Mid Cap Growth
SMID Cap Equity	Focused Durable Growth
Small Cap Value	Small Cap Innovation Growth
Equity Income	Micro Cap Innovation Growth
Dividend Growth	Large Cap Innovation Growth
Durable Growth	Focused Innovation Growth
Global & International Equity	
International Small Cap	International Value
International Equity	Global Equity
International Growth	
Balanced	
Domestic Equity & Taxable Fixed Income	
Taxable Fixed Income	
Ultra Short Bond	Bank Loans
Short Duration Core	Multi-Sector Core
Short Duration Credit	Multi-Sector Strategic
Intermediate Government/Credit Core	Multi-Sector Opportunistic
Core Plus (Total Return)	Multi-Sector Full Discretion
Core Plus Full Discretion	High Yield Core
Long Duration	High Yield Core (High Quality)
Inflation Focused	High Yield Opportunistic
Corporate Bond	Short High Yield
Corporate Credit	Global Bond
Emerging Markets Bond	Global High Yield
Emerging Markets Corporate Debt	Convertible Securities
Government	Credit Opportunities
Short Duration Credit Plus	Climate Focused Bond
Tax Free Income	
Short Duration	High Yield
Intermediate Duration	Short Duration High Yield
Long Duration	

Lord Abbett's Managed Account investment advisory services also include certain fixed-income investment strategies in which Lord Abbett will construct a laddered portfolio of municipal bonds that are designed to be held to maturity. Lord Abbett will purchase new bonds to replace maturing positions, but will generally not sell bonds prior to maturity absent a significant change in circumstances or outlook, such as with respect to an issuer or a particular sector.

## DISCIPLINARY INFORMATION

Neither Lord Abbett nor its management personnel have been the subject of legal or regulatory findings, or are the subject of any pending criminal proceedings, that are material to a client's or prospective client's evaluation of our advisory business or the integrity of the firm.

## OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

In addition to its registration as an investment adviser under the Investment Advisers Act of 1940, Lord Abbett is registered as a commodity pool operator and commodity trading advisor under the Commodity Exchange Act.

Lord Abbett has the following subsidiary companies:

- **Lord Abbett Distributor LLC**, a New York limited liability company, is registered as a broker-dealer under the U.S. Securities Exchange Act of 1934 and is a member of the Financial Industry Regulatory Authority, Inc. Lord Abbett Distributor is a limited purpose broker-dealer that serves solely as the principal underwriter for the Lord Abbett Funds, as distributor of the Lord Abbett Global Funds, and as placement agent for privately offered, commingled funds sponsored or subadvised by Lord Abbett.
- **Lord, Abbett Asia LLC**, a Delaware limited liability company, provides client liaison services from its branch office located in Japan. Lord Abbett Asia also refers investment advisory business to Lord Abbett.
- **Lord Abbett (UK) Ltd.**, a private limited company incorporated in the United Kingdom that serves as a distributor of the Lord Abbett Global Funds and a sales office for Lord Abbett products and services.
- **Lord Abbett (Ireland) Limited**, a private company limited by Shares incorporated in Ireland, is authorized by the Central Bank of Ireland pursuant to the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulation 2011, as amended, as a management company and is the appointed manager of the Lord Abbett UCITS Funds.
- **Lord Abbett (Uruguay) S.R.L.**, a limited liability company (sociedad de responsabilidad limitada) organized under the laws of Uruguay that serves as a wholesaler of the Lord Abbett UCITS Funds to locally licensed financial advisers and broker-dealers located in Argentina and Uruguay.



- **Lord Abbett (Switzerland) GmbH**, a limited liability company (Gesellschaft mit beschränkter Haftung) organized under the laws of Switzerland that serves as a Swiss sales office for the Lord Abbett UCITS funds and for other Lord Abbett products and services.

## CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

Lord Abbett has implemented a number of policies and procedures that are designed to manage any actual or potential conflicts of interest.

### Code of Ethics

Lord Abbett has adopted policies constituting its code of ethics (the "Code") designed to set forth general ethical and fiduciary principles and the standard of conduct that we require of our personnel and to set forth certain restrictions on activities, such as personal trading and receipt of gifts and entertainment, which give rise to conflicts of interest. All personnel are required to certify annually that they have complied with the terms of the Code. Compliance with the Code is a condition of employment for all personnel and a violation of the Code or any related policies may result in disciplinary action, which may include termination of employment. Below is a summary of key provisions of the Code, a copy of which may be obtained by any client or prospective client upon request by calling Lord Abbett's Chief Compliance Officer at 201-827-2000.

#### *Personal Trading*

In order to avoid conflicts of interest and to comply with our legal and regulatory obligations, the Code places restrictions on personal trading in accounts over which Lord Abbett personnel and/or certain immediate family members have investment discretion or accounts in which they have a beneficial interest. Lord Abbett investment personnel are subject to more stringent requirements. The Code prohibits certain types of investments and requires that certain other transactions be pre-approved, reported and/or subject to a 30-day holding period. Investment department personnel may not trade in any security that requires pre-approval within 7 calendar days before or after Lord Abbett trades in that same security for any client, unless the general counsel or chief compliance officer exempts such transaction by determining it will not have a material effect on and/or will not benefit from the client transaction.

#### *Gifts and Entertainment*

The Code and Lord Abbett's Gifts and Entertainment Policies and Procedures place limits on the receipt and provision of gifts, travel, and entertainment by Lord Abbett personnel. Occasionally, Lord Abbett personnel participate in entertainment opportunities related to legitimate business purposes, subject to the requirements and limitations set forth in the Code and the Gifts and Entertainment Policies and Procedures. Such requirements and limitations are

intended to ensure that Lord Abbett employees avoid actual or potential conflicts of interest between their personal interests and those of the firm and its clients.

## Investments by Lord Abbett and Our Personnel in Products We Manage

Lord Abbett often provides the initial investment assets for newly launched investment funds, which is commonly referred to as "seeding" such funds. In addition, Lord Abbett occasionally seeds proprietary accounts for the purpose of evaluating a new investment strategy that eventually may be available to clients as a new mutual fund or other investment vehicle or for maintaining an existing strategy. Such funds or proprietary accounts also may serve the purpose of establishing a performance record to enable Lord Abbett to offer such an account's investment style to clients. In some instances, Lord Abbett has engaged in proprietary trading in futures or other derivatives to hedge such seed investments or other proprietary investments by Lord Abbett in investment funds. In addition, some Lord Abbett personnel are investors in the Lord Abbett Funds or may maintain separate accounts in strategies that Lord Abbett manages for its clients. Lord Abbett's management of accounts with proprietary interests alongside nonproprietary client accounts creates a potential incentive to favor the proprietary accounts over the nonproprietary accounts in the allocation of investment opportunities, aggregation and timing of investments. Lord Abbett has established allocation policies and procedures that require Lord Abbett investment personnel to make purchase and sale decisions and allocate investment opportunities among accounts consistent with its fiduciary obligations, including avoiding favoring any accounts over others over time. Please see *Brokerage Practices—Trade Aggregation* and *—Allocation of Trade Executions* below for more information on these policies and procedures.

## Political Contributions

Lord Abbett partners and employees are not permitted to make or solicit political contributions for the purpose of obtaining or retaining business with government entities. Lord Abbett partners and employees, on their own behalf and on behalf of their spouses, domestic partners and immediate family members sharing the same household, are required to obtain approval from Lord Abbett before making a personal political contribution to any federal, state, local or U.S. territorial candidate, official, party or organization. Such personal contributions may support political candidates or officials who share the firm's views related to its business interests, but it is a violation of Lord Abbett policy for any partner or employee to require another Lord Abbett employee to contribute to, support, or oppose any political group or candidate.

## Donations to Charities

Lord Abbett periodically makes donations to charitable organizations that are clients or are supported by current or prospective clients, consultants or their respective employees at the request of such parties.



## Identification and Resolution of Errors

It is Lord Abbett's policy to exercise appropriate care in making and implementing investment decisions on behalf of client accounts. Nonetheless, Lord Abbett may commit an error in the process of providing services to its clients, for example by purchasing a security or amount of a security that is inconsistent with a client's investment restrictions or executing a security purchase when a sale was intended. In such event, it is Lord Abbett's policy to ensure that clients do not incur a loss from errors caused by Lord Abbett. Lord Abbett has adopted policies and procedures relating to trade errors in an effort to ensure appropriate escalation and resolution of trade errors whenever they occur. Under these procedures, Lord Abbett will seek where practicable to correct an error without a financial impact on any client account, for example by reallocating a trade to Lord Abbett's error account or to another client account when such a reallocation is consistent with a legitimate investment decision on behalf of each account involved. Any gains in Lord Abbett's error account may be used to offset losses in the account incurred in connection with other erroneous transactions. Where reallocation is not permissible or practicable, Lord Abbett will engage in such transaction(s) in the affected client's account as may be necessary to correct the error and will reimburse the client for any loss caused by Lord Abbett; any gain realized by a client as a result of correcting such a trade error shall remain in the client's account. While Lord Abbett is responsible for its own errors, it will not be responsible to correct the errors of third parties, such as broker-dealers, client custodians and Sponsors of Managed Account programs, unless Lord Abbett has otherwise expressly assumed this obligation. Generally, Lord Abbett will make reasonable efforts to attempt to have a third party correct any error the third party has caused, and Lord Abbett may in its sole discretion determine to provide financial or other assistance with the appropriate correction of errors committed by third parties. If Lord Abbett commits an error in an account that is part of a Managed Account program, Lord Abbett will generally be obligated to take actions in accordance with a different policy determined by the Sponsor of that program, which may include making use of an error account controlled by the Sponsor.

## Other Potential Conflicts of Interest

Lord Abbett recommends transactions to, and makes investment decisions on behalf of, clients based solely on investment considerations, including whether the investments are suitable for the client and are consistent with the client's investment objectives, policies and restrictions. Accordingly, Lord Abbett may invest a client's account in a manner that competes or conflicts with the investment of another client's account. For example, Lord Abbett may buy or sell a position in a client's account while undertaking for another client's account the same or a differing, including potentially opposite, investment strategy. Similarly, different investment teams may invest client accounts in different parts of an issuer's capital structure, which may result in Lord Abbett acting on behalf of one client in a manner inconsistent with the interest of another client in connection with corporate events such as proxy votes or distressed

security workouts.

To the extent permitted by law and/or account guidelines, Lord Abbett will invest client accounts in securities issued by companies with which Lord Abbett has material business relationships, including companies that act as a Managed Account Sponsor, that distribute or place orders on behalf of clients for shares of the Lord Abbett Funds, that provide services, such as retirement and benefit plan administration, to Lord Abbett, or that are, or are related to, Lord Abbett clients. In addition, at times Lord Abbett personnel will buy or sell securities that Lord Abbett has recommended to, or purchased or sold on behalf of, clients. Lord Abbett also will buy or sell on behalf of clients or recommend to clients the purchase or sale of securities in which it or its personnel have a financial interest, including the Lord Abbett Funds. Moreover, Lord Abbett maintains brokerage or trading relationships with broker-dealers who are, or are an affiliate of, clients that have appointed Lord Abbett to serve as investment adviser or who have other business relationships with Lord Abbett or an affiliate, or the Lord Abbett Funds. These transactions are subject to the requirements and limitations set forth in the Code and related policies, as well as to the requirements of the Investment Advisers Act of 1940, the Investment Company Act of 1940 and/or other applicable laws.

It is Lord Abbett's policy that our clients' interests come first. Lord Abbett's ability to place and/or recommend transactions may be restricted by applicable regulatory requirements and/or its internal policies designed to comply with such requirements.

Lord Abbett contracts with third-party vendors to establish enhanced connectivity with broker-dealers through which the firm trades on behalf of client accounts. Lord Abbett receives payments from, or credits against amounts otherwise owed to, some of such vendors. These payments or credits are based on amounts paid by the broker-dealers to such vendors. In no case are the payments or credits to Lord Abbett dependent on the trading by Lord Abbett of any particular client's assets. Lord Abbett's selection of broker-dealers to execute client trades is based on considerations relating to best execution and is not impacted by these arrangements.

*Material Non-Public Information/Insider Trading:* Lord Abbett personnel may come into possession of material, non-public information ("MNPI") which, if disclosed, might affect an investor's decision to buy, sell or hold a security. Such MNPI may be received intentionally in order to consider a confidential investment opportunity or unintentionally as a result of inadvertent disclosure by a third party. It may also be received as a result of outside business activities engaged in by a Lord Abbett employee. Under applicable law, Lord Abbett personnel are generally prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any other person, regardless of whether that person is a client. Accordingly, should Lord Abbett personnel come into possession of MNPI with respect to an issuer, Lord Abbett is generally prohibited from communicating such information to, or using such information for the benefit of, clients, which could limit the ability of clients to buy, sell or hold certain investments. Lord Abbett shall have no obligation or responsibility to disclose such



information to, or use such information for the benefit of, any person (including clients). Lord Abbett has implemented procedures that prohibit the misuse of such information (e.g., illegal securities trading based on the information). Similarly, no employee who is aware of MNPI which relates to any other company or entity in circumstances in which such person is deemed to be an insider or is otherwise subject to restrictions under federal securities laws may buy or sell securities of that company or otherwise take advantage of, or pass on to others, such MNPI.

Participants in the bank loan market are often given the option of receiving certain non-public information while continuing to trade in that market. Lord Abbett ordinarily elects not to receive such non-public information in order to facilitate the free exchange of information among its investment teams.

*Account Valuation:* Lord Abbett ordinarily seeks to calculate its management fee for institutional separate account clients based on an account valuation determined by the client or its custodian. However, some institutional client contracts require Lord Abbett to determine its management fee based on market values determined by Lord Abbett. In such circumstances, Lord Abbett seeks to rely on independent third-party pricing vendors, and also seeks to reconcile such valuations with the client's or its custodian's values. For this purpose, Lord Abbett will seek to reconcile differences between its own valuation and that of the client or its custodian when the difference exceeds five percent.

*Proprietary Investments.* Lord Abbett will occasionally invest proprietary money into investments that are not offered to Lord Abbett clients. While these investment decisions are unrelated to the investments made for Lord Abbett clients, such investments might conflict with investment decisions made for or recommended to Lord Abbett clients. It is Lord Abbett's policy that our clients' interests come first.

## BROKERAGE PRACTICES

Below we describe our core business practices relating to trading and brokerage. In addition, we provide information regarding certain conflicts of interest that arise in connection with the execution of trades for client accounts and describe the policies and procedures that we have designed and implemented to help us manage these conflicts of interest.

### Broker Selection and Best Execution

Generally, the discretionary investment authority granted to Lord Abbett by each client includes discretion over client brokerage. This means that Lord Abbett has discretion to select broker-dealers and negotiate the transaction costs, including commissions or bid-ask spreads, in the execution of client portfolio transactions. Clients in Managed Account, commission recapture, or directed brokerage programs, however, limit Lord Abbett's discretion with respect to the selection of broker-dealers. Please see the discussion below regarding Lord Abbett's client brokerage policies in these circumstances.

When exercising discretion over client brokerage, it is Lord Abbett's policy to seek "best execution," or the most favorable results under the circumstances, when placing orders for securities transactions for client accounts. We define best execution as a process, not a result: it is the process of executing transactions at prices and, if applicable, transaction costs that provide the most favorable total cost or proceeds reasonably obtainable under the circumstances (taking into account all relevant factors). Trading practices, regulatory requirements, liquidity, public availability of transaction information and transaction cost structures vary considerably from one market to another. Best execution incorporates many such factors, as well as the portfolio manager's investment intentions, and involves an evaluation of the trading process and execution results over extended periods. Lord Abbett's determination of best execution does not necessarily mean that the client is paying the lowest possible commission rate or bid-ask spread, as there are several additional important factors to consider when evaluating best execution in client brokerage. Among the factors Lord Abbett considers when selecting a broker-dealer are the broker-dealer's execution capabilities (including block positioning), financial stability, ability to maintain confidentiality, delivery capability, ability to obtain best price, operational and reputational risks, and the value and availability of research services or credit arrangements for the purpose of obtaining such research services. In addition, certain clients may request that Lord Abbett seek to trade with certain broker-dealers while maintaining its obligation to seek best execution on all transactions. For such purpose, Lord Abbett may take such request into account in determining best execution notwithstanding that execution for the client is achieved in a manner that is different from an otherwise similarly situated client.

Accordingly, Lord Abbett will not select broker-dealers solely on the basis of "posted" or "standard" commission schedules, nor will it always seek advance competitive bidding for the most favorable commission rate or bid-ask spread applicable to a particular transaction. Lord Abbett has adopted policies and procedures designed to ensure that the choice of brokerage firm to execute transactions is based on considerations relevant to seeking best execution and not other factors, such as a broker's ability to refer clients to Lord Abbett or distribute Lord Abbett Funds. Lord Abbett often uses alternative execution venues in lieu of placing transactions with a traditional brokerage firm to facilitate best execution and to reduce transaction costs.

In seeking to obtain best execution, Lord Abbett recognizes that some broker-dealers are better at executing some types of orders than others and it may be in the clients' best interests to use a broker-dealer whose commission rates or bid-ask spreads are not the lowest but whose executions and other services Lord Abbett believes will result in lower overall transaction costs or more favorable or more certain results. From time to time, Lord Abbett will agree to have client accounts pay higher commission rates or other costs to broker-dealers on particular client transactions if Lord Abbett believes that the client has obtained best execution and the amount paid by the client is reasonable in relation to the overall value of the execution and any other services provided by the broker-dealer.





The reasonableness of transaction costs is based on Lord Abbett's view of the broker-dealer's ability to provide professional services, competitive commission rates, research, and other services that will help Lord Abbett in providing investment advisory services to its clients, viewed in terms of either the particular transaction or Lord Abbett's overall responsibility to its clients. In particular, Lord Abbett at times will agree to have client accounts pay higher commission rates to those broker-dealers whose execution abilities, brokerage or research services, or other legitimate and appropriate services are deemed helpful by Lord Abbett's investment teams in the overall management of client accounts.

Subject to applicable law and when otherwise in the best interest of all participating client accounts, Lord Abbett will effect "cross" transactions between client accounts, including registered investment companies. In these cases, one client account will purchase securities held by another client account. Lord Abbett effects these transactions only (1) when it deems the transaction to be in the best interests of both client accounts and (2) at a price that Lord Abbett has determined by reference to independent market indicators, which Lord Abbett believes to constitute "best execution" for both accounts. Neither Lord Abbett nor any related party receives any compensation in connection with "cross" transactions. Lord Abbett is not obligated to seek to effect "cross" transactions and may be prohibited by legal or regulatory considerations from doing so with respect to certain types of client accounts.

## *Managed Accounts*

Lord Abbett generally places all transactions in equities for Managed Accounts through the Sponsor or a broker-dealer firm designated by the Sponsor. For these types of equity transactions, Lord Abbett does not negotiate brokerage commissions since execution costs are included in the overall fees charged by the Sponsor or are set as a fixed commission amount per trade by the Sponsor. Lord Abbett's practice avoids the incremental brokerage costs that would be incurred if Lord Abbett used for such transactions broker-dealers other than the Sponsor. Since execution costs are included in the client's single fee agreed with the Sponsor and are not individually negotiated or are the result of a Sponsor's direction, Lord Abbett typically does not monitor or evaluate the commission rates clients pay or the nature and quality of the services (i.e., best execution) they receive from Sponsors and their designated service providers, including broker-dealer firms. Occasionally, when deemed beneficial for clients, Lord Abbett will place equity transactions with broker-dealers other than the relevant Sponsor. As a result, the associated client accounts will pay brokerage commission costs that are in addition to the charges for execution otherwise included in the Sponsor's overall fee.

For certain Managed Accounts taxable and tax exempt fixed-income and convertibles strategies, Lord Abbett will consistently execute fixed-income transactions at financial institutions other than the Sponsor. Such transactions ordinarily occur at net prices, meaning that the broker-dealer's charge for the trade is built into the security's purchase or sale price and is ultimately borne by the client in addition to any charges for execution otherwise included in the Sponsor's overall fee. Each client should evaluate whether

particular Managed Accounts are suitable for his or her needs, including the fees charged and services provided.

## *Transactions Involving Non-U.S. Securities and Depositary Receipts*

Some client accounts may not be able to hold non-U.S. securities in direct or "ordinary" form because of custodial limitations or other restrictions. In these cases, and subject to any investment guidelines or restrictions, Lord Abbett generally will buy depositary receipts ("DRs") or arrange for the purchase of ordinary shares in non-U.S. markets that settle and convert into DRs. Fees and costs associated with each of the DR conversion and withdrawal transactions typically are included in the net price of the transaction and borne by the client.

## *Foreign Currency Transactions*

Lord Abbett engages in foreign currency transactions in some accounts or strategies. Where available and practicable, Lord Abbett believes it is in a client's best interest to deal directly with a broker-dealer; however, third party broker-dealer transactions are not available for certain emerging market or certain restricted foreign securities and may be impracticable for some payments such as dividends. In these instances, Lord Abbett will trade foreign currency through a client's custodian on a transaction-by-transaction basis and/or via standing instructions. Lord Abbett will not be responsible for overseeing charges of, or execution quality provided by, a client's custodian; clients should contact their custodians directly for this information.

## **Trade Aggregation**

### *Equity Transactions*

When appropriate and feasible, Lord Abbett will seek to combine or "batch" multiple orders (purchase or sale) of the same security that are placed at or about the same time with the trading desk. Further, when a second order with respect to a security reaches the trading desk while another order in that security has not been completed, Lord Abbett will ordinarily batch the remainder of the earlier order with the second order. Portfolio managers have the ability to place orders with the equity trading desk indicating the immediacy with which the trade should be executed. Orders in the same security with differing levels of immediacy will generally not be aggregated. Moreover, orders placed for execution with price limits may not be aggregated with orders placed to be executed at the prevailing market price. In addition, not all similarly situated accounts will necessarily participate in the same batched order due to issues such as cash flow considerations, investment restrictions, tax concerns, and brokerage restrictions.

At times, Lord Abbett is not able to batch purchases and sales for all accounts or products it is managing, such as when an individually managed account client directs Lord Abbett to use a particular broker for a trade (sometimes referred to herein as "directed accounts") or when a client restricts Lord Abbett from selecting certain brokers to execute trades for such account (sometimes referred to herein as "restricted accounts").



When transactions for all products using a particular investment strategy are communicated to the equity trading desk at or about the same time, Lord Abbett generally will place trades first for transactions on behalf of the Lord Abbett Funds, Lord Abbett UCITS Funds, Lord Abbett Luxembourg Fund and nondirected, unrestricted individually managed institutional accounts, second for restricted accounts, third for Managed Accounts by Sponsor or consultant/financial adviser (as described below), and finally for directed accounts (see *Brokerage Practices—Directed Brokerage and Other Client Restrictions on Brokerage* section below for more details). Communication of changes to portfolio holdings information for Model Portfolios is handled separately near the end of the trading day or at the beginning of the next trading day, and generally after the completion of transactions for Managed Accounts. Lord Abbett may determine in its sole discretion to place transactions for one group of accounts before other accounts based on a variety of factors, including size of overall trade, the broker-dealer's commitment of capital, liquidity, or other conditions of the market, or confidentiality. Lord Abbett's overall policy is to treat similarly situated groups of accounts equitably over time.

Frequently, a batched order will not be fully filled during a trading day and will be canceled or subsequently filled or combined with orders for other accounts and then filled. Generally, each account that participates in a particular batched order will do so at the average price for all transactions related to that batched order. However, in certain circumstances, significant account size disparity, use of algorithmic trading, and/or significant market price movements may cause some accounts to receive an average price different from the average price of the other accounts in the batched order.

Lord Abbett generally allocates securities purchased or sold in a batched transaction among participating client accounts on a pro rata basis. In certain strategies, however, a pro rata allocation of the securities or proceeds will not be possible or desirable, as described below. Lord Abbett will decide how to allocate the securities or proceeds according to each account's particular circumstances and needs, and in a manner Lord Abbett believes is fair and equitable to clients over time in light of a variety of factors.

### *Fixed-Income Transactions*

As is the case with equity transactions, transactions in fixed-income securities will ordinarily be batched and allocated pro rata among participating client accounts for transactions that are communicated to the trading desk at or about the same time. Unlike equity transactions, however, Lord Abbett generally will not batch fixed-income orders that are placed at separate times, even if the earlier order has not been completed when a second order reaches the trading desk, unless Lord Abbett believes that batching such orders will not impact trading of the earlier-placed order.

Some client accounts will be excluded from a batched transaction for a variety of reasons, including issuer requirements regarding minimum trade or lot size or client limitations on the use of certain broker-dealers. When an account is excluded from a batched trade,

Lord Abbett will seek to purchase securities in that account in a manner that is fair and equitable to all client accounts over time, which may include purchasing a security for an excluded account first based on factors such as the availability of a desirable purchase opportunity that would not be suitable for the non-excluded client accounts. In addition, unlike the case of equity securities, when an account is excluded from or unable otherwise to participate in a transaction Lord Abbett's investment team often can purchase another fixed-income security with substantially similar investment characteristics.

### *Managed Accounts*

Lord Abbett generally will not batch equity transactions for Managed Accounts with transactions for the Lord Abbett Funds, Lord Abbett UCITS Funds, or Lord Abbett Luxembourg Fund and unrestricted (as to transaction execution) individually managed institutional accounts, and these clients will not derive the same advantage from batching orders as a single transaction for the purchase and sale of a particular security. Accounts subject to batching may receive more favorable results than accounts for which execution costs are covered as part of such service. Lord Abbett generally will batch equity transactions for Managed Accounts for execution through the same Sponsor or directed broker-dealer. Lord Abbett consistently places transactions in certain fixed-income securities with or through firms other than the Managed Account Sponsor or directed broker-dealer. Such transactions occur at net prices that include the broker-dealer's charge for the trade and are ultimately borne by the client.

Where Lord Abbett manages the same product for multiple Sponsors or consultants/financial advisers, Lord Abbett will rotate the order in which it places equity transactions among the relevant accounts. Lord Abbett normally uses a rotation methodology designed to avoid systematically favoring one Sponsor or group over another and to treat similarly situated groups of accounts equitably over time by assigning each Sponsor or group a place in the rotation for a particular trading day, and then moving the first Sponsor or group to the end of the rotation order the following trading day. Each succeeding Sponsor or group will move up a place in the rotation order each subsequent trading day. Lord Abbett deviates occasionally from this rotation methodology to take advantage of special opportunities in the market. For example, transactions in certain limited-supply securities typically will not be subject to this rotation methodology because not all Sponsors or directed broker-dealers will have access to, or an adequate supply of, such limited-supply securities. Lord Abbett will also place a Sponsor's or directed broker-dealer's transactions after those of other Sponsors/directed broker-dealers to avoid delays Lord Abbett deems too long in execution of transactions for such accounts. These accounts would be consistently placed at the end of the rotation schedule among Sponsors, which may disadvantage such accounts, depending on market conditions.

### *Model Portfolios*

Lord Abbett typically releases its Model Portfolio holdings informa-



tion to a Sponsor daily. When the related Lord Abbett investment team makes core changes to the Model Portfolio, Lord Abbett generally will communicate its changes to the Sponsor at or near the end of the trading day and generally after the completion of the rotation methodology described above. For Sponsors unable to accept Model Portfolio changes at that time, Lord Abbett will communicate its Model Portfolio changes the following trading day morning. The Sponsor or an overlay manager is responsible for adjusting existing Model Portfolio accounts to conform to the core changes. Model Portfolio clients may experience account performance that is different from the results obtained when Lord Abbett exercises investment discretion due to the timing and implementation of orders by a Sponsor or overlay manager.

### *Derivatives Transactions*

Whenever practicable, Lord Abbett will seek to batch transactions in derivatives such as futures, swaps, and currency forwards among eligible client accounts. Because many derivatives require negotiation and execution of trading agreements between each client and each counterparty, some counterparties may be available to some client accounts and not others. When the counterparty that Lord Abbett believes can provide best execution for a particular transaction is unavailable to a portion of client accounts participating in that transaction, Lord Abbett is faced with a choice. It may choose to trade with the preferred counterparty on behalf of the accounts to which that counterparty is available and trade the excluded client accounts with a different counterparty available to them, or it may choose to enter into a single trade with a counterparty that is available to all of the relevant accounts. In making this choice, Lord Abbett will balance the benefits of batching the transaction against the benefit of choosing the most desirable counterparty among those available to each client. Such decisions will be made subject to Lord Abbett's continuing obligation to treat all client accounts in a manner it believes is fair and equitable over time. All references to "swaps" in this document refer to swaps, security-based swaps, or both, as appropriate.

### *Mixed Asset Class Transaction Modeling*

When modeling orders for client accounts that include accounts that may invest across multiple asset classes, investment allocation varies. With respect to "mixed asset class accounts" managed by two or more portfolio manager teams (e.g., balanced strategy), the portfolio manager for a particular asset class will generally determine an account's positioning for pro rata allocation purposes based on the portfolio's target allocation to that asset class rather than the size of the account as a whole. However, for mixed asset class accounts managed by a single portfolio manager team (e.g., high yield), such accounts will be positioned for pro rata allocation purposes based on the total size of the account regardless of the target allocation to the relevant asset class. Thus, mixed asset class accounts managed by a single portfolio manager team may receive greater allocations than would otherwise be the case if the

relevant asset class were managed on a stand-alone basis, which could negatively impact the allocations to and performance of other client accounts participating in these trades.

## Allocation of Trade Executions

Once a batched order is filled, Lord Abbett generally allocates the securities or cash on a pro rata basis among the participating client accounts. In the event that there is limited availability or limited liquidity for investments, however, a pro rata allocation may not be possible or desirable. For example, limited availability will exist at times, without limitation, in certain security types or categories such as fixed-income securities (including bank loans and high-yield securities), emerging markets, regulated industries, small and micro cap securities, and initial public offerings or new issues.

In these cases, Lord Abbett's investment management teams will make allocations that reflect a number of other factors based on Lord Abbett's good-faith assessment of the investment opportunity relative to the objectives, limitations, and requirements of each client account. These factors, which Lord Abbett applies in a manner that it believes is fair and equitable to clients over time, include, without limitation, some or all of the following: (1) client-specific considerations, including investment objectives, guidelines and restrictions, risk profile, and anticipated liquidity needs; (2) type of account; (3) number of securities relative to size and expected future size of an account; (4) availability of other appropriate investment opportunities; (5) other holdings and/or prior allocation affecting an account; (6) rebalancing needs, such as over- or under-weighting in a particular investment, industry, sector, credit rating, maturity, and coupon or interest rate, of an account; (7) minimum denomination, increments, and round lot considerations; (8) issuer-imposed limitations; (9) tax considerations; (10) purchases for accounts with a disproportionate cash position or newly established accounts for which Lord Abbett is seeking to fully invest as promptly as possible; and (11) with respect to bank loans, dealer assignment fees. Accordingly, Lord Abbett will increase or decrease the amount of securities allocated to one or more accounts if necessary, under certain circumstances. Lord Abbett's allocation decisions among client accounts will potentially be more or less advantageous to any one account or group of accounts. As a result of these allocation issues, the amount, timing, structuring, or terms of an investment by a client account at times will differ from, and performance potentially will be lower than, investments and performance of other client accounts. Client accounts that either receive a less than pro rata or no allocation of an investment opportunity that performs well may experience lower performance overall.

## Client Commission Arrangements and Soft Dollars

It is Lord Abbett's policy to seek to obtain best execution on all client transactions over which Lord Abbett exercises discretion. It is generally the case that more than one broker-dealer can provide best execution, and in the case of equity transactions, if consistent



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with applicable law and regulation, Lord Abbett often selects broker-dealers that furnish Lord Abbett with proprietary and third-party brokerage and research services in connection with commissions paid on transactions it places for client accounts. The brokerage and research services Lord Abbett receives are within the eligibility requirements of Section 28(e) of the Securities Exchange Act of 1934 and, in particular, provide Lord Abbett with lawful and appropriate assistance in the provision of investment advice to client accounts. Such services include (1) furnishing advice as to the value of securities, the advisability of investing in, purchasing, or selling securities, and the availability of securities or purchasers or sellers of securities; (2) furnishing analyses and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy, and the performance of accounts; and (3) effecting securities transactions and performing functions incidental to securities transactions (such as clearance, settlement, and custody). Such services come in the form of research reports via electronic delivery or print, online data services, oral discussions with researchers and other experts, and meetings with company representatives and third party analysts. Lord Abbett has entered into Client Commission Arrangements with a number of broker-dealers that it selects to execute client transactions. These Client Commission Arrangements provide for the broker-dealers to pay a portion of the commissions paid by eligible client accounts for securities transactions to providers of certain research services designated by Lord Abbett, including research service providers that are affiliates of such broker-dealers or of Lord Abbett advisory clients. Lord Abbett initiates a significant percentage, and potentially up to all, of its clients' equity security transactions with broker-dealers pursuant to Client Commission Arrangements.

In addition to Client Commission Arrangements, certain full service broker-dealers (that is, broker-dealers that provide brokerage and execution services) also furnish proprietary research services on a "bundled" basis to Lord Abbett. Proprietary research may include research from an affiliate of the broker-dealer and services that provide access to unaffiliated industry experts. Bundled brokerage is a brokerage arrangement whereby the underlying commission is informally comprised of both trade execution and other services, most often investment research meant to assist with Lord Abbett's internal research process. These services are generally not offered on a stand-alone basis by broker-dealers.

The services that Lord Abbett receives from Client Commission Arrangements and "bundled" proprietary research include the use of expert referral networks. Expert referral networks provide access to industry consultants, vendors, and suppliers. Such services are commonly relied on by investment managers to supplement their investment process and gain unbiased industry insights. Lord Abbett uses a limited number of expert networks and monitors its use to ensure compliance with the law, as well as internal guidelines.

Lord Abbett believes that access to independent investment research is beneficial to its investment decision-making processes and, therefore, to its clients. Receipt of independent investment

research allows Lord Abbett to supplement its own internal research and analysis and makes available the views of, and information from, individuals and the research staffs of other firms.

The receipt of research services from broker-dealers therefore does not tend to reduce the need for Lord Abbett to maintain its own research personnel. Further, Lord Abbett values the receipt of independent, supplemental viewpoints and analyses. Any investment advisory or other fees paid by clients to Lord Abbett are not reduced as a result of Lord Abbett's receipt of research services from broker-dealers. Also, the expenses of Lord Abbett would be increased substantially if it attempted to generate such additional information through its own staff or if it paid for these products or services itself. To the extent that research services of value are provided by or through such broker-dealers, Lord Abbett will not have to pay for such services itself. In addition, Lord Abbett from time to time selects broker-dealers that provide research services in order to ensure the continued receipt of such research services which Lord Abbett believes are useful in its investment decision-making process. Lord Abbett has an incentive to place trades through broker-dealers that provide Client Commission Arrangements or other research services. In addition, Lord Abbett has an incentive to place trades with broker-dealers with which it has negotiated more favorable Client Commission Arrangements, rather than executing through a broker-dealer with an arrangement that is less favorable to Lord Abbett. To the extent that Lord Abbett uses brokerage commissions paid in connection with client portfolio transactions to obtain research services, the brokerage commissions paid by such clients might exceed those that would otherwise be paid for execution only. These circumstances give rise to actual and potential conflicts of interest. In order to manage such conflicts of interest, Lord Abbett has adopted internal procedures designed to ensure that (1) the value, type, and quality of any products or services it receives from broker-dealers are permissible under applicable law and (2) investment transactions are placed based solely on best execution considerations.

Lord Abbett believes that any brokerage and research services received from a broker-dealer are, in the aggregate, of assistance to Lord Abbett in fulfilling its overall responsibilities to its clients. Accordingly, research services received for a particular client's brokerage commissions may be useful to Lord Abbett in the management of that client's account, but may also be useful in Lord Abbett's management of other clients' accounts, including accounts that do not generate eligible Section 28(e) brokerage commissions or generate less than a proportionate share of such eligible commissions to pay for research services; similarly, the research received for the commissions of other client accounts may be useful in Lord Abbett's management of that client account. Thus, Lord Abbett uses brokerage and research services received from broker-dealers in servicing any or all of its accounts, and not all of such services will necessarily be used by Lord Abbett in connection with its management of every client account. Such products and services may disproportionately benefit certain clients relative to others based on the amount of brokerage commissions paid by the client account. For example, Lord Abbett

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with applicable law and regulation, Lord Abbett often selects broker-dealers that furnish Lord Abbett with proprietary and third-party brokerage and research services in connection with commissions paid on transactions it places for client accounts. The brokerage and research services Lord Abbett receives are within the eligibility requirements of Section 28(e) of the Securities Exchange Act of 1934 and, in particular, provide Lord Abbett with lawful and appropriate assistance in the provision of investment advice to client accounts. Such services include (1) furnishing advice as to the value of securities, the advisability of investing in, purchasing, or selling securities, and the availability of securities or purchasers or sellers of securities; (2) furnishing analyses and reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy, and the performance of accounts; and (3) effecting securities transactions and performing functions incidental to securities transactions (such as clearance, settlement, and custody). Such services come in the form of research reports via electronic delivery or print, online data services, oral discussions with researchers and other experts, and meetings with company representatives and third party analysts. Lord Abbett has entered into Client Commission Arrangements with a number of broker-dealers that it selects to execute client transactions. These Client Commission Arrangements provide for the broker-dealers to pay a portion of the commissions paid by eligible client accounts for securities transactions to providers of certain research services designated by Lord Abbett, including research service providers that are affiliates of such broker-dealers or of Lord Abbett advisory clients. Lord Abbett initiates a significant percentage, and potentially up to all, of its clients' equity security transactions with broker-dealers pursuant to Client Commission Arrangements.

In addition to Client Commission Arrangements, certain full service broker-dealers (that is, broker-dealers that provide brokerage and execution services) also furnish proprietary research services on a "bundled" basis to Lord Abbett. Proprietary research may include research from an affiliate of the broker-dealer and services that provide access to unaffiliated industry experts. Bundled brokerage is a brokerage arrangement whereby the underlying commission is informally comprised of both trade execution and other services, most often investment research meant to assist with Lord Abbett's internal research process. These services are generally not offered on a stand-alone basis by broker-dealers.

The services that Lord Abbett receives from Client Commission Arrangements and "bundled" proprietary research include the use of expert referral networks. Expert referral networks provide access to industry consultants, vendors, and suppliers. Such services are commonly relied on by investment managers to supplement their investment process and gain unbiased industry insights. Lord Abbett uses a limited number of expert networks and monitors its use to ensure compliance with the law, as well as internal guidelines.

Lord Abbett believes that access to independent investment research is beneficial to its investment decision-making processes and, therefore, to its clients. Receipt of independent investment

research allows Lord Abbett to supplement its own internal research and analysis and makes available the views of, and information from, individuals and the research staffs of other firms.

The receipt of research services from broker-dealers therefore does not tend to reduce the need for Lord Abbett to maintain its own research personnel. Further, Lord Abbett values the receipt of independent, supplemental viewpoints and analyses. Any investment advisory or other fees paid by clients to Lord Abbett are not reduced as a result of Lord Abbett's receipt of research services from broker-dealers. Also, the expenses of Lord Abbett would be increased substantially if it attempted to generate such additional information through its own staff or if it paid for these products or services itself. To the extent that research services of value are provided by or through such broker-dealers, Lord Abbett will not have to pay for such services itself. In addition, Lord Abbett from time to time selects broker-dealers that provide research services in order to ensure the continued receipt of such research services which Lord Abbett believes are useful in its investment decision-making process. Lord Abbett has an incentive to place trades through broker-dealers that provide Client Commission Arrangements or other research services. In addition, Lord Abbett has an incentive to place trades with broker-dealers with which it has negotiated more favorable Client Commission Arrangements, rather than executing through a broker-dealer with an arrangement that is less favorable to Lord Abbett. To the extent that Lord Abbett uses brokerage commissions paid in connection with client portfolio transactions to obtain research services, the brokerage commissions paid by such clients might exceed those that would otherwise be paid for execution only. These circumstances give rise to actual and potential conflicts of interest. In order to manage such conflicts of interest, Lord Abbett has adopted internal procedures designed to ensure that (1) the value, type, and quality of any products or services it receives from broker-dealers are permissible under applicable law and (2) investment transactions are placed based solely on best execution considerations.

Lord Abbett believes that any brokerage and research services received from a broker-dealer are, in the aggregate, of assistance to Lord Abbett in fulfilling its overall responsibilities to its clients. Accordingly, research services received for a particular client's brokerage commissions may be useful to Lord Abbett in the management of that client's account, but may also be useful in Lord Abbett's management of other clients' accounts, including accounts that do not generate eligible Section 28(e) brokerage commissions or generate less than a proportionate share of such eligible commissions to pay for research services; similarly, the research received for the commissions of other client accounts may be useful in Lord Abbett's management of that client account. Thus, Lord Abbett uses brokerage and research services received from broker-dealers in servicing any or all of its accounts, and not all of such services will necessarily be used by Lord Abbett in connection with its management of every client account. Such products and services may disproportionately benefit certain clients relative to others based on the amount of brokerage commissions paid by the client account. For example, Lord Abbett

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uses research services obtained through soft-dollar arrangements, including Client Commission Arrangements, in its management of certain directed accounts, Managed Accounts, and accounts of clients who have restricted Lord Abbett's use of soft dollars regardless of the fact that brokerage commissions paid by such accounts are not used to obtain research services.

All accounts included in a batched transaction executed through a broker-dealer pursuant to a Client Commission Arrangement pay the same commission rate, regardless of whether one or more accounts within the batched order has prohibited Lord Abbett from receiving any credit toward such services from its commissions. Some broker-dealers who have negotiated an arrangement with Lord Abbett for the provision of brokerage and research services offer a lower commission rate for client accounts not participating in such arrangement. It is Lord Abbett's policy, however, to seek to include nonparticipating accounts in a batched trade, as Lord Abbett believes these nonparticipating accounts would receive overall better execution notwithstanding the fact that the nonparticipating account may be able to pay a lower commission rate if it were not included in the batched trade.

In some cases, Lord Abbett receives from a broker-dealer a product or service that has both a "research" and a "non-research" use. When this occurs, Lord Abbett makes a good faith allocation between the research and non-research uses of the product or service. The percentage of the product or service Lord Abbett uses for research purposes generally will be paid for with client commissions, while Lord Abbett will use its own funds to pay for the percentage of the product or service that it uses for non-research purposes. In making this good faith allocation, Lord Abbett faces a potential conflict of interest, but Lord Abbett believes that its allocation procedures are reasonably designed to ensure that it appropriately allocates the anticipated use of such products or services to their research and non-research uses.

Lord Abbett periodically assesses the contributions of the brokerage and research services provided by broker-dealers and creates a ranking of broker-dealers reflecting these assessments, as determined by Lord Abbett's investment staff. Lord Abbett's investment personnel evaluate the research services they receive from broker-dealers and make judgments as to the value and quality of such services. These assessments are intended to affect the extent to which Lord Abbett trades with a broker-dealer, although the actual amount of transactions placed with a particular broker-dealer may not directly reflect its ranking in the voting process. Lord Abbett monitors the allocation of equity trading among broker-dealers through periodic reviews. Lord Abbett's arrangements for proprietary and third-party research services do not involve any commitment by Lord Abbett regarding the allocation of brokerage business to or among any particular broker-dealer. Rather, Lord Abbett executes portfolio transactions only when they are dictated by investment decisions to purchase or sell portfolio securities. Some electronic trading systems offering uniform pricing for trades effected over the system allow Lord Abbett to specify a broker-dealer of its choice as a counterparty. Consistent with its obligation to seek best execution,

Lord Abbett sets internal targets for certain counterparties over such systems in order to receive research or to help satisfy client requests that Lord Abbett engage in trading with certain types of broker-dealers such as those that are owned by women, minorities or disabled veterans.

Lord Abbett periodically prepares a relative categorization and ranking of research providers that it considers to provide valuable research services as determined through evaluations and other feedback provided by Lord Abbett's investment staff. Lord Abbett uses the ranking as a guide for evaluating and determining payments to research providers for research services, including proprietary research services provided to Lord Abbett by executing broker-dealers. Lord Abbett at times uses commissions generated pursuant to a Client Commission Arrangement to pay a research provider, including an executing broker-dealer who provides proprietary research services to Lord Abbett. Alternatively, Lord Abbett makes cash payments from its own resources to pay research providers for research services. Lord Abbett uses commissions generated pursuant to Client Commission Arrangements to pay for a significant portion of the research services that it receives.

Client Commission Arrangements generally do not apply to fixed-income security transactions. The fixed-income securities market is an over-the-counter (OTC) market where commissions typically are not paid and soft dollars are not accumulated on portfolio trades. The expenses that clients pay buying and selling fixed-income securities are a component of the net price paid in the trade. Even though Lord Abbett does not obtain soft dollar research for fixed-income trades, Lord Abbett's fixed-income investment personnel are permitted to make use of soft dollar research obtained by Lord Abbett's equity investment personnel. In addition, many Lord Abbett investment personnel receive investment research from various broker-dealers, including, in addition to broker-dealers that execute equity trades, broker-dealers through which fixed-income trades are executed in accordance with Lord Abbett's best execution obligations. The receipt of such research, however, is not contingent on specific trades. Furthermore, some fixed-income strategies employed by Lord Abbett also invest in equity securities. In those cases, in addition to making use of soft dollar research services obtained by Lord Abbett's equity investment personnel, the fixed-income investment team also will be permitted to obtain research services directly using soft dollars. Thus, the investment personnel managing fixed-income accounts will benefit from, or be "cross-subsidized" by, research services received without additional cost by Lord Abbett through soft dollars, even though some fixed-income accounts do not generate eligible Section 28(e) brokerage commissions or generate less than a proportionate share of such eligible commissions to pay for such research services.

## Directed Brokerage and Other Client Restrictions on Brokerage

Clients may direct Lord Abbett to place some or all of the transactions for their accounts with one or more broker-dealers they



specify. Such clients do so for several reasons, including offsetting consulting and other fees or participating in a bundled services program, including but not limited to Managed Accounts under a dual contract program. A client that designates use of a particular broker-dealer should understand, however, that such an instruction might prevent Lord Abbett from freely negotiating commission rates or selecting brokers based on the most favorable price and execution for the transaction. Clients also may prohibit Lord Abbett from placing transactions for their accounts with certain broker-dealers. A client that prohibits Lord Abbett from selecting certain broker-dealers for the placement of transactions for its account should understand that such a prohibition prevents Lord Abbett from selecting a restricted broker-dealer even though such broker-dealer may offer a more favorable price and execution for the transaction. In addition, the client may lose the possible advantage that non-designating and unrestricted clients derive from batching orders into single larger transactions, utilizing alternative trading venues, or alternative trading techniques for the purchase or sale of a particular security. Finally, Lord Abbett normally will place transactions for directed accounts, restricted accounts, and Managed Accounts after those placed for non-directed accounts.

In order to comply with a client direction, Lord Abbett usually will seek to engage in "step-out" or "broker-of-credit" transactions. Such situations involve placing a transaction with a broker-dealer with the instruction that the broker-dealer execute the transaction and "step-out," or credit all or a portion of the commission to another broker-dealer that the client has designated. Lord Abbett believes that such arrangements afford the opportunity both to seek best execution with respect to the transaction and to comply with the client's direction.

Overall, any instruction that Lord Abbett use a certain broker-dealer or restrict trading with a particular broker-dealer may cause a client to pay higher commissions, receive less favorable net prices or investment results, or incur additional custodial or other external administrative charges than would be the case if Lord Abbett were authorized to choose the broker-dealers through which to execute transactions for the client's account.

## REVIEW OF ACCOUNTS

### Institutional Accounts

Each client account is managed by a Lord Abbett investment team, which is assigned primary responsibility for the day-to-day management and ongoing monitoring of the client account. The investment team's continuous review of a client account includes the review of the appropriateness of portfolio holdings and transactions in light of the client account's investment objective, guidelines, and restrictions and changes in market conditions. The number of accounts managed by each investment team varies depending on the nature and size of the accounts under management and may change over time.

In all cases, accounts are also subject to review by operations and compliance personnel, who monitor account trading on a daily basis

with the aid of Lord Abbett's portfolio accounting system and separate equity and fixed-income trading systems that incorporate pretrade or post-trade compliance testing against many account restrictions.

On a quarterly basis, each investment team meets with Lord Abbett's managing partner and other members of senior management to review portfolio holdings, characteristics, strategies, and performance attribution analysis.

### Managed Accounts

Managed Account investment and operations teams ensure that each such account is subject to reviews similar to those described above. The number of such accounts assigned to each investment or operations team varies depending on the nature and size of the accounts under management, and typically is greater than the number of institutional accounts assigned for review.

### Nature and Frequency of Reports

*Institutional Accounts:* The nature and frequency of reports to institutional account clients vary based on client needs and preferences. Typically, clients receive monthly or quarterly reports that may include portfolio transactions, holdings, characteristics, strategies, performance attribution analysis, and account performance versus portfolio benchmarks. Meetings with institutional clients are held as agreed upon with clients and generally occur annually.

*Managed Accounts and Model Portfolio Accounts:* Managed Account and Model Portfolio Sponsors typically receive market commentaries prepared by Lord Abbett and generally send such commentaries on to Managed Account or Model Portfolio clients. Sponsors also typically issue performance reports to clients on a quarterly basis. Upon request, Lord Abbett will provide supplemental reporting to these types of clients. In addition, Lord Abbett personnel who are knowledgeable about a Managed Account client's account will be reasonably available to the client for consultation.

## CLIENT REFERRALS AND OTHER COMPENSATION

Lord Abbett makes payments out of its past profits and other available sources to certain financial intermediaries for marketing/distribution support, investor/shareholder servicing, entertainment, training and education activities, and/or the purchase of products or services from such intermediaries. Lord Abbett and/or its affiliates also make payments for these purposes to financial intermediaries in connection with the Lord Abbett Funds and Lord Abbett Global Funds. The products or services purchased include analytical software and data. In addition, Lord Abbett sometimes pays for meals, entertainment and educational meetings with institutional client consultants that may recommend our services to their clients.

With the exception of purchases of products or services from the financial intermediaries, the amounts of Lord Abbett's payments are determined by Lord Abbett or its affiliates, as the case may be, and in some cases are substantial. The intermediaries receiving such





payments include consulting firms and broker-dealers that may recommend that their clients consider or select Lord Abbett to provide them with investment advisory services, as well as to intermediaries that act as dealers for the Lord Abbett Funds, Lord Abbett Global Funds or as agents for their clients with respect to purchases of shares of the funds. In some circumstances, such payments may create an incentive for an intermediary or its employees or associated persons to recommend Lord Abbett's advisory services or funds or to sell shares of a fund to a client. Lord Abbett compensates its affiliates and non-affiliates for solicitation and/or other client-related services provided to Lord Abbett clients and prospective clients. Under the arrangements, generally, Lord Abbett pays a portion of its advisory fee to the solicitor or service provider. Where applicable, any such arrangements comply with Rule 206(4)-3 under the Investment Advisers Act of 1940.

## CUSTODY

Lord Abbett does not maintain physical possession of the funds or securities held in clients' accounts. Typically, clients deposit assets with a qualified custodian selected by the client. Generally, under the terms of an investment management agreement between Lord Abbett and each client, Lord Abbett will periodically invoice the client and the client will direct its custodian to pay Lord Abbett. The assets of Managed Account clients are typically deposited with the Sponsor or a qualified custodian selected by the Sponsor or client. Lord Abbett is not involved in the selection or ongoing monitoring of client custodians for institutional and Managed Account clients.

## INVESTMENT DISCRETION

Generally, clients retain Lord Abbett on a discretionary basis to provide continuous investment advice pursuant to an investment management agreement that describes the investment services to be provided. Consistent with the client's investment objectives, Lord Abbett typically will have full investment decision-making authority over the type of investments and brokerage for the client's account. From time to time, a client may impose restrictions on certain investments from their account or direct that Lord Abbett use certain broker-dealers to execute transactions for the client's account.

For Managed Accounts investing in equity securities, Lord Abbett's brokerage discretion is generally limited by the applicable Sponsor or client. When investing in fixed-income securities for Managed Accounts, Lord Abbett brokerage selection may be limited by the applicable Sponsor or client, but for certain fixed-income strategies Lord Abbett consistently has the investment decision-making authority to place fixed-income transactions with or through firms other than the Sponsor or directed broker-dealer since such transactions ordinarily occur at net prices. Lord Abbett has neither investment nor brokerage discretion for those clients to whom it provides nondiscretionary investment advice or clients of certain Model Portfolios.

Lord Abbett generally makes investment decisions for each client account for which it has investment and brokerage discretion independently. As a result, due to different investment objectives, poli-

cies, or restrictions, if any, Lord Abbett may purchase a particular security for one or more accounts when one or more other accounts are selling the same security. Lord Abbett may also purchase or sell the same securities for a number of client accounts at or about the same time. Lord Abbett's ability to place and/or recommend transactions may be restricted by applicable regulatory requirements and/or Lord Abbett's internal policies designed to comply with such requirements. For example, Lord Abbett's ownership position on behalf of its client accounts may be restricted by regulation or by a company's corporate charter.

In most cases, a separate investment management team is responsible for portfolio management for all products using a particular investment discipline or style, including institutional accounts, Managed Accounts, mutual funds, and other commingled investment vehicles. Individual members of each such separate investment management team may have primary or exclusive responsibility for managing specific accounts or products invested according to that team's particular investment discipline or style.

As a general matter, each Lord Abbett investment team manages each strategy using a common style in substantially the same manner across all accounts investing in each such strategy. An investment management team (and, in certain circumstances, individual members of that team) may implement its investment decisions in somewhat different ways for each product, however, to the extent that the team members responsible for a particular strategy determine that such differences are appropriate. The differences are typically attributable to the unique considerations relating to each type of product. For example, investment decisions for Managed Accounts may take into account tax considerations that would not be relevant for tax-exempt institutional accounts. As another example, account size, cash flow considerations, and/or redemption requests/withdrawals may cause Lord Abbett to invest differently for Managed Accounts as compared with other types of accounts. These kinds of considerations may cause one product to have a higher cash position than another product at a given time, to reflect implementation of Lord Abbett's investment strategies in different increments or on a different basis with respect to timing of purchases and sales of securities, or to maintain fewer holdings in the interest of avoiding nonstandard principal amounts of fixed-income securities.

In the event that an institutional or Managed Account client terminates Lord Abbett from managing its account, the client or Sponsor will notify Lord Abbett of the termination of Lord Abbett's investment discretion from the account and typically will instruct Lord Abbett as to the client's desire to maintain the securities held in the portfolio or to transition all or a part of the client's portfolio to cash. Unless more time is necessary to complete trading instructed by the client, any orders issued by Lord Abbett before the receipt of a termination notice will generally be executed on the day of receipt and discretion will be maintained until the end of such business day, after which Lord Abbett will not be responsible for any trading or investment decisions.

## VOTING CLIENT SECURITIES

Lord Abbett has adopted proxy voting policies and procedures that govern the voting of client securities. Lord Abbett votes proxies in



the manner it believes is in the best interests of its clients, including the Lord Abbett Funds and their shareholders. Proxy voting decisions are made by the Investment Department, led by the Investment Stewardship team in accordance with Lord Abbett's proxy voting policies and procedures. Lord Abbett has retained a third-party service to analyze proxy issues and recommend how to vote on those issues, and to provide assistance in the administration of the proxy process, including maintaining complete proxy voting records.

## Securities Lending

Some clients may determine to include their assets under management by Lord Abbett in a securities lending program. In circumstances where shares are on loan, the voting rights of those shares are transferred to the borrower. In such circumstances, unless the client has arranged for such securities to be recalled prior to the meeting record date, Lord Abbett will be unable to vote with respect to such shares.

## Conflicts of Interest

Lord Abbett has adopted policies and procedures designed to ensure that conflicts of interests are identified and resolved in its clients' best interests rather than its own. Generally, when Lord Abbett identifies a potential conflict of interest, Lord Abbett adheres to its voting guidelines on the issue or, if the guidelines do not address the particular issue, Lord Abbett would follow the recommendation of the third-party service.

On occasion, a proxy vote will relate to securities of a company with which Lord Abbett has a significant business relationship, such as a company that is an institutional client of Lord Abbett or a company known by Lord Abbett to have a substantial investment in a Lord Abbett Fund. In such circumstances, Lord Abbett will request voting instructions from a committee consisting of members of the Board of Directors/Trustees of the Lord Abbett Funds who are not "interested persons" as defined in the Investment Company Act of 1940. In the absence of explicit instructions from an institutional account client to resolve proxy voting conflicts in a different manner, Lord Abbett will vote all shares on behalf of all clients that hold such a security in accordance with the voting instructions received from the committee of the Lord Abbett Funds' Board.

To serve the best interests of a client that holds a given voting security, Lord Abbett generally will vote proxies without regard to other clients' investments in different classes or types of securities or instruments of the same issuer that are not entitled to vote. Accordingly, when the voting security in one account is from an issuer whose other, non-voting securities or instruments are held in a second account in a different strategy, Lord Abbett will vote without input from members of the Investment Department that act on behalf of the second account. Lord Abbett employees may seek guidance from Lord Abbett's senior management with respect to any potential conflict of interest arising out of the holdings of multiple clients.

## Summary of Proxy Voting Guidelines

Summarized below are the general guidelines that Lord Abbett normally follows in voting proxies. A more detailed description of these guidelines can be found in Lord Abbett's Proxy Voting Policy and Procedures. Lord Abbett evaluates each proxy proposal based on the particular facts it believes are relevant to its overall goal of maximizing shareholder value. Lord Abbett reserves the flexibility to vote in a manner contrary to its general views on particular issues if it believes doing so is in the best interests of its clients. For institutional accounts managed on behalf of multi-employer pension or benefit plans, commonly referred to as Taft-Hartley plans, Lord Abbett will vote proxies in accordance with the Proxy Voting Guidelines issued by the AFL-CIO rather than the guidelines summarized below unless instructed otherwise by the client.

- **Auditors.** Lord Abbett believes that companies normally are in the best position to select their auditors. However, we will evaluate such proposals on a case-by-case basis and may consider any concerns about impaired independence, accounting irregularities, or failure of the auditors to act in shareholders' best economic interests, among other factors we may deem relevant.

- **Directors.** Lord Abbett considers a variety of factors when voting on director nominees, including a nominee's qualifications, diversity, independence, and meeting attendance, among others. As part of our diversity assessment, we will consider voting against certain directors if there are no women on the board and no plan has been articulated to diversify the board.

Lord Abbett generally votes in favor of proposals that seek to adopt a majority voting standard for board nominees; votes in favor of proposals to declassify a board; votes against nominees to boards or committees that would cause a majority of a company's board or committee members to be non-independent; and votes, on a case-by-case basis, on proposals that call for separation of the chairman and CEO functions.

- **Compensation and Benefits.** Lord Abbett believes that the representatives of the company generally are in the best position to assess compensation and benefits. Lord Abbett votes on a case-by-case basis on compensation and benefit matters, including incentive compensation plans, say-on-pay, clawbacks, anti-gross-up policies, and severance pay. Lord Abbett may oppose management if it deems a company's compensation to be excessive or inconsistent with its peer companies' compensation, it believes a company's compensation measures do not foster a long-term focus among its executive officers and other employees, or it believes a company has not met performance expectations, among other reasons.

- **Corporate Matters.** Lord Abbett considers proposals related to charter amendments on a case-by-case basis to the extent not covered elsewhere in our Proxy Voting Policy and Procedures. Lord Abbett generally opposes management on share capital increases that would have a dilutive effect and reincorporation proposals that Lord Abbett believes would contravene shareholder interests.



## APPENDIX 1

The following table provides the standard fee schedule for each of Lord Abbett's available institutional strategies:

Strategy	Standard Fee Schedule
Bank Loans	.47% on the first \$50 million in assets under management .43% on the next \$100 million in assets under management .38% on the next \$100 million in assets under management .36% on the next \$250 million in assets under management .34% on assets in excess of \$500 million
Climate Focused Bond	.38% on the first \$50 million .33% on the next \$50 million .29% on all assets in excess of \$100 million
Convertible Securities	.50% on the first \$50 million in assets under management .47% on the next \$100 million in assets under management .40% on all assets in excess of \$150 million
Core Fixed Income	.28% on the first \$50 million in assets under management .20% on the next \$100 million in assets under management .16% on the next \$350 million in assets under management .14% on all assets in excess of \$500 million
Core Plus Fixed Income	.30% on the first \$50 million in assets under management .23% on the next \$100 million in assets under management .20% on the next \$100 million in assets under management .19% on all assets in excess of \$250 million
Corporate Bond	.26% on the first \$50 million in assets under management .21% on the next \$100 million in assets under management .18% on the next \$100 million in assets under management .16% on all assets in excess of \$250 million
Corporate Credit	.26% on the first \$50 million in assets under management .21% on the next \$100 million in assets under management .18% on the next \$100 million in assets under management .16% on all assets in excess of \$250 million
Credit Opportunities	1.25% on the first \$50 million in assets under management 1.00% on all assets in excess of \$50 million
Dividend Growth	.60% on the first \$25 million in assets under management .45% on the next \$75 million in assets under management .42% on the next \$150 million in assets under management .39% on the next \$250 million in assets under management Negotiable on assets in excess of \$500 million
Durable Mid Cap Growth	.68% on the first \$25 million in assets under management .58% on the next \$75 million in assets under management .50% on the next \$150 million in assets under management .49% on the next \$250 million in assets under management Negotiable on all assets in excess of \$500 million
Emerging Markets Bond	.48% on the first \$50 million in assets under management .42% on the next \$100 million in assets under management .35% on all assets in excess of \$150 million
Emerging Markets Corporate Debt	.45% on the first \$150 million in assets under management .42% on the next \$250 million in assets under management .36% on all assets in excess of \$400 million
Global Bond	.38% on the first \$50 million in assets under management .33% on the next \$100 million in assets under management .29% on all assets in excess of \$150 million

Strategy	Standard Fee Schedule
Global Equity	.48% on the first \$50 million in assets under management .46% on the next \$50 million in assets under management .42% on the next \$150 million in assets under management .40% on the next \$250 million in assets under management .35% on all assets in excess of \$500 million
Global High Yield	.50% on the first \$50 million in assets under management .40% on the next \$100 million in assets under management .38% on the next \$100 million in assets under management .35% on all assets in excess of \$250 million
Large Cap Growth Equity	.55% on the first \$25 million in assets under management .45% on the next \$75 million in assets under management .38% on the next \$150 million in assets under management .35% on the next \$250 million in assets under management Negotiable on all assets in excess of \$500 million
High Yield	.50% on the first \$50 million in assets under management .40% on the next \$100 million in assets under management .38% on the next \$100 million in assets under management .35% on all assets in excess of \$250 million
Inflation Focused	.25% on the first \$100 million in assets under management .22% on the next \$400 million in assets under management .18% on all assets in excess of \$500 million
International Equity	.60% on the first \$25 million in assets under management .52% in the next \$75 million in assets under management .42% in the next \$150 million in assets under management .37% in the next \$250 million in assets under management Negotiable on assets in excess of \$500 million.
International Growth	.75% on the first \$25 million in assets under management .60% on the next \$25 million in assets under management .40% on the next \$200 million in assets under management .35% on the next \$250 million in assets under management Negotiable on all assets in excess of \$500 million
International Value	.71% on the first \$25 million in assets under management .51% on the next \$75 million in assets under management .41% on the next \$150 million in assets under management .37% on the next \$250 million in assets under management Negotiable on all assets in excess of \$500 million
International Small Cap	.80% on the first \$25 million in assets under management .73% on the next \$75 million in assets under management .65% on the next \$400 million in assets under management Negotiable on all assets in excess of \$500 million
Large Cap Value	.75% on the first \$10 million in assets under management .50% on the next \$40 million in assets under management .35% on the next \$50 million in assets under management .25% on the next \$100 million in assets under management .20% on all assets in excess of \$200 million
Long Duration Fixed Income	.27% on the first \$50 million in assets under management .21% on the next \$100 million in assets under management .16% on the next \$350 million in assets under management .14% on all assets in excess of \$500 million
Micro Cap Innovation Growth	1.25% on the first \$25 million in assets under management 1.00% on all assets in excess of \$25 million





## APPENDIX 1 (CONT.)

Strategy	Standard Fee Schedule
Mid Cap Value	.65% on the first \$25 million in assets under management .51% on the next \$75 million in assets under management .49% on the next \$150 million in assets under management .46% on the next \$250 million in assets under management Negotiable on all assets in excess of \$500 million
Multi-Sector	.40% on the first \$50 million in assets under management .31% on the next \$100 million in assets under management .29% on the next \$100 million in assets under management .26% on the next \$250 million in assets under management .25% on all assets in excess of \$500 million
Multi-Sector Full Discretion	.40% on the first \$50 million in assets under management .31% on the next \$100 million in assets under management .29% on the next \$100 million in assets under management .26% on the next \$250 million in assets under management .25% on all assets in excess of \$500 million
Municipals	.21% on the first \$50 million in assets under management .19% on the next \$100 million in assets under management .14% on the next \$100 million in assets under management .13% on all assets in excess of \$250 million
Short Duration Core	.20% on the first \$50 million in assets under management .15% on the next \$100 million in assets under management .13% on the next \$350 million in assets under management .11% on all assets in excess of \$500 million
Short Duration Credit	.20% on the first \$50 million in assets under management .17% on the next \$100 million in assets under management .15% on the next \$100 million assets under management .13% on all assets in excess of \$250 million
Short High-Yield	.32% on the first \$50 million .28% on the next \$100 million .26% on the next \$100 million .23% on all assets in excess of \$250 million
Small Cap Innovation Growth	1.00% on the first \$10 million in assets under management .75% on the next \$40 million in assets under management .625% on the next \$50 million in assets under management .50% on all assets in excess of \$100 million
Small Cap Value	1.00% on the first \$10 million in assets under management .75% on the next \$40 million in assets under management .65% on the next \$50 million in assets under management .60% on the next \$100 million in assets under management

The following table provides the typical range of fees payable to Lord Abbett for Managed Account programs:

Strategy	Standard Fee Range
Managed Accounts—Equities	0.34–0.50%
Managed Accounts—Fixed Income	0.14–0.36%
Managed Accounts— Laddered Tax-Exempt Fixed Income	0.10–0.15%
Model Portfolios—Equities	0.28–0.35%
Model Portfolios—Fixed Income	0.22–0.28%



## APPENDIX 2

The Appendix 2 provides a non-exhaustive list of certain investments that Lord Abbett might use followed by their associated risks. At the end, there is a list of general risks that might apply to all or some of the investments.

Investors investing in funds or investment vehicles managed by Lord Abbett should refer to any disclosures or risk factors contained in the offering materials or other disclosure statements provided to them in addition to the factors set forth in this Appendix 2. When used in this Appendix 2, an "Account" refers to any Lord Abbett client account, including funds or other investment vehicles, which can use the investments and techniques described below.

### ***Asset-Backed and Mortgage-Related Investments and Associated Risks***

**Asset-Backed Securities.** An Account, in accordance with its investment objectives and policies, may invest in asset-backed securities (unrelated to mortgage loans). Asset-backed securities are securities whose principal and interest payments are collateralized by pools of assets such as auto loans, credit card receivables, leases, installment contracts, and personal property. In addition to prepayment and extension risks, these securities present credit risks that are not inherent in mortgage-related securities because asset-backed securities generally do not have the benefit of a security interest in collateral that is comparable to mortgage assets. Credit card receivables generally are unsecured and the debtors on such receivables are entitled to the protection of a number of state and federal consumer credit laws, many of which give such debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due.

Automobile receivables generally are secured, but by automobiles rather than residential real property. Most issuers of automobile receivables permit the loan servicers to retain possession of the underlying obligations. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the asset-backed securities. In addition, because of the large number of vehicles involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the automobile receivables may not have a proper security interest in the underlying automobiles. Therefore, if the issuer of an asset-backed security defaults on its payment obligations, there is the possibility that, in some cases, an Account will be unable to possess and sell the underlying collateral and that the Account's recoveries on repossessed collateral may not be available to support payments on these securities.

**Collateralized Mortgage Obligations and Real Estate Mortgage Investment Conduits ("CMOs").** A CMO is a hybrid between a mortgage-backed bond and a mortgage pass-through security. Similar to a bond, interest and prepaid principal is paid, in most cases, on a monthly basis. CMOs may be collateralized by whole mortgage loans, but are more often collateralized by portfolios

of mortgage passthrough securities and their income streams. Some CMOs are directly supported by other CMOs, which, in turn, are supported by mortgage pools.

CMOs are issued in multiple classes, often referred to as "tranches," with each tranche having a specific fixed or floating coupon rate and stated maturity or final distribution date. Payments of principal normally are applied to the CMO classes in the order of their respective stated maturities, so that no principal payments will be made on a CMO class until all other classes having an earlier stated maturity date are paid in full. Under the traditional CMO structure, the cash flows generated by the mortgages or mortgage pass-through securities in the collateral pool are used to first pay interest and then pay principal to the holders of the CMOs. Subject to the various provisions of individual CMO issues, the cash flow generated by the underlying collateral (to the extent it exceeds the amount required to pay the stated interest) is used to retire the bonds. The differing structures of CMO classes may create a wide variety of investment characteristics, such as yield, effective maturity, and interest rate sensitivity. As market conditions change, however, and particularly during periods of rapid or unanticipated changes in market interest rates, the attractiveness of the CMO classes and the ability of the structure to provide the anticipated investment characteristics may be significantly reduced. These changes can result in volatility in the market value, and, in some instances, reduced liquidity of the CMO class. A risk of CMOs is the uncertainty of the timing of cash flows that results from the rate of prepayments on the underlying mortgages serving as collateral and from the structure of the particular CMO transaction (that is, the priority of the individual tranches). An increase or decrease in prepayment rates (resulting from a decrease or increase in mortgage interest rates) may cause the CMOs to be retired substantially earlier than their stated maturities or final distribution dates and will affect the yield and price of CMOs. In addition, if the collateral securing CMOs or any third party guarantees are insufficient to make payments, an Account could sustain a loss.

Securities may be backed by mortgage insurance, letters of credit, or other credit enhancing features. Although payment of the principal of, and interest on, the underlying collateral securing privately issued CMOs may be guaranteed by the U.S. Government or its agencies and instrumentalities, these CMOs represent obligations solely of the private issuer and are not insured or guaranteed by the U.S. Government, or its agencies and instrumentalities.

CMO tranches have evolved and will likely continue to evolve. For example, CMOs may include floating rate CMOs, inverse floating rate CMOs, parallel pay CMOs, planned amortization classes, accrual bonds, and CMO residuals. These structures affect the amount and timing of principal and interest received by each tranche from the underlying collateral. Under certain of these structures, certain classes of CMOs have priority over others with respect to the receipt of prepayments on the mortgages. Therefore, depending on the type of CMOs in which an Account



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invests, the investment may be subject to a greater or lesser risk of prepayment than other types of MBS. CMOs may include real estate investment conduits, which are private entities formed for the purpose of holding a fixed pool of mortgages secured by an interest in real property.

**Commercial Mortgage-Backed Securities.** Commercial mortgage-backed securities include securities that reflect an interest in, and are secured by, mortgage loans on commercial real property. Many of the risks of investing in commercial mortgage-backed securities reflect the risks of investing in the real estate securing the underlying mortgage loans. These risks reflect the effects of local and other economic conditions on real estate markets, the ability of tenants to make loan payments, and the ability of a property to attract and retain tenants. Commercial mortgage-backed securities may be less liquid and exhibit greater price volatility than other types of mortgage or asset backed securities. They are typically not backed by any government or government agency or instrumentality.

**Mortgage Pass-Through Securities.** Interests in pools of mortgage related securities differ from other forms of debt securities, since debt securities normally provide for periodic payment of interest in fixed amounts with principal payments at maturity or specified call dates. Instead, mortgage-related securities provide a monthly payment that consists of both interest and principal payments. In effect, these payments are a “pass-through” of the monthly payments made by individual borrowers on their residential or commercial mortgage loans, net of any fees paid to the issuer or guarantor of such securities. Additional payments are caused by prepayments of principal resulting from the sale of the underlying property, refinancing, or foreclosure, net of fees or costs that may be incurred. These differences can result in significantly greater price and yield volatility than is the case with traditional fixed income or debt securities. The timing and level of prepayments is unpredictable. A predominant factor affecting the prepayment rate on a pool of mortgage loans is the difference between the interest rates on outstanding mortgage loans and prevailing mortgage loan interest rates. Generally, prepayments on mortgage loans will increase during a period of falling mortgage interest rates and decrease during a period of rising mortgage interest rates. Accordingly, the amounts of prepayments available for reinvestment by an Account are likely to be greater during a period of declining mortgage interest rates. When an Account reinvests the proceeds of a prepayment in these circumstances, it will likely receive a rate of interest that is lower than the rate on the security that was prepaid. To the extent that an Account purchases asset-backed securities at a premium, prepayments may result in a loss to the extent of the premium paid. If an Account buys such securities at a discount, both scheduled payments and unscheduled prepayments should increase current income and total returns and unscheduled prepayments will also accelerate the recognition of income. In a period of rising interest rates, prepayments of the underlying assets may occur

at a slower than expected rate, with the result that the average life of mortgage pass-through securities held by an Account may be lengthened (maturity extension risk). This particular risk may effectively change a security that was considered short or intermediate term at the time of purchase into a longer-term security. Since the value of longer-term securities generally fluctuates more widely in response to changes in interest rates than does the value of shorter term securities, maturity extension risk could increase the price and yield volatility of mortgage related securities held by an Account. In the past, in certain market environments, the value and liquidity of many mortgage passthrough securities declined sharply. There can be no assurance that such declines will not recur. Investments in mortgage-backed securities may be subject to a high degree of credit risk, valuation risk, and liquidity risk. These risks may be even higher with mortgage pass-through securities supported by subprime mortgages.

**Mortgage-Related and Asset-Backed Securities and Other Collateralized Obligations.** Mortgage-related securities are interests in pools of residential or commercial mortgage loans, including mortgage loans made by savings and loan institutions, mortgage bankers, commercial banks and others. Pools of mortgage loans are assembled as securities for sale to investors by various governmental, government related, and private organizations.

**Other Collateralized Obligations.** In addition to the collateralized obligations described elsewhere in this appendix, an Account may invest in collateralized loan obligations (“CLOs”), collateralized debt obligations (“CDOs”), and collateralized bond obligations (“CBOs”).

A CLO is a type of structured product that issues securities collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans, second lien loans, and subordinate corporate loans. The underlying loans may be rated below investment grade by a rating agency. A CLO is not merely a conduit to a portfolio of loans; it is a pooled investment vehicle that may be actively managed by the collateral manager. Therefore, an investment in a CLO can be viewed as investing in (or through) another investment adviser and is subject to the layering of fees associated with such an investment.

The cash flows from a CLO are divided into two or more classes called “tranches,” each having a different risk reward structure in terms of the right (or priority) to receive interest payments from the CLO. The risks of an investment in a CLO depend largely on the type of the collateral held in the CLO portfolio and the tranche of securities in which an Account invests. Generally, the risks of investing in a CLO can be summarized as a combination of economic risks of the underlying loans combined with the risks associated with the CLO structure governing the priority of payments. In addition to the general risks associated with fixed income securities and structured products discussed herein, CLOs carry additional risks including but not limited to the following:



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**Other Mortgage-Related Securities.** Other mortgage-related securities include securities other than those described above that directly or indirectly represent a participation in, or are secured by and payable from, mortgage loans on real property, including mortgage dollar rolls, or stripped mortgage-backed securities.

Mortgage dollar rolls are instruments in which an Account sells securities for delivery in the current month and simultaneously contracts with the same counterparty to repurchase similar (same type, coupon, and maturity) but not identical securities on a specified future date. During the roll period, an Account loses the right to receive principal (including prepayments of principal) and interest paid on the securities sold. However, an Account may benefit from the interest earned on the cash proceeds of the securities sold until the settlement date of the forward purchase.

An Account is generally subject to the risks associated with the purchased security, such as credit risk and interest rate risk. In addition, if the broker-dealer to whom an Account sells the security becomes insolvent, the Account's right to purchase or repurchase the mortgage related securities subject to the mortgage dollar roll may be restricted. Also, the instrument that an Account is required to repurchase may be worth less than an instrument that the Account originally held. Successful use of mortgage dollar rolls will depend upon Lord Abbett's ability to manage an Account's interest rate and mortgage prepayments exposure. For these reasons, there is no assurance that mortgage dollar rolls can be successfully employed. The use of this technique may diminish the investment performance of an Account compared with what such performance would have been without the use of mortgage dollar rolls.

**Stripped Mortgage-Backed Securities ("SMBS").** SMBS are derivative multi-class mortgage securities. SMBS may be issued by agencies or instrumentalities of the U.S. Government, or by private originators of, or investors in, mortgage loans, including savings and loan associations, mortgage banks, commercial banks, investment banks, and special purpose entities of the foregoing. SMBS are usually structured with two classes that receive different proportions of the interest and principal distributions on a pool of mortgage assets. A common type of SMBS will have one class receiving some of the interest and most of the principal from the mortgage assets, while the other class will receive most of the interest and the remainder of the principal. In the most extreme case, one class will receive all of the interest (the interest-only or "IO" class), while the other class will receive all of the principal (the principal-only or "PO" class).

The value of an IO class is extremely sensitive to the rate of principal payments (including prepayments) on the related underlying mortgage assets, and a rapid rate of principal payments may cause an Account to lose money. The value of a PO class generally increases as interest rates decline and prepayment rates rise. Some IOs and POs are structured to have special protections against the effects of prepayments. These structural protections,

however, normally are effective only within certain ranges of prepayment rates and, thus, will not protect investors in all circumstances. The price of these securities typically is more volatile than that of coupon-bearing bonds of the same maturity.

### **To Be Announced ("TBA") Sale or Purchase Commitments.**

An Account may enter into TBA sale commitments to sell mortgage backed securities that it owns under delayed delivery arrangements. Proceeds of TBA sale commitments are not received until the contractual settlement date. During the time a TBA sale commitment is outstanding, equivalent deliverable securities or an offsetting TBA purchase commitment deliverable on or before the sale commitment date are held as "cover" for the transaction. Recently finalized FINRA rules include mandatory margin requirements for the TBA market with limited exceptions. TBA trades historically have not been required to be collateralized. The collateralization of TBA trades is intended to mitigate counterparty credit risk between trade and settlement, but could increase the cost of TBA transactions and impose added operational complexity.

**Commercial Mortgage-Backed Securities Risk:** CMBS include securities that reflect an interest in, and are secured by, mortgage loans on commercial real property (such as office properties, retail properties, hospitality properties, industrial properties, healthcare-related properties or other types of income producing real property). Many of the risks of investing in CMBS reflect the risks of investing in the real estate securing the underlying mortgage loans, which include the risks associated with the effects of local and other economic conditions on real estate markets, the ability of tenants to make loan payments, increases in interest rates, real estate tax rates and other operating expenses, changes in governmental rules, regulations and fiscal policies, and the ability of a property to attract and retain tenants.

CMBS depend on cash flows generated by underlying commercial real estate loans, receivables, and other assets, and can be significantly affected by changes in market and economic conditions, the availability of information regarding the underlying assets and their structures, and the credit worthiness of the borrowers or tenants. CMBS may be less liquid and exhibit greater price volatility than other types of mortgage or asset-backed securities. CMBS issued by private issuers may offer higher yields than CMBS issued by government issuers, but also may be subject to greater volatility than CMBS issued by government issuers. In addition, the CMBS market in recent years has experienced substantially lower valuations and greatly reduced liquidity, and current economic and market conditions suggest that this trend for CMBS may continue. CMBS held by an Account may be subordinated to one or more other classes of securities of the same series for purposes of, among other things, establishing payment priorities and offsetting losses and other shortfalls with respect to the related underlying mortgage loans. There can be no assurance that the subordination will be sufficient on any date to offset





## APPENDIX 2 (CONT.)

all losses or expenses incurred by the underlying trust.

**“Covenant-Lite” Obligations Risk:** The Account may invest in, or obtain exposure to, obligations that may be “covenant-lite,” which means such obligations lack certain financial maintenance covenants. While these loans may still contain other collateral protections, a covenant-lite loan is riskier because it does not require the borrower to provide affirmation that certain specific financial tests have been satisfied. Should a loan held by the Account begin to deteriorate in quality, the Account’s ability to negotiate with the borrower may be delayed under a covenant-lite loan compared to a loan with full maintenance covenants. This may in turn delay the Account’s ability to seek to recover its investment.

**Guarantors of Mortgage-Backed Securities.** The principal governmental guarantor of mortgage-related securities is Ginnie Mae. Ginnie Mae is authorized to guarantee, with the full faith and credit of the U.S. Government, the timely payment of principal and interest on securities issued by institutions approved by Ginnie Mae (such as savings and loan institutions, commercial banks and mortgage bankers) and backed by pools of mortgages insured by the Federal Housing Administration (the “FHA”), or guaranteed by the Department of Veterans Affairs (the “VA”).

Government-related guarantors of securities not backed by the full faith and credit of the U.S. Government include Fannie Mae and Freddie Mac. Both are government sponsored corporations owned entirely by private stockholders. In September 2008, the U.S. Treasury Department announced that the government would be taking over Fannie Mae and Freddie Mac and placing the companies into a conservatorship. In addition, the U.S. Treasury announced additional steps that it intended to take with respect to the debt and mortgage-backed securities issued by Fannie Mae and Freddie Mac in order to support the conservatorship. Fannie Mae and Freddie Mac are continuing to operate as going concerns while in conservatorship and each remains liable for all of its respective obligations, including its guaranty obligations, associated with its mortgage-backed securities. No assurance can be given that these arrangements will continue, and it is possible that these entities will not have the funds to meet their payment obligations in the future. From time to time, proposals have been introduced before Congress for the purpose of restricting or eliminating federal sponsorship of Fannie Mae and Freddie Mac. Lord Abbett cannot predict what legislation, if any, may be proposed in the future in Congress regarding such sponsorship or which proposals, if any, might be enacted. Such proposals, if enacted, might materially and adversely affect the availability of government guaranteed mortgage backed securities and the liquidity and value of an Account’s portfolio. Government-related guarantors may also issue Participation Certificates (“PCs”), which represent interests in conventional mortgages from Freddie Mac’s national portfolio. Freddie Mac guarantees the timely payment of interest and ultimate collection of principal, but PCs are not backed by the full faith and credit of the U.S. Government.

### **Other Risks of Mortgage-Backed and Asset-Backed Securities.**

Mortgage-backed, mortgage-related, and other asset-backed securities are subject to risks in addition to those described above. These securities are often extremely complex and their documentation may be unclear, ambiguous, or poorly understood, which could lead to a misunderstanding or incorrect application of the securities’ terms, and may also lead to disputes. More junior securities are often illiquid and hard to value, and even senior securities may become so during periods of market stress or if there are issues relating to the underlying collateral. Regulatory issues relating to the underlying collateral may have unforeseen effects on the value of the securities and may cause them to decrease in value. In addition, servicers or trustees may not always act in the best interests of the holders of securities or of certain tranches of securities.

**Private Mortgage-Backed Securities.** Commercial banks, savings and loan institutions, private mortgage insurance companies, mortgage bankers and other secondary market issuers also create pass-through pools of conventional residential mortgage loans. Such issuers may, in addition, be the originators and/or servicers of the underlying mortgage loans as well as the guarantors of the mortgage-related securities. Pools created by such non-governmental issuers generally offer a higher rate of interest than government and government related pools because they are not guaranteed by any government or agency. In addition, mortgage-related securities issued by these nongovernmental issuers may experience higher rates of default on the underlying mortgages since these mortgage loans often do not meet the underwriting standards of government and government-related issuers. However, timely payment of interest and principal of these pools may be supported by various forms of insurance or guarantees, including individual loan, title, pool and hazard insurance, and letters of credit, which may be issued by governmental entities, private insurers, or the mortgage poolers. Such insurance and guarantees, and the creditworthiness of the issuers thereof will be considered in determining whether a mortgage-related security meets an Account’s investment quality standards. Upon a breach of any representation or warranty that materially and adversely affects the interests of the related certificate holders in a mortgage loan, the seller or servicer generally will be obligated either to cure the breach in all material respects, to repurchase the mortgage loan or, if the related agreement so provides, to substitute in its place another qualifying mortgage loan. Such a repurchase or substitution obligation may constitute the sole remedy available for the material breach of any such representation or warranty by the seller or servicer. There can be no assurance that the private insurers or guarantors can meet their obligations under the insurance policies or guarantee arrangements. These securities may be illiquid.

In the case of privately issued mortgage-related securities whose underlying assets are neither U.S. Government securities nor U.S. Government insured mortgages, to the extent that real



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properties securing such assets may be located in the same geographical region, the security may be subject to a greater risk of default than other comparable securities in the event of adverse economic, political, or business developments that may affect such region and, ultimately, the ability of residential homeowners to make payments of principal and interest on the underlying mortgages.

**CLO, CDO, and CBOs – Subordination and Risk of Default:** Lower tranche CLOs provide subordination and enhancement to higher tranches, and, therefore, lower tranches are subject to a higher risk of defaults in the underlying collateral. Although supported by the lower tranches, defaults or losses above certain levels could reduce or eliminate all current cash flow to the highest tranche and entail loss of principal. Among other things, defaults, downgrades, and principal losses with respect to CLO collateral can trigger an event of default under the terms of the CLO structure, which could result in the liquidation of the collateral and accelerate the payments of an Account's investments in the CLO, which may be at a loss.

- **Transparency Risk:** Collateral managers of CLOs may actively manage the portfolio. Accordingly, the collateral and the accompanying risks underlying a CLO in which an Account invests will change, and will do so without transparency. Therefore, an Account's investment in a CLO will not benefit from detailed or ongoing due diligence on the underlying collateral.
- **Credit Risk:** CLO collateral is subject to credit and liquidity risks, as substantially all of the collateral held by CLOs will be rated below investment grade or be unrated. Because of the lack of transparency, the credit and liquidity risk of the underlying collateral can change without visibility to the CLO investors.
- **Lack of Liquidity:** CLOs typically are privately offered and sold, and, thus, are not registered under the federal securities laws and subject to transfer restrictions. As a result, investments in CLOs may be illiquid. Certain securities issued by a CLO (typically the highest tranche) may have an active dealer market and, if so, may be liquid.
- **Interest Rate Risk:** The CLO portfolio may have exposure to interest rate fluctuations as well as mismatches between the interest rate on the underlying bank loans and the CLO securities.
- **Prepayment Risk:** CLO securities may pay earlier than expected due to defaults (triggering liquidation) or prepayments on the underlying collateral, optional redemptions, or refinancing, or forced sale in certain circumstances.
- **Documentation Risk:** CLO documentation is highly complex and can contain inconsistencies or errors, creating potential risk and requiring significant interpretational expertise, disputes with issuers, or unintended investment results.

A CDO is a security backed by pools of corporate or sovereign bonds, bank loans to corporations, or a combination of bonds and loans, many of which may be unsecured. A CBO is an obligation of a trust or other special purpose vehicle backed by a pool of fixed income securities, which are often a diversified pool of securities that are high risk and below investment grade. These securities are collateralized by many different types of fixed income securities, including high-yield debt, trust preferred securities, and emerging market debt, which are subject to varying degrees of credit and counterparty risk. CDOs and CBOs are structured similarly to CLOs and carry additional risks that include, but are not limited to, the risks of investing in CLOs described above and the risks associated with the pool of underlying securities.

### *Commodities and Associated Risks*

**Commodity-Related Investments.** Commodity-related investments provide exposure to the investment returns of the commodities markets, without investing directly in physical commodities. Commodities include assets that have tangible properties, such as oil, metals, and agricultural products. Commodity-related investments include, for example, commodity index-linked notes, swap agreements, commodity options, futures, and options on futures. Commodity-related investments may subject an Account to greater volatility than investments in traditional securities, particularly if the instruments involve leverage. The value of commodity-related investments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs, and international economic, political, and regulatory developments. Use of leveraged commodity-related investments creates the possibility for greater loss, and there can be no assurance that an Account's use of leverage will be successful. Tax considerations and position limits established by the commodities exchanges may limit an Account's ability to pursue investments in commodity-related investments.

### *Convertible Securities and Associated Risks*

**Convertible Securities.** Convertible securities are preferred stocks or debt obligations that may be converted into or exchanged for shares of common stock (or cash or other securities) of the same or a different issuer at a stated price or exchange ratio. Convertible securities generally rank senior to common stock in a corporation's capital structure but usually are subordinated to comparable non-convertible securities. A convertible security entitles the holder to receive a dividend or interest that generally is paid or accrued on the underlying security until the convertible security matures or is redeemed, converted, or exchanged. While convertible securities generally do not participate directly in any dividend increases or decreases of the underlying securities, market prices of convertible securities may be affected by such dividend changes or other changes in the underlying securities. In addition, if the market price of the common stock underly-



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ing a convertible security approaches or exceeds the conversion price of the convertible security, the convertible security tends to reflect the market price of the underlying common stock. Alternatively, a convertible security may lose much or all of its value if the value of the underlying common stock falls below the conversion price of the security.

Convertible securities have both equity and fixed income risk characteristics. A significant portion of convertible securities have below investment grade credit ratings and are subject to increased credit and liquidity risks. A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by an Account is called for redemption, an Account will be required to convert it into the underlying common stock, sell it to a third party, or permit the issuer to redeem the security. Any of these actions could have an adverse effect on Lord Abbett's ability to achieve its investment objective, which, in turn, could result in losses to the Account.

**Contingent Convertible Securities ("CoCos").** CoCos are typically issued by non-U.S. issuers and are subordinated instruments that are designed to behave like bonds or preferred equity in times of economic health yet absorb losses when a pre-determined trigger event occurs. CoCos are either convertible into equity at a predetermined share price or written down in value based on the specific terms of the individual security if a prespecified trigger event occurs. Trigger events vary by instrument and are defined by the documents governing the contingent convertible security. Such trigger events may include a decline in the issuer's capital below a specified threshold level, an increase in the issuer's risk-weighted assets, the share price of the issuer falling to a particular level for a certain period of time and certain regulatory events. In addition, CoCos have no stated maturity and have fully discretionary coupons.

**Synthetic Convertible Securities.** Synthetic convertible securities are derivative instruments comprising two or more securities whose combined investment characteristics resemble those of a convertible security. A typical convertible security combines fixed income securities or preferred stock with an equity component, such as a warrant, which offers the potential to own the underlying equity security. The value of a synthetic convertible security may respond differently to market fluctuations than the value of a traditional convertible security in response to the same market fluctuations.

### **Debt Securities and Associated Risks**

**Debt Securities.** Debt securities are used by issuers to borrow money. The issuer usually pays a fixed, variable, or floating rate of interest and typically must repay the amount borrowed at the maturity of the instrument. Debt securities include, but are not limited to, bonds, debentures, government obligations, commercial paper, repurchase agreements, and pass-through

instruments. A debt security is typically considered "investment grade" if it is rated BBB/Baa or higher by a rating agency or if Lord Abbett determines the security to be of comparable quality. Prices of debt securities fluctuate and, in particular, are subject to several key risks including, but not limited to, interest rate risk, credit risk, prepayment risk, extension risk, and spread risk.

When interest rates rise or the issuer's or the counterparty's financial condition worsens or is perceived by the market to be at greater risk, the value of debt securities typically declines. Investments in debt securities may face a heightened level of interest rate risk. In recent years, the U.S. has experienced historically low interest rates, increasing the exposure of bond investors to the risks associated with rising interest rates. While fixed income securities with longer final maturities often have higher yields than those with shorter maturities due to their longer term and extended fixed payment schedule, their prices are usually more sensitive to changes in interest rates and other factors.

Credit risk, also known as default risk, represents the possibility that an issuer may be unable to meet scheduled interest and principal payment obligations. If the market perceives a deterioration in the creditworthiness of an issuer, the value and liquidity of debt securities issued by that issuer may decline. Spread risk is the potential for the value of an Account's debt security investments to fall due to the widening of spreads. Debt securities generally compensate for greater credit risk by paying interest at a higher rate. The difference (or "spread") between the yield of a security and the yield of a benchmark, such as a U.S. Treasury security with a comparable maturity, measures the additional interest paid for such greater credit risk. As the spread on a security widens (or increases), the price (or value) of the security falls. Spread widening may occur, among other reasons, as a result of market concerns over the stability of the market, excess supply, general credit concerns in other markets, security or market-specific credit concerns, or general reductions in risk tolerance.

Prepayment risk, also known as call risk, arises due to the issuer's ability to prepay all or most of the debt security before the stated final maturity date. Prepayments generally rise in response to a decline in interest rates as debtors take advantage of the opportunity to refinance their obligations. This risk often is associated with mortgage securities where the underlying mortgage loans can be refinanced, although it also can be present in corporate or other types of bonds with call provisions. When a prepayment occurs, an Account may be forced to reinvest in lower yielding debt securities. Extension risk is the chance that, during periods of rising interest rates, certain debt obligations will be paid off substantially more slowly than originally anticipated, and the value of those securities may fall. Extension risk generally is low for short-term bond strategies, moderate for intermediate term bond strategies, and high for long-term bond strategies.





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Debt securities trade on an OTC basis in which parties buy and sell securities through bilateral transactions. While the total amount of assets invested in debt markets has grown in recent years, the capacity for traditional dealer counterparties to engage in debt trading has not kept pace and has decreased, in part due to regulations and capital requirements applicable to these entities. As a result, because market makers provide stability to a market through their intermediary services, a significant reduction in dealer inventories has decreased liquidity and potentially could increase volatility in the debt markets. Such issues may be exacerbated during periods of economic uncertainty or market volatility.

Economic, political, and other events also may affect the prices of broad debt markets, although the risks associated with such events are transmitted to the market via changes in the prevailing levels of interest rates, credit risk, prepayment risk, or spread risk.

Many debt securities use or may use a floating rate based on the London Interbank Offered Rate, or "LIBOR," which is the offered rate for short-term Eurodollar deposits between major international banks. On July 27, 2017, the head of the United Kingdom's ("UK") Financial Conduct Authority announced a desire to phase out the use of LIBOR by the end of 2021. On November 30, 2020, the administrator of LIBOR announced a delay in the phase out of a majority of the U.S. dollar LIBOR publications until June 30, 2023, with the remainder of LIBOR publications to still end at the end of 2021. Regulators and market participants are working together to identify or develop a replacement rate. For instance, the U.S. Federal Reserve, based on the recommendations of the New York Federal Reserve's Alternative Reference Rate Committee (comprised of major derivative market participants and their regulators), has begun publishing a Secured Overnight Funding Rate ("SOFR") that is intended to replace U.S. dollar LIBOR. There remains uncertainty regarding the future utilization of LIBOR and the nature of any replacement rate. As such, the potential effect of a transition away from LIBOR on an Account or the debt securities or other instruments in which an Account invests cannot yet be determined. The transition process might lead to increased volatility and illiquidity in markets that currently rely on LIBOR to determine interest rates. It could also lead to a reduction in the value of some LIBOR-based investments and reduce the effectiveness of new hedges placed against existing LIBOR based instruments. Since the usefulness of LIBOR as a benchmark could deteriorate during the transition period, these effects could occur prior and/ or subsequent to the end of 2021.

### **Cash/Short-Term Instruments and Money Market Investments.**

Cash/short-term instruments and money market investments include bank certificates of deposit, time deposits, bankers' acceptances, commercial paper, repurchase agreements, and other short-term corporate debt securities. The value of such securities may fluctuate based on changes in interest rates and the is-

suer's financial condition. When interest rates rise or the issuer's financial condition worsens or is perceived by the market to be at greater risk, the value of debt securities tends to decline.

**Defaulted Bonds and Distressed Debt.** Defaulted bonds are subject to greater risk of loss of income and principal than higher rated securities and are considered speculative. In the event of a default, an Account may incur additional expenses to seek recovery. The repayment of defaulted bonds is subject to significant uncertainties, and, in some cases, there may be no recovery of repayment. Further, defaulted bonds might be repaid only after lengthy workout or bankruptcy proceedings, during which the issuer might not make any interest or other payments. Workout or bankruptcy proceedings typically result in only partial recovery of cash payments or an exchange of the defaulted bond for other securities of the issuer or its affiliates. Often, the securities received are illiquid or speculative. Investments in securities following a workout or bankruptcy proceeding typically entail a higher degree of risk than investments in securities that have not recently undergone a reorganization or restructuring. Moreover, these securities can be subject to heavy selling or downward pricing pressure after the completion of a workout or bankruptcy proceeding. If an Account's evaluation of the anticipated outcome of an investment should prove inaccurate, the Account could experience a loss. Such securities obtained in exchange may include, but are not limited to, equity securities, warrants, rights, participation interests in sales of assets, and contingent interest obligations.

An Account may hold securities of issuers that are, or are about to be, involved in reorganizations, financial restructurings, or bankruptcy (also known as "distressed debt"). Defaulted bonds and distressed debt securities are speculative and involve substantial risks in addition to the risks of investing in junk bonds. To the extent that an Account holds distressed debt, that Account will be subject to the risk that it may lose a portion or all of its investment in the distressed debt and may incur higher expenses trying to protect its interests in distressed debt. The prices of distressed bonds are likely to be more sensitive to adverse economic changes or individual issuer developments than the prices of higher rated securities. During an economic downturn or substantial period of rising interest rates, distressed security issuers may experience financial stress that would adversely affect their ability to service their principal and interest payment obligations, to meet their projected business goals, or to obtain additional financing. An Account may invest in additional securities of a defaulted issuer to retain a controlling stake in any bankruptcy proceeding or workout. Even if an Account invests in tax-exempt bonds, it may receive taxable bonds in connection with the terms of a restructuring deal, which could result in taxable income to investors. In addition, any distressed securities or any securities received in exchange for such securities may be subject to restrictions on resale. In any reorganization or liquidation proceeding, an Account may lose its entire investment or may be required



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to accept cash or securities with a value less than its original investment. Moreover, it is unlikely that a liquid market will exist for an Account to sell its holdings in distressed debt securities.

**High-Yield or Lower-Rated Debt Securities.** Debt securities are typically considered “non-investment grade” (also referred to as “high yield debt securities,” “lower-rated debt securities,” or “junk bonds”) if they are rated BB/Ba or lower by a rating agency (or unrated by rating agencies but determined by Lord Abbett to be of comparable quality). Non-investment grade debt securities may pay a higher yield, but entail greater risks, than investment grade debt securities, and are considered speculative. When compared to investment grade debt securities, high-yield debt securities:

- have a higher risk of default and their prices can be much more volatile due to lower liquidity;
- tend to be less sensitive to interest rate changes;
- are susceptible to negative perceptions of the junk markets generally; and
- pose a greater risk that exercise of any of their redemption or call provisions in a declining market may result in their replacement by lower yielding bonds.

The risk of loss from default for the holders of high-yield debt securities is significantly greater than is the case for holders of other debt securities because such high-yield securities generally are unsecured, often are subordinated to the rights of other creditors of the issuers of such securities, and are issued by issuers with weaker financials.

An economic downturn could severely affect the ability of highly leveraged issuers of junk bond investments to service their debt obligations or to repay their obligations upon maturity. If an issuer of high-yield securities in which an Account is invested defaults, the Account may incur additional expenses to seek recovery. Investment by an Account in already defaulted securities poses an additional risk of loss should nonpayment of principal and interest continue for such securities. Even if such securities are held to maturity, the Account’s recovery of its initial investment and any anticipated income or appreciation is uncertain.

Because the risk of default is higher among high-yield debt securities, Lord Abbett’s research and analysis are important factors in the selection of such securities. Through portfolio diversification, good credit analysis, and attention to current developments and trends in interest rates and economic conditions, Lord Abbett seeks to reduce this risk. There can be no assurance, however, that this risk will, in fact, be reduced and that losses will not occur.

The secondary market for high-yield debt securities is not as liquid as, and is more volatile than, the secondary market for higher rated securities. In addition, market trading volume for lower-rated securities generally is lower and the secondary market for

such securities could shrink or disappear suddenly and without warning as a result of adverse market or economic conditions, independent of any specific adverse changes in the condition of a particular issuer. Because of the lack of sufficient market liquidity, an Account may incur losses because it may be required to effect sales at a disadvantageous time and then only at a substantial drop in price. These factors may have an adverse effect on the market price and an Account’s ability to dispose of particular portfolio investments when needed to meet liquidity needs. A less liquid secondary market also may make it more difficult for an Account to obtain precise valuations of lower rated securities in its portfolio. Legislative and regulatory developments such as those discussed under “Debt Securities” have adversely affected the secondary market for high yield debt securities and the financial condition of issuers of these securities.

High-yield debt securities also present risks based on payment expectations. High-yield debt securities frequently contain “call” or buy-back features that permit the issuer to call or repurchase the security from its holder. If an issuer exercises such a “call option” and redeems the security, an Account may have to replace such security with a lower yielding security, resulting in a decreased return the Accounts.

**Inflation-Indexed Securities.** Inflation-indexed securities are fixed income securities whose principal value is periodically adjusted according to the rate of inflation. Two structures are common. The U.S. Treasury and some other issuers use a structure that accrues inflation into the principal value of the bond. Many other issuers pay out the CPI accruals as part of a semiannual coupon.

Inflation-indexed securities issued by the U.S. Treasury (“TIPS”) have maturities of five, ten, or thirty years, although it is possible that securities with other maturities will be issued in the future. TIPS pay interest on a semiannual basis, equal to a fixed percent-age of the inflation-adjusted principal amount. For example, if an Account purchased an inflation-indexed bond with a par value of \$1,000 and a 3% real rate of return coupon (payable 1.5% semiannually), and inflation over the first six months was 1%, the midyear par value of the bond would be \$1,010 and the first semiannual interest payment would be \$15.15 [\$1,010 times 1.5%]. If inflation during the second half of the year resulted in the whole year’s inflation equaling 3%, the end-of-year par value of the bond would be \$1,030 and the second semiannual interest payment would be \$15.45 [\$1,030 times 1.5%].

If the periodic adjustment rate measuring inflation falls, the principal value of the inflation-indexed bonds will be adjusted downward, and, consequently, the interest payable on these securities (calculated with respect to a smaller principal amount) will be reduced. At maturity, TIPS are redeemed at the greater of their inflation adjusted principal and the paramount at original



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issue. If an inflation-indexed bond does not provide a guarantee of principal at maturity, the adjusted principal amount of the bond repaid at maturity may be less than the original principal amount. Other types of inflation-indexed bonds may be adjusted in response to changes in the rate of inflation by different mechanisms (such as by changes in the rates of interest paid on their principal amounts).

The values of inflation-indexed bonds are expected to change in response to changes in real interest rates, which are tied to the relationship between nominal interest rates and the rate of inflation. For example, if inflation were to rise at a faster rate than nominal interest rates, real interest rates would likely decline, leading to an increase in value of inflation-indexed bonds. In contrast, if nominal interest rates increase at a faster rate than inflation, real interest rates would likely rise, leading to a decrease in value of inflation-indexed bonds.

While these securities, if held to maturity, are expected to be protected to some extent from long-term inflationary trends, short-term increases in inflation may lead to a decline in value. If nominal interest rates rise due to reasons other than inflation (for example, due to changes in currency exchange rates or an expansion of noninflationary economic activity), investors in these securities may not be protected to the extent that the increase is not reflected in the bond's inflation measure.

The periodic inflation adjustment of U.S. inflation-indexed bonds is tied to the Consumer Price Index for Urban Consumers ("CPI-U"), which is calculated monthly by the U.S. Bureau of Labor Statistics. The CPI-U is a measurement of price changes in the cost of living, made up of components such as housing, food, transportation, and energy. Inflation-indexed bonds issued by a foreign government generally are adjusted to reflect a comparable inflation index, calculated by that government. There can be no assurance that the CPI-U or any foreign inflation index will accurately measure the real rate of inflation in the prices of goods and services. Moreover, there can be no assurance that the rate of inflation in a foreign country will be correlated to the rate of inflation in the United States. Any increase in the principal amount of an inflation-indexed bond will be considered taxable ordinary income, even though investors do not receive their principal until maturity.

**Short Duration Risk:** Although any rise in interest rates is likely to cause the prices of debt obligations to fall, the comparatively short duration of certain short duration bonds may mitigate some of this risk. Such short duration bonds generally will earn less income and, during periods of declining interest rates, will provide lower total returns to investors than funds with longer durations.

**Zero Coupon, Deferred Interest, Pay-In-Kind, and Capital Appreciation Bonds.** Zero coupon, deferred interest, and capital appreciation bonds are issued at a discount from their face value because interest payments typically are postponed until maturity. These securities also may take the form of debt securities

that have been stripped of their unmatured interest coupons, the coupons themselves, or receipts or certificates representing interests in such stripped debt obligations or coupons. Pay-in-kind bonds allow the issuer, at its option, to make current interest payments on the bonds either in cash or in additional bonds. Similar to zero coupon bonds and deferred interest bonds, Pay-in-kind securities are designed to give an issuer flexibility in managing cash flow. Pay-in-kind securities that are debt securities can be either senior or subordinated debt.

As the buyer of these types of securities, an Account will recognize a rate of return determined by the gradual appreciation of the security, which is redeemed at face value on a specified maturity date. The discount varies depending on the time remaining until maturity, as well as market interest rates, liquidity of the security, and the issuer's perceived credit quality. The discount in the absence of financial difficulties of the issuer typically decreases as the final maturity date approaches. Moreover, unlike securities that periodically pay interest to maturity, zero coupon, deferred interest, capital appreciation, and Pay-in-kind securities involve the additional risk that an Account will realize no cash until a specified future payment date unless a portion of such securities are sold and, if the issuer of such securities defaults, the Account may obtain no return at all on its investment.

The values of zero-coupon and pay-in-kind bonds are more volatile in response to interest rate changes than debt obligations of comparable maturities that make regular distributions of interest.

### ***Derivatives and Associated Risks***

**Derivatives.** An Account may invest in, or enter into, derivatives for a variety of reasons, including to hedge certain market or interest rate risks, to provide a substitute for purchasing or selling particular securities, or to increase potential returns. Generally, derivatives are financial contracts whose values depend upon, or are derived from, the value of an underlying asset, reference rate or index, and may relate to stocks, bonds, interest rates, currencies or currency exchange rates, commodities and other assets, and related indices. Examples of derivative instruments an Account may use include options contracts, futures contracts, options on futures contracts, forward contracts, forward currency contracts, structured notes, swap agreements, and credit derivatives. Derivatives may provide a cheaper, quicker, or more efficient or specifically focused way for an Account to invest or to hedge than "traditional" securities would. An Account's portfolio management team, however, may decide not to employ some or all of these strategies. Similarly, suitable derivatives transactions may not be available or available on the terms desired, and derivatives transactions may not perform as intended. There is no assurance that any derivatives strategy used by Lord Abbett will succeed.

The use of derivative instruments involves risks different from, or possibly greater than, the risks associated with investing directly



## APPENDIX 2 (CONT.)

in securities and other traditional investments. Derivatives are subject to a number of risks, such as liquidity risk, correlation risk, market risk, credit risk, leveraging risk, counterparty risk, tax risk and management risk, as well as risks arising from changes in applicable requirements. Derivatives can be volatile and involve various types and degrees of risk, depending upon the characteristics of the particular derivative and the portfolio as a whole. Derivatives permit an Account to increase or decrease the level of risk, or change the character of the risk, to which its portfolio is exposed in much the same way as an Account can increase or decrease the level of risk, or change the character of the risk, of its portfolio by making investments in specific securities. However, derivatives may entail investment exposures that are greater than their cost or notional value would suggest, meaning that a small investment in derivatives could have a large potential impact on an Account's performance. An Account's notional derivatives exposure and/or the percentage of total investment exposure may be greater than the total value of its assets, which would have the result of leveraging the Account.

If Lord Abbett invests in derivatives at inopportune times or judges market conditions incorrectly, such investments may lower an Account's return or result in a loss. An Account also could experience losses if its derivatives were poorly correlated with its other investments (or not correlated as expected), or if the Account were unable to liquidate its position because of an illiquid secondary market. The market for many derivatives is, or suddenly can become, illiquid. Changes in liquidity may result in significant, rapid, and unpredictable changes in the prices for derivatives.

Derivatives may be purchased on established exchanges or through privately negotiated transactions (referred to as "OTC derivatives"). OTC derivatives generally are less liquid than exchange-traded derivatives. Exchange-traded derivatives generally are guaranteed by the clearing agency that is the issuer or counterparty to such derivatives. In contrast, OTC derivatives are not guaranteed by a clearing agency and are therefore not subject to the same level of credit evaluation and regulatory oversight as are centrally cleared derivatives. Accordingly, Lord Abbett will consider the credit worthiness of counterparties to non-centrally cleared OTC derivatives in the same manner as it would review the credit quality of a security to be purchased by an Account.

The Account will be subject to credit risk with respect to the counterparties to derivative contracts. There can be no assurance that a counterparty will be able or willing to meet its obligations. Events that affect the ability of the Account's counterparties to comply with the terms of the derivative contracts may have an adverse effect on the Account. If the counterparty defaults, the Account will have contractual remedies, but there can be no assurance that the Account will succeed in enforcing those contractual remedies. Counterparty risk still exists even if a counterparty's obligations are secured by collateral because the Account's interest in collateral may not be perfected or additional collateral may not be promptly posted as required. Counterparty risk also

may be more pronounced if a counterparty's obligations exceed the amount of collateral held by the Account, if any, the Account is unable to exercise the interest in collateral upon default by the counterparty, or the termination value of the instrument varies significantly from the marked-to-market value of the instrument. If a counterparty becomes insolvent, the Account may experience significant delays in obtaining any recovery under the derivative contract in a bankruptcy or other reorganization proceeding or may obtain a limited or no recovery of amounts due under the derivative contract. In the event of a counterparty's (or its affiliate's) insolvency, an Account's ability to exercise remedies, such as the termination of transactions, netting of obligations and realization of collateral, could be stayed or eliminated under new special resolution regimes adopted in the United States, the European Union and various other jurisdictions. Such regimes provide government authorities with broad authority to intervene when a financial institution is experiencing financial difficulty and may prohibit an Account from exercising termination rights based on the financial institution's insolvency. In particular, with respect to counterparties who are subject to such proceedings in the European Union, the liabilities of such counterparties to an Account could be reduced, eliminated, or converted to equity in such counterparties (sometimes referred to as a "bail in"). Such resolution regimes as well as other legislative and regulatory oversight of derivatives may result in increased uncertainty about counterparty credit risk, and may limit the flexibility of the Account to protect its interests in the event of an insolvency of a derivatives counterparty.

Transactions in certain types of derivatives including futures and options on futures as well as some types of swaps are required to be centrally cleared. In a transaction involving such derivatives, the Account's counterparty is a clearing house so the Account is subject to the credit risk of the clearing house and the member of the clearing house (the "clearing member") through which it holds its position. Credit risk of market participants with respect to such derivatives is concentrated in a few clearing houses, and it is not clear how an insolvency proceeding of a clearing house would be conducted and what impact an insolvency of a clearing house would have on the financial system. A clearing member is generally obligated to segregate all funds received from customers with respect to cleared derivatives transactions from the clearing member's proprietary assets. However, all funds and other property received by a clearing broker from its customers are generally held by the clearing member on a commingled basis in an omnibus account, and the clearing member may invest those funds in certain instruments permitted under the applicable regulations. The assets of the Account might not be fully protected in the event of the bankruptcy of the Account's clearing member, because the Account would be limited to recovering only a pro rata share of all available funds segregated on behalf of the clearing broker's customers for a relevant account class. In addition, if a clearing member does not comply with applicable regulations or its agreement with the Account, or in the event of





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fraud or misappropriation of customer assets by a clearing member, the Account could have only an unsecured creditor claim in an insolvency of the clearing member with respect to the margin held by the clearing member.

**Credit Derivatives.** An Account may engage in credit derivative transactions, such as those involving default price risk derivatives and market spread derivatives. Default price risk derivatives are linked to the price of reference securities or loans after a default by the issuer or borrower, respectively. Market spread derivatives are based on the risk that changes in certain market factors, such as credit spreads, can cause a decline in the value of a security, loan, or index. There are three basic transactional forms for credit derivatives: swaps, options, and structured instruments. The use of credit derivatives is a highly specialized activity that involves strategies and risks different from those associated with ordinary portfolio security transactions. If Lord Abbett is incorrect in its forecasts of default risks, market spreads, or other applicable factors, the investment performance of an Account would diminish compared with what it would have been if these techniques were not used. Moreover, even if Lord Abbett is correct in its forecasts, there is a risk that a credit derivative position may correlate imperfectly with the price of the asset or liability being hedged. An Account's risk of loss in a credit derivative transaction varies with the form of the transaction. For example, if an Account purchases a default option on a security, and, if no default occurs, with respect to the security, an Account's loss is limited to the premium it paid for the default option. In contrast, if there is a default by the grantor of a default option, an Account's loss will include both the premium it paid for the option and the decline in value of the underlying security that the default option hedged. If an Account "writes" (sells) protection, it may be liable for the entire value of the security underlying the derivative.

**Swap Agreements.** An Account may enter into interest rate, equity index, credit default, currency, Consumer Price Index ("CPI"), total return, municipal default, and other types of swap agreements. An Account may also enter into swaptions (options on swaps). A swap transaction involves an agreement between two parties to exchange different types of cash flows based on a specified or "notional" amount. The cash flows exchanged in a specific transaction may be, among other things, payments that are the equivalent of interest on a principal amount, payments that would compensate the purchaser for losses on a defaulted security or basket of securities, or payments reflecting the performance of one or more specified securities, currencies, or indices. An Account may enter into OTC swap transactions and may also enter into swaps that are traded on exchanges and are subject to central clearing. OTC swaps are subject to the credit risk of the counterparty, as well as the risks associated with the swap itself.

Regulatory and Market Considerations. New U.S. and non-U.S.

rules and regulations could, among other things, further restrict an Account's ability to engage in, or increase the cost to an Account of, derivatives transactions by, for example, making some types of derivatives no longer available to an Account or making them less liquid. The implementation of the clearing requirement has increased the costs of derivatives transactions for an Account, because an Account has to pay fees to its clearing members and is typically required to post more margin for cleared derivatives than it has historically posted for bilateral derivatives. The costs of derivatives transactions are expected to increase further as clearing members raise their fees to cover the costs of additional capital requirements and other regulatory changes applicable to the clearing members. These rules and regulations are new and evolving, so their potential impact on an Account and the financial system are not yet known. While the new rules and regulations and central clearing of some derivatives transactions are designed to reduce systemic risk (i.e., the risk that the interdependence of large derivatives dealers could cause them to suffer liquidity, solvency, or other challenges simultaneously), there is no assurance that they will achieve that result, and, in the meantime, central clearing and related requirements expose an Account to new kinds of costs and risks.

**Additional Risks Associated with Swaps.** The use of swaps is a highly specialized activity that involves investment techniques and risks that are different from those associated with ordinary portfolio securities transactions. If Lord Abbett is incorrect in its forecasts of the interest rates, currency exchange rates, or market values, or its assessments of the credit risks, the investment performance of an Account may be less favorable than it would have been if the Account had not entered into them. Because many of these arrangements are bilateral agreements between an Account and its counterparty, each party is exposed to the risk of default by the other. In addition, they may involve a small investment of cash compared to the risk assumed with the result that small changes may produce disproportionate and substantial gains or losses to an Account. An Account's obligations under swap agreements generally are collateralized by cash or government securities based on the amount by which the value of the payments that the Account is required to make exceeds the value of the payments that its counterparty is required to make. Conversely, the Account requires its counterparties to provide collateral on a comparable basis, except in those instances in which Lord Abbett is satisfied with the claims-paying ability of the counterparty without such collateral.

### **Equity Securities and Associated Risks**

**Equity Securities.** Equity securities generally represent equity or ownership interests in an issuer. These include common stocks, preferred stocks, convertible preferred stocks, warrants, and similar instruments. The value of equity securities fluctuates based on changes in a company's financial condition, and on



## APPENDIX 2 (CONT.)

market, economic, and political conditions, as well as changes in inflation and consumer demand.

**Common Stocks.** Common stocks represent an ownership interest in a company. The prices of common stocks generally fluctuate more than the prices of other securities and reflect changes in, among other things, a company's financial condition and in overall market, economic, and political conditions, changes in inflation, and consumer demand. A company's common stock generally is a riskier investment than its fixed income securities, and it is possible that an Account may experience a substantial or complete loss on an individual equity investment.

**Initial Public Offering ("IPO").** An Account may purchase securities of companies that are offered pursuant to an IPO. IPOs are typically new issues of equity and fixed income securities. IPOs have many of the same risks as small company stocks and bonds. IPOs do not have trading history, and information about the company may be available only for recent periods. An Account's purchase of shares or bonds issued in IPOs also exposes it to the risks inherent in those sectors of the market where these new issuers operate. The market for IPO issuers has been volatile and share and bond prices of newly priced companies have fluctuated in significant amounts over short periods of time. An Account may be limited in the quantity of IPO and secondary offering shares and bonds that it may buy at the offering price, or an Account may be unable to buy any shares or bonds of an IPO or secondary offering at the offering price. An Account's investment return earned during a period of substantial investment in IPOs may not be sustained during other periods when an Account makes more limited, or no, investments in IPOs. As the size of an Account increases, the impact of IPOs on an Account's performance generally would decrease; conversely, as the size of an Account decreases, the impact of IPOs on an Account's performance generally would increase.

**Preferred Stocks.** Preferred stocks are securities that evidence ownership in a corporation and pay a fixed or variable stream of dividends. These stocks represent an ownership interest and provide the holder with claims on the issuer's earnings and assets, which generally come before common stockholders but after bond holders and other creditors. The obligations of an issuer of preferred stock, including dividend and other payment obligations, typically may not be accelerated by the holders of such preferred stock on the occurrence of an event of default or other non-compliance by the issuer. Investments in preferred stock are also subject to market and liquidity risks. The value of a preferred stock may be highly sensitive to the economic condition of the issuer, and markets for preferred stock may be less liquid than the market for the issuer's common stock.

**Warrants and Rights.** Warrants and rights are types of securities that give a holder a right to purchase shares of common stock. Warrants are options to buy from the issuer a stated number of shares of common stock at a specified price, usually higher than

the market price at the time of issuance, until a stated expiration date. Rights represent a privilege offered to holders of record of issued securities to subscribe (usually on a pro rata basis) for additional securities of the same class, of a different class or of a different issuer, usually at a price below the initial offering price of the common stock and before the common stock is offered to the general public. The holders of warrants and rights have no voting rights, receive no dividends and have no rights with respect to the assets of the issuer. Warrants and rights may be transferable. The value of a warrant or right may not necessarily change with the value of the underlying securities. The risk of investing in a warrant or a right is that the warrant or the right may expire before the market value of the common stock exceeds the price specified by the warrant or the right. If not exercised before their stated expiration date, warrants and rights cease to have value and may result in a total loss of the money invested. Investments in warrants and rights are considered speculative.

**Dividend Risk:** Depending on market conditions, securities of dividend paying companies that meet an Account's investment criteria may not be widely available. At times, the performance of dividend-paying companies may lag the performance of other companies or the broader market as a whole. In addition, the dividend payments of an Account's portfolio companies may vary over time, and there is no guarantee that a company will pay a dividend at all. The reduction or elimination of dividends in the stock market as a whole may limit an Account's ability to produce current income. If dividend-paying companies are highly concentrated in only a few market sectors, then an Account's portfolio may become less diversified, and the Account's return may become more volatile.

**Growth Investing Risk:** Growth stocks typically trade at higher multiples of current earnings as compared to other stocks, which may lead to inflated prices. Growth stocks often are more sensitive to market fluctuations than other securities because their market prices are highly sensitive to future earnings expectations. At times when it appears that these expectations may not be met, growth stocks' prices typically fall. Growth stocks are subject to potentially greater declines in value if, among other things, the stock is subject to significant investor speculation but fails to increase as anticipated. In addition, different investment styles may shift in and out of favor, depending on market and economic conditions as well as investor sentiment, which may cause an Account to underperform other funds that employ a different or more diversified style. During periods when growth investing is out of favor or when markets are unstable, selling growth stocks at a desired price may be more difficult. Growth stocks may be more volatile than securities of slower-growing issuers.

**Value Investing Risk:** The prices of value stocks may lag the stock market for long periods of time if the market fails to recognize the company's intrinsic worth. Value investing also is subject



## APPENDIX 2 (CONT.)

to the risk that a company judged to be undervalued may actually be appropriately priced or even overpriced. In addition, different investment styles may shift in and out of favor, depending on market and economic conditions as well as investor sentiment, which may cause an Account to underperform other funds that employ a different or more diversified style.

### **Foreign Currency and Associated Risks**

**Foreign Currency Transactions.** An Account may enter into foreign currency transactions for a variety of purposes, including: to fix in U.S. dollars, between trade and settlement date, the value of a security an Account has agreed to buy or sell; to hedge the U.S. dollar value of securities an Account already owns, particularly if it expects a decrease in the value of the currency in which the foreign security is denominated; or to gain or reduce exposure to the foreign currency for investment purposes.

An Account also may invest directly in foreign currencies or hold financial instruments that provide exposure to foreign currencies or may invest in securities that trade in, or receive revenues in, foreign currencies. To the extent an Account invests in such currencies, it will be subject to the risk that those currencies will decline in value relative to the U.S. dollar. Foreign currency exchange rates may fluctuate significantly over short periods of time. An Account's assets that are denominated in foreign currencies may be devalued against the U.S. dollar, resulting in a loss. A U.S. dollar investment in depositary receipts or shares of foreign issuers traded on U.S. exchanges may be impacted differently by currency fluctuations than would an investment made in a foreign currency on a foreign exchange in shares of the same issuer.

An Account may engage in "spot" (cash or currency) transactions and also may use forward contracts. A forward contract on foreign currencies, which is also known as a forward currency contract, involves obligations of one party to purchase, and another party to sell, a specific currency at a future date (which may be any fixed number of days from the date of the contract agreed upon by the parties), at a price set at the time the contract is entered into. These contracts typically are traded in the OTC derivatives market and entered into directly between financial institutions or other currency traders and their customers. The cost to an Account of engaging in forward currency contracts varies with factors such as the currencies involved, the length of the contract period, and the market conditions then prevailing, among others. The use of forward currency contracts does not eliminate fluctuations in the prices of the underlying securities an Account owns or intends to acquire, but it does fix a rate of exchange in advance. In addition, although forward currency contracts limit the risk of loss due to a decline in the value of the hedged currencies, at the same time they limit any potential gain that might result should the value of the currencies increase.

An Account may enter into forward currency contracts with respect to specific transactions. For example, when an Account enters into a contract for the purchase or sale of a security de-

nominated in a foreign currency, or when an Account anticipates the receipt in a foreign currency of dividend or interest payments on a security that it holds, the Account may desire to "lock in" the U.S. dollar price of the security or the U.S. dollar equivalent of the payment, by entering into a forward currency contract for the purchase or sale, for a fixed amount of U.S. dollars or foreign currency, of the amount of foreign currency involved in the underlying transaction. If the transaction went as planned, the Account would be able to protect itself against a possible loss resulting from an adverse change in the relationship between the currency exchange rates during the period between the date on which the security is purchased or sold, or on which the payment is declared, and the date on which such payments are made or received.

An Account also may use forward currency contracts in connection with existing portfolio positions to lock in the U.S. dollar value of those positions, to increase the Account's exposure to foreign currencies that Lord Abbett believes may rise in value relative to the U.S. dollar, or to shift the Account's exposure to foreign currency fluctuations from one country to another. For example, when Lord Abbett believes that the currency of a particular foreign country may suffer a substantial decline relative to the U.S. dollar or another currency, it may enter into a forward currency contract to sell the former foreign currency. This investment practice generally is referred to as "cross-hedging" if two non U.S. currencies are used. However, an Account's foreign currency transactions are not limited to transactions that involve a sale or purchase of a security.

An Account may also enter into forward currency contracts that are contractually required to, or may, settle in cash, including nondeliverable forward currency contracts ("NDFs"). Cash settled forward currency contracts, including NDFs, generally require the netting of the parties' liabilities. Under a cash-settled forward currency contract that requires netting, an Account or its counterparty to the contract is required only to deliver a cash payment in the amount of its net obligation in settlement of the contract. Forward currency contracts are marked-to-market on a daily basis, and an Account may be required to post collateral to a counterparty pursuant to the terms of a forward currency contract if the Account has a net obligation under the contract.

Likewise, an Account may be entitled to receive collateral under the terms of a forward contract if the counterparty has a net obligation under the contract. A forward contract generally requires the delivery of initial margin by an Account. Forward currency contracts, including NDFs, typically have maturities of approximately one to three months but may have maturities of up to six months or more.

The precise matching of the forward currency contract amounts and the value of the securities involved generally will not be possible because the future value of such securities in foreign currencies will change as a consequence of market movements in the value of those securities between the date the forward





## APPENDIX 2 (CONT.)

currency contract is entered into and the date it matures. Accordingly, it may be necessary for an Account to purchase additional foreign currency on the spot market (and bear the expense of such purchase) if the market value of the security is less than the amount of foreign currency an Account is obligated to deliver and if a decision is made to sell the security and make delivery of the foreign currency.

Conversely, it may be necessary to sell on the spot market some of the foreign currency received upon the sale of the portfolio security if its market value exceeds the amount of foreign currency an Account is obligated to deliver. The projection of short-term currency market movements is extremely difficult, and the successful execution of a short-term hedging strategy is highly uncertain. Forward currency contracts involve the risk that anticipated currency movements may not be accurately predicted, causing an Account to sustain losses on these contracts and transaction costs. At or before the maturity date of a forward currency contract that requires an Account to sell a currency, an Account may either sell a portfolio security and use the sale proceeds to make delivery of the currency or retain the security and offset its contractual obligation to deliver the currency by purchasing a second contract pursuant to which an Account will obtain, on the same maturity date, the same amount of the currency that it is obligated to deliver. Similarly, an Account may close out a forward currency contract requiring it to purchase a specified currency by entering into a second contract entitling it to sell the same amount of the same currency on the maturity date of the first contract. An Account would realize a gain or loss as a result of entering into such an offsetting forward currency contract under either circumstance to the extent the exchange rate between the currencies involved moved between the execution dates of the first and second contracts. On the delivery date, a forward currency contract can be settled by physical delivery.

There is no systematic reporting of last sale information for foreign currencies or any regulatory requirement that quotations be firm or revised on a timely basis. Quotation information generally is representative of very large transactions in the interbank market and may not reflect smaller transactions where rates may be less favorable.

### **Foreign and Emerging Market Securities and Associated Risks**

**Foreign Securities.** Investment in foreign securities may involve special risks that typically are not associated with investments in U.S. securities. Foreign investment risks may be greater in developing and emerging markets than in developed markets. The risks associated with foreign securities include, among other things, the following:

- The prices of foreign securities may be adversely affected by changes in currency exchange rates, changes in foreign or U.S. laws or restrictions applicable to foreign securities, and changes in exchange control regulations (i.e., currency blockage). A decline in the exchange rate of the foreign cur-

rency in which a portfolio security is quoted or denominated relative to the U.S. dollar would reduce the U.S. dollar value of the portfolio security. Currency exchange rates may fluctuate significantly over short periods of time, for a number of reasons.

- Brokerage commissions, custodial services, and other costs relating to investment in foreign securities markets generally are more expensive than in the United States.
- Clearance and settlement procedures may be different in foreign countries and, in certain markets, such procedures may be unable to keep pace with the volume of securities transactions, thus making it difficult to conduct such transactions.
- Issuers of non-U.S. securities are subject to different, often less comprehensive, accounting, custody, reporting, and disclosure requirements than U.S. issuers, and Accounts investing in foreign securities may be affected by delayed settlements in some non-U.S. markets. Additionally, there may be less publicly available information about a foreign issuer than about a comparable U.S. issuer.
- There generally is less government regulation of foreign markets, companies, and securities dealers than in the United States. Consequently, the investor protections that are in place may be less stringent than in the United States.
- Foreign securities markets may have substantially less trading volume than U.S. securities markets, and securities of many foreign issuers are less liquid and more volatile than securities of comparable domestic issuers.
- With respect to certain foreign countries, there is a possibility of nationalization, expropriation or confiscatory taxation, imposition of withholding or other taxes on dividend or interest payments (or, in some cases, capital gains), limitations on the removal of funds or other assets of an Account, and political or social instability, diplomatic developments, or the imposition of economic sanctions, or other government restrictions that could adversely affect investments tied economically to those countries.

Markets and economies throughout the world are becoming increasingly interconnected, and conditions or events in one market, country or region may adversely impact investments or issues in another market, country or region. Many countries throughout the world are dependent on a healthy U.S. economy and are adversely affected when the U.S. economy weakens or its markets decline. Additionally, many foreign country economies are heavily dependent on international trade and are adversely affected by protective trade barriers and economic conditions of their trading partners.

**Emerging Market Securities.** The risks described above apply to an even greater extent to investments in emerging markets,



## APPENDIX 2 (CONT.)

which may be considered speculative. Emerging markets may develop unevenly or may never fully develop and are more likely to experience hyperinflation and currency devaluations, which may be sudden and significant. In addition, the securities and currencies of many of emerging market countries may have far lower trading volumes and less liquidity than those of developed nations. If an Account's investments need to be liquidated quickly, the Account could sustain significant transaction costs.

Securities and issuers in emerging countries tend to be subject to less extensive and frequent accounting, financial, and other reporting requirements than securities and issuers in more developed countries. The Public Company Accounting Oversight Board, which regulates auditors of U.S. public companies, is unable to inspect audit work papers in certain foreign countries. Investors in foreign countries often have limited rights and few practical remedies to pursue shareholder claims, and the ability of the SEC, the U.S. Department of Justice and other authorities to bring and enforce actions against foreign issues or foreign persons is limited. Government enforcement of existing securities regulations is limited, and any such enforcement may be arbitrary and the results may be difficult to predict. Further, investing in securities of issuers located in certain emerging market countries may present a greater risk of loss resulting from problems in security registration and custody.

Many emerging market countries have histories of political instability and abrupt changes in policies. As a result, their governments may be more likely to take actions that are hostile or detrimental to foreign investment than those of more developed countries, such as expropriation, confiscatory taxation, and nationalization of assets and securities. Certain emerging market countries also may face other significant internal or external risks, including a heightened risk of war, and ethnic, religious, and racial conflicts, and the imposition of economic sanctions or other measures by the United States or other governments. The economies of emerging countries may be predominantly based on only a few industries or dependent on revenues from particular commodities. In addition, governments in many emerging market countries participate to a significant degree in their economies and securities markets, which may impair investment and economic growth, and which may, in turn, diminish the value of their currencies. If a company's economic fortunes are linked to emerging markets, then a security it issues generally will be subject to these risks even if the security is principally traded on a non-emerging market exchange.

**Depository Receipts.** An Account may invest in American Depositary Receipts ("ADRs"), Global Depositary Receipts ("GDRs"), and similar depository receipts. ADRs typically are trust receipts issued by a U.S. bank or trust company or other financial institution (a "depository") that evidence an indirect interest in underlying securities issued by a foreign entity and deposited with the depository. Prices of ADRs are quoted in U.S. dollars, and ADRs are listed and traded in the United States. GDRs typically are

issued by non-U.S. banks or financial institutions (a "foreign depository") to evidence an interest in underlying securities issued by either a U.S. or a non-U.S. entity and deposited with the foreign depository. Ownership of ADRs and GDRs entails similar investment risks to direct ownership of foreign securities traded outside the United States, including increased market, liquidity, currency, political, information, and other risks. To the extent an Account acquires depository receipts through banks that do not have a contractual relationship to issue and service unsponsored depository receipts with the foreign issuer of the underlying security underlying the depository receipts, there is an increased possibility that Lord Abbett will not become aware of, and, thus, be able to respond to, corporate actions such as stock splits or rights offerings involving the issuer in a timely manner. In addition, the lack of information may affect the accuracy of the valuation of such instruments. The market value of depository receipts is dependent upon the market value of the underlying securities and fluctuations in the relative value of the currencies in which the depository receipts and the underlying securities are quoted. However, by investing in certain depository receipts, such as ADRs, which are quoted in U.S. dollars, an Account may avoid currency risks during the payment and delivery ("settlement") period for purchases and sales.

### ***Forward and Futures and Associated Risks***

**Forward Contracts.** A forward contract is a contract to buy or sell an underlying security or currency at a pre-determined price on a specific future date. The initial terms of the contract are set so that the contract has no value at the outset. Forward prices are obtained by taking the spot price of a security or currency and adding it to the cost of carry. No money is transferred upon entering into a forward contract and the trade is delayed until the specified date when the underlying security or currency is exchanged for cash. As the price of the underlying security or currency moves, the value of the contract also changes, generally in the same direction. A relatively small price movement in a forward contract may result in substantial losses to an Account, exceeding the amount of the margin paid. Forward contracts increase an Account's risk exposure to the underlying references and their attendant risks, including but not limited to, credit, market, foreign currency and interest rate risks, while also exposing an Account to correlation, counterparty, hedging, leverage, liquidity, pricing, and volatility risks.

Forward contracts generally involve the same characteristics and risks as futures contracts, except for several differences. Forward contracts are generally OTC contracts, meaning they are not market traded, and are not necessarily marked to market on a daily basis. They settle only at the pre-determined settlement date, which can result in deviations between forward prices and futures prices, especially in circumstances where interest rates and futures prices are positively correlated. In addition, in the absence of exchange trading and involvement of clearing houses, there are no standardized terms for forward contracts. As a re-



## APPENDIX 2 (CONT.)

sult, the parties are free to establish such settlement times and underlying amounts of a security or currency as desirable, which may vary from the standardized terms available through any futures contract. Lastly, forward contracts, as two-party obligations for which there is no secondary market, involve additional counterparty credit risk that is not present with futures.

**Futures Contracts and Options on Futures Contracts.** An Account may buy and sell index futures contracts to manage cash. For example, an Account may gain exposure to an index or to a basket of securities by entering into futures contracts rather than buying securities in a rising market.

In addition to investing in futures for cash management purposes, an Account may enter into futures and options on futures transactions in accordance with its investment objective and policies, for example, to hedge risk or to efficiently gain desired investment exposure. Futures are standardized, exchange-traded contracts to buy or sell a specified quantity of an underlying reference instrument at a specified price at a specified future date. In most cases, the contractual obligation under a futures contract may be offset or “closed out” before the settlement date so that the parties do not have to make or take delivery. An Account usually closes out a futures contract by buying or selling, as the case may be, an identical, offsetting futures contract. This transaction, which is effected through an exchange, cancels the obligation to make or take delivery of the underlying reference instrument. An option on a futures contract gives the purchaser the right (and the writer of the option the obligation) to assume a position in a futures contract at a specified exercise price within a specified period of time. In the United States, a clearing organization associated with the exchange on which futures are traded assumes responsibility for closing out transactions and guarantees that, as between the clearing members of an exchange, the sale and purchase obligations will be performed with regard to all positions that remain open at the termination of the contract. Thus, each holder of such a futures contract bears the credit risk of the clearinghouse (and has the benefit of its financial strength) rather than that of a particular counterparty.

When an Account enters into a futures contract or writes an option, it generally must deposit collateral or “initial margin” equal to a percentage of the contract value. Each day thereafter until the futures contract or option is closed out, matures, or expires, an Account will pay or receive additional “variation margin” depending on, among other factors, changes in the price of the underlying reference instrument. When the futures contract is closed out, if an Account experiences a loss equal to or greater than the margin amount, the Account will pay the margin amount plus any amount in excess of the margin amount. If an Account experiences a loss of less than the margin amount, the Account receives the difference. Likewise, if an Account experiences a gain, the Account receives the margin amount and any gain in excess of the margin amount.

Although some futures contracts call for making or taking delivery of the underlying securities, commodities, or other assets, generally these obligations are closed out before delivery by offsetting purchases or sales of matching futures contracts (same exchange, delivery month, and underlying security, asset, or index). Certain futures contracts may permit cash settlement.

If an offsetting purchase price is less than the original sale price, an Account realizes a gain, or if it is more, an Account realizes a loss. Conversely, if an offsetting sale price is more than the original purchase price, an Account realizes a gain, or if it is less, an Account realizes a loss. An Account will also incur transaction costs.

An Account may enter into futures contracts in U.S. domestic markets or on exchanges located outside the United States. Foreign markets may offer advantages such as trading opportunities or arbitrage possibilities not available in the United States. Foreign markets, however, may have greater risk potential than domestic markets. For example, some foreign exchanges are principal markets so that no common clearing facility exists and an investor may look only to the broker for performance of the contract. In addition, adverse changes in the currency exchange rate could eliminate any profits that an Account might realize in trading and could cause the Account to incur losses.

Futures contracts and options on futures contracts present substantial risks, including the following:

- Unanticipated market movements may cause an Account to experience substantial losses.
- There may be an imperfect correlation between the change in the market value of the underlying reference instrument and the price of the futures contract.
- The loss that an Account may incur in entering into futures contracts and in writing call options on futures is potentially unlimited and may exceed the amount of the premium received.
- Futures markets are highly volatile, and the use of futures may increase the volatility of an Account’s portfolio value.
- Because of low initial margin requirements, futures and options on futures trading involve a high degree of leverage.
- As a result, a relatively small price movement in a contract can cause substantial losses to an Account.
- There may not be a liquid secondary trading market for a futures contract or related options, limiting an Account’s ability to close out a contract when desired.
- The clearinghouse on which a futures contract or option on a futures contract is traded or the clearing member through which the Account maintains its future positions may fail to perform its obligations.



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**Index and Interest Rate Futures Transactions.** An index future obligates an Account to pay or receive an amount of cash equal to a fixed dollar amount specified in the futures contract multiplied by the difference between the settlement price of the contract on the contract's last trading day and the value of the index based on the prices of the securities that comprise the index at the opening of trading in such securities on the next business day.

The market value of a stock index futures contract is based primarily on the value of the underlying index. Changes in the value of the index will cause roughly corresponding changes in the market price of the futures contract. If a stock index is established that is made up of securities whose market characteristics closely parallel the market characteristics of the securities in an Account's portfolio, then the market value of a futures contract on that index should fluctuate in a way closely resembling the market fluctuation of the portfolio. Thus, for example, if an Account sells futures contracts, a decline in the market value of the portfolio will be offset by an increase in the value of the short futures position to the extent of the hedge (i.e., the size of the futures position). However, if the market value of the portfolio were to increase, an Account would lose money on the futures contracts. Stock index futures contracts are subject to the same risks as other futures contracts.

An interest rate future generally obligates an Account to purchase or sell an amount of a specific debt security. Such purchase or sale will take place at a future date at a specific price established by the terms of the futures contract.

### ***Government-Related Debt Investments and Associated Risks***

**Municipal Bonds.** In general, municipal bonds are debt obligations issued by or on behalf of states, territories, and possessions of the United States, the District of Columbia, Puerto Rico, Guam, and their political subdivisions, agencies, and instrumentalities. Municipal bonds are issued to obtain funds for various public purposes, including the construction of bridges, highways, housing, hospitals, mass transportation, schools, streets, and water and sewer works. They may be used, for example, to refund outstanding obligations, to obtain funds for general operating expenses, or to obtain funds to lend to other public institutions and facilities and in anticipation of the receipt of revenue or the issuance of other obligations. In addition, the term "municipal bonds" may include certain types of "private activity" bonds, including industrial development bonds issued by public authorities to obtain funds to provide privately operated housing facilities, sports facilities, convention or trade show facilities, airport, mass transit, port or parking facilities, air or water pollution control facilities, and certain facilities for water supply, gas, electricity, or sewerage or solid waste disposal. Under the Tax Reform Act of 1986, substantial limitations were imposed on new issues of municipal bonds to finance privately operated facilities. From time to time, proposals have been introduced before Congress

to restrict or eliminate the federal income tax exemption for interest on municipal bonds. Similar proposals maybe introduced in the future. If any such proposal were enacted, it might have a negative impact on the value of those bonds.

The two principal classifications of municipal bonds are "general obligation" and limited obligation or "revenue" bonds. General obligation bonds are secured by the pledge of the faith, credit, and taxing authority of the municipality for the payment of principal and interest. The taxes or special assessments that can be levied for the payment of debt service may be limited or unlimited as to rate or amount. Revenue bonds are not backed by the credit and taxing authority of the issuer, and are payable only from the revenues derived from a particular facility or class of facilities or, in some cases, from the proceeds of a special excise or other specific revenue source. Nevertheless, the obligations of the issuer of a revenue bond may be backed by a letter of credit, guarantee, or insurance. "Private activity" bonds are, in most cases, revenue bonds and generally do not constitute the pledge of the faith, credit, or taxing authority of the municipality. The credit quality of such municipal bonds usually is directly related to the credit standing of the user of the facilities. There are variations in the security of municipal bonds, both within a particular classification and between classifications, depending on numerous factors. General obligation and revenue bonds maybe issued in a variety of forms, including, for example, commercial paper, fixed, variable, and floating rate securities, tender option bonds, auction rate bonds, zero coupon bonds, deferred interest bonds, and capital appreciation bonds.

Other examples of municipal bonds include municipal leases, certificates of participation, and "moral obligation" bonds. A municipal lease is an obligation issued by a state or local government to acquire equipment or facilities. Certificates of participation represent interests in municipal leases or other instruments, such as installment purchase agreements. Moral obligation bonds are supported by a moral commitment but not a legal obligation of a state or local government. Municipal leases, certificates of participation, and moral obligation bonds frequently involve special risks not normally associated with general obligation or revenue bonds. In particular, these instruments permit governmental issuers to acquire property and equipment without meeting constitutional and statutory requirements for the issuance of debt. If, however, the governmental issuer does not periodically appropriate money to enable it to meet its payment obligations under these instruments, it cannot be legally compelled to do so. If a default occurs, the collateral securing the lease obligation may be difficult to dispose of and an Account may suffer significant losses.

**Non-U.S. Government and Supranational Debt Securities.** Debt securities of governmental (or supranational) issuers in all non-U.S. countries, including emerging market countries, may include, among others:





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- fixed income securities issued or guaranteed by governments, governmental agencies or instrumentalities, and political subdivisions located in non-U.S. (including emerging market) countries;
- fixed income securities issued by government owned, controlled, or sponsored entities located in non-U.S. (including emerging market) countries;
- interests in entities organized and operated for the purpose of restructuring the investment characteristics of instruments issued by any of the above issuers;
- Brady Bonds (which are described below);
- participations in loans between non-U.S. (including emerging market) governments and financial institutions; and
- fixed income securities issued by supranational entities such as the World Bank or the European Economic Community. A supra national entity is a bank, commission, or company established or financially supported by the national governments of one or more countries to promote reconstruction or development.

Investment in the debt securities of foreign governments can involve a high degree of risk. The governmental entity that controls the repayment of debt may not be able or willing to repay the principal and/or interest when due in accordance with the terms of such debt. A governmental entity's willingness or ability to repay principal and interest due in a timely manner may be affected by many factors. A country whose exports are concentrated in a few commodities could be vulnerable to a decline in the international price of such commodities, and increased protectionism on the part of a country's trading partners, or political changes in those countries, could also adversely affect its exports. Such events could diminish the credit standing of a particular local government or agency.

Governmental entities may be dependent on expected disbursements from other foreign governments, multilateral agencies, and others abroad to reduce principal and interest arrearages on their debt. The commitment on the part of these governments, agencies, and others to make such disbursements may be conditioned on the implementation of economic reforms and/or economic performance and the timely service of such governmental entity's obligations. Failure to adhere to any such requirements may result in the cancellation of such other parties' commitments to lend funds to the governmental entity, which may further impair such debtor's ability or willingness to timely service its debts, and, consequently, governmental entities may default on their debt. In addition, a holder of foreign government obligations (including an Account) may be requested to participate in the rescheduling of such debt and to extend further loans to governmental entities, and such holder's interests could be adversely affected in the course of those restructuring arrangements. Obligations arising from past restructuring agreements

may affect the economic performance and political and social stability of certain issuers of sovereign debt. In the event of a default by a governmental entity, there may be few or no effective legal remedies for collecting on such debt. The sovereign debt of many non-U.S. governments, including their subdivisions and instrumentalities, is rated below investment grade. The risks associated with non-U.S. Government and supranational debt securities may be greater for debt securities issued or guaranteed by emerging and/or frontier countries.

Foreign investment in certain sovereign debt is restricted or controlled to varying degrees, which may at times limit or preclude foreign investment in such sovereign debt and increase an Account's costs and expenses. Certain countries in which an Account may invest (i) require governmental approval prior to investments by foreign persons; (ii) limit the amount of investment by foreign persons in a particular issuer; (iii) limit investment by foreign persons to only a specific class of securities of an issuer that may have less advantageous rights than the classes available for purchase by domiciliaries of the countries; or (iv) impose additional taxes on foreign investors. Further, certain issuers may require governmental approval for the repatriation of investment income, capital, or the proceeds of sales of securities by foreign investors, and a government could impose temporary restrictions on foreign capital remittances. An Account could be adversely affected by delays in, or a refusal to grant, any required governmental approval for repatriation of capital, as well as by the application to the Account of any restrictions on investments. Investing in local markets may require an Account to adopt special procedures, seek local government approvals, and/or take other actions, each of which may involve additional costs.

Sovereign debt securities include Brady Bonds, which are securities created through the exchange of existing commercial bank loans to public and private entities for new bonds in connection with a debt restructuring plan for emerging market countries announced by former U.S. Secretary of the Treasury Nicholas F. Brady. Brady Bonds arose from an effort in the 1980s to reduce the debt held by less developed countries that were frequently defaulting on loans. Brady Bonds may be collateralized or uncollateralized, are issued in various currencies (primarily the U.S. dollar), and are traded in the OTC secondary market. Certain Brady Bonds are collateralized in full as to principal due at maturity by zero coupon obligations issued or guaranteed by the U.S. Government or its agencies or instrumentalities having the same maturity. Brady Bonds are not, however, considered to be securities issued or guaranteed by the U.S. Government or its agencies or instrumentalities. Brady Bonds do not have a long payment history and are subject to, among other things, the risk of default. In light of the history of defaults by the issuers of Brady Bonds, investments in Brady Bonds may be viewed as speculative regardless of the current credit rating of the issuer. The valuation of Brady Bonds generally depends on the following components: the collateralized repayment of principal at final





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maturity; the collateralized interest payments; the uncollateralized interest payments; and any uncollateralized repayment of principal at maturity.

**Tender Option Bonds.** An Account may invest in trust certificates issued in tender option bond programs. Tender option bonds are trust investments that create leverage by borrowing from third party investors to invest in municipal bonds. In a tender option bond transaction, a tender option bond trust issues a floating rate certificate ("TOB Floater"), which is a short-term security, and a residual interest certificate ("TOB Residual"), which is a longer term security. Using the proceeds of such issuance, the tender option bond trust purchases a fixed rate municipal bond. The TOB Floater is generally issued to a third party investor (typically a money market fund) and the TOB Residual is generally issued to an Account that sold or identified the fixed rate municipal bond. An Account may invest in TOB Floaters and/or TOB Residuals.

The TOB Residual may be less liquid than other comparable municipal bonds. Generally, the TOB Residual holder bears the underlying fixed rate bond's investment risk. The holder also benefits from any appreciation in the value of the underlying fixed rate bond. Investments in a TOB Residual will typically involve greater risk than investments in fixed rate bonds.

An institution may not be obligated to accept tendered bonds in the event of certain defaults or a significant downgrading in the credit rating assigned to the issuer of the bond. The tender option will be taken into account in determining the maturity of the tender option bonds and the applicable Account's duration. There is a risk that an Account will not be considered the owner of a tender option bond for federal income tax purposes, and, thus, will not be entitled to treat such interest as exempt from federal income tax.

**Securities of Government Sponsored Enterprises.** An Account may invest in securities issued or guaranteed by agencies or instrumentalities of the U.S. Government, such as Ginnie Mae, Fannie Mae, Freddie Mac, Federal Home Loan Banks ("FHL Banks"), Federal Farm Credit Bank, and Federal Agricultural Mortgage Corporation ("Farmer Mac"). Ginnie Mae is authorized to guarantee, with the full faith and credit of the U.S. Government, the timely payment of principal and interest on securities issued by institutions approved by Ginnie Mae (such as savings and loan institutions, commercial banks, and mortgage bankers) and backed by pools of mortgages insured or guaranteed by the FHA, the VA, the Rural Housing Service, or the U.S. Department of Housing and Urban Development. Fannie Mae, Freddie Mac, Federal Farm Credit Bank, and Farmer Mac are federally chartered public corporations owned entirely by their shareholders; the FHL Banks are federally chartered corporations owned by their member financial institutions. Although U.S. Government sponsored enterprises may be chartered or sponsored by Congress, many such enterprises are not funded by Congressional appropriations, their securities are not issued by the U.S. Treasury, and their obligations are not supported by the full faith and

credit of the U.S. Government, so investments in their securities or obligations issued by them involve greater risk than investments in other types of U.S. Government securities. For example, although Fannie Mae, Freddie Mac, Farmer Mac, Federal Farm Credit Bank, and the FHL Banks guarantee the timely payment of interest and ultimate collection of principal with respect to the securities they issue, their securities are not backed by the full faith and credit of the U.S. Government. The value of such securities therefore may vary with the changing prospects of future support from the U.S. Government, as reflected in anticipated legislative or political developments. In the absence of support from the U.S. Government, money market fixed income securities, including asset-backed securities that may have diminished collateral protection from underlying mortgages or other assets, are subject to the risk of default.

Although such securities commonly provide an Account with a higher yield than direct U.S. Treasury obligations, they are also subject to the risk that the Account will fail to recover additional amounts (i.e., premiums) paid for securities with higher interest rates, resulting in an unexpected capital loss upon their sale. Like most fixed income securities, the value of the money market instruments held by an Account generally will fall when interest rates rise. In the case of a security that is issued or guaranteed by a government sponsored enterprise and backed by mortgages or other instruments with prepayment or call features, rising interest rates may cause prepayments to occur at a slower-than-expected rate, reducing the security's value. In contrast, falling interest rates may cause prepayments to occur at a faster-than-expected rate, depriving an Account of income payments above market rates prevailing at the time of the prepayment.

**U.S. Government Securities.** U.S. Government securities are obligations of the U.S. Government and its agencies and instrumentalities, including Treasury bills, notes, bonds, and certificates of indebtedness that are issued or guaranteed as to principal or interest by the U.S. Treasury or U.S. Government sponsored enterprises. The U.S. Government is under no legal obligation, in general, to purchase the obligations of or provide financial support to its agencies, instrumentalities, or sponsored enterprises. No assurance can be given that the U.S. Government will purchase the obligations of or provide financial support to U.S. Government agencies, instrumentalities, or sponsored enterprises in the future, and the U.S. Government may be unable or unwilling to pay debts when due.

**Additional Risks of Municipal Bonds.** Municipal bonds and issuers of municipal bonds may be more susceptible to downgrade, default, and bankruptcy as a result of recent periods of economic stress. Factors contributing to the economic stress may include lower property tax collections as a result of lower home values, lower sales tax revenue as a result of reduced consumer spending, lower income tax revenue as a result of higher unemployment rates, and budgetary constraints of local, state, and federal governments upon which issuers of municipal securities may be



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relying for funding. In addition, as certain municipal bonds may be secured or guaranteed by banks and other institutions, the risk to an Account could increase if the banking, insurance, or other parts of the financial sector suffer an economic downturn and/or if the credit ratings of the institutions issuing the guarantee are downgraded or at risk of being downgraded by a national rating organization. Such a downgrade or risk of being downgraded may have an adverse effect on the market prices of bonds and, thus, the value of an Account's investment. Further, a state, municipality, public authority, or other issuers of municipal bonds may file for bankruptcy, which may significantly affect the value of the bonds issued by such issuers and, therefore, the value of an Account's investment. As a result of recent turmoil in the municipal bond market, several municipalities filed for bankruptcy protection or indicated that they may seek bankruptcy protection in the future. Municipal bonds may be illiquid or hard to value, especially in periods of economic stress.

Municipal bonds also are subject to the risk that the perceived increase in the likelihood of default or downgrade among municipal issuers as a result of recent market conditions could result in increased illiquidity, volatility, and credit risk. In addition, certain municipal issuers may be unable to access the market to sell bonds or, if able to access the market, may be forced to issue securities at much higher rates. Should these municipal issuers fail to sell bonds at the time intended and at the rates projected, these entities could experience significantly increased costs and a weakened overall cash position in the current fiscal year and beyond. These events also could result in decreased investment opportunities for an Account and lower investment performance.

The yields on municipal bonds depend on a variety of factors, including general market conditions, supply and demand, general conditions of the municipal bond market, size of a particular offering, the maturity of the obligation, and the rating of the issue. Municipal bonds with the same maturity, coupon, and rating may have different yields when purchased in the open market, while municipal bonds of the same maturity and coupon with different ratings may have the same yield.

**Credit Enhancements.** Some municipal bonds feature credit enhancements, such as lines of credit, municipal bond insurance, and standby bond purchase agreements ("SBPAs"). There is no assurance that any of the municipal bonds purchased by an Account will have any credit enhancements. Lines of credit are issued by a third party, usually a bank, to ensure repayment of principal and any accrued interest if the underlying municipal bond should default. Municipal bond insurance, which usually is purchased by the bond issuer from a private, nongovernmental insurance company, guarantees that the insured bond's principal and interest will be paid when due. Neither insurance nor a line of credit guarantees the price of the bond. The credit rating of an insured bond reflects the credit rating of the insurer, based on its claims-paying ability. The obligation of a municipal bond insurer

company to pay a claim extends over the life of each insured bond. There is no assurance that a municipal bond insurer or line of credit provider will pay a claim or meet the obligations. A higher than expected default rate could strain the insurer's loss reserves and adversely affect its ability to pay claims to bondholders. The number of municipal bond insurers is relatively small, and not all of them have the highest credit rating. An SBPA can include a liquidity facility that is provided to pay the purchase price of any bonds that cannot be remarketed. The obligation of the liquidity provider (usually a bank) is only to advance funds to purchase tendered bonds that cannot be remarketed and does not cover principal or interest under any other circumstances. The liquidity provider's obligations under the SBPA usually are subject to numerous conditions, including the continued creditworthiness of the underlying borrower, bond issuer, or bond insurer.

**Inverse Floaters Risk:** An Account may invest in inverse floaters. An inverse floater is a type of municipal bond derivative instrument with a floating or variable interest rate that moves in the opposite direction of the interest rate on another security, normally the floating rate note. The value and income of an inverse floater generally is more volatile than the value and income of a fixed rate municipal bond. The value and income of an inverse floater generally fall when interest rates rise. Inverse floaters tend to underperform the market for fixed rate municipal bonds in a rising long-term interest rate environment, but may outperform that market when long-term interest rates decline. Inverse floaters have varying degrees of liquidity, and the market for these securities is relatively volatile. An underlying fund's net cash investment in inverse floaters is significantly less than the value of the underlying municipal bonds. This creates leverage, which increases as the value of the inverse floaters becomes greater in proportion to the value of the underlying municipal bonds.

### ***Investment Vehicles and Associated Risks***

**Investment Companies.** An Account's investments in an investment company will be subject to the risks of the purchased investment company's portfolio securities. An Account's owner(s) must bear not only the Account fees, but also may bear indirectly the fees and expenses of the investment company.

**Exchange-Traded Funds ("ETFs").** ETFs are investment companies whose shares are listed on a securities exchange and trade like a stock throughout the day. Certain ETFs use a "passive" investment strategy and will not attempt to take defensive positions in volatile or declining markets. A "passive" investing strategy may have the potential to increase security price correlations and volatility. As "passive" strategies generally buy or sell securities based simply on inclusion and representation in an index, securities prices will have an increasing tendency to rise or fall based on whether money is flowing into or out of passive strategies rather than based on an analysis of the prospects and valuation of individual securities. This may result in increased market volatility if and to the extent more money is invested through



## APPENDIX 2 (CONT.)

passive strategies. Other ETFs are actively managed (i.e., they do not seek to replicate the performance of a particular index).

Investments in ETFs are subject to a variety of risks, including risks of a direct investment in the underlying securities that the ETF holds. For example, the general level of stock prices may decline, thereby adversely affecting the value of the underlying common stock investments of the ETF and, consequently, the value of the ETF. Moreover, the market value of the ETF may differ from the value of its portfolio holdings because the market for ETF shares and the market for underlying securities are not always identical. Also, ETFs that track particular indices typically will be unable to match the performance of the index exactly due to the ETF's operating expenses and transaction costs, among other things. Similar to investments in investment companies, an Account's owner(s) may bear not only the Account fees and expenses, but also may bear indirectly the fees and expenses of the ETF.

**Master Limited Partnerships ("MLPs").** Investments in MLPs involve risks different from those of investing in common stock including risks related to limited control and limited rights to vote on matters affecting the MLP, risks related to potential conflicts of interest between the MLP and the MLP's general partner, cash flow risks, dilution risks and risks related to the general partner's limited call right. MLPs are generally considered interest-rate sensitive investments. During periods of interest rate volatility, these investments may not provide attractive returns. Depending on the state of interest rates in general, the use of MLPs could enhance or harm the overall performance of an Account.

**Real Estate Investment Trusts ("REITs").** REITs are pooled investment vehicles that invest primarily in either real estate or real estate-related loans. REITs generally derive their income from rents on the underlying properties or interest on the underlying loans, and the value of a REIT is affected by changes in the value of the properties owned by the REIT or securing mortgage loans held by the REIT or changes in interest rates affecting the underlying loans owned by the REIT. The affairs of REITs are managed by the REIT's sponsor or management and, as such, the performance of the REIT is dependent on the management skills of the REIT's sponsor or management. REITs are subject to heavy cash flow dependency, default by borrowers, self-liquidation, and the qualification of the REITs under applicable regulatory requirements for favorable income tax treatment. REITs also are subject to risks generally associated with investments in real estate including possible declines in the value of real estate, general and local economic conditions, environmental problems, changes in interest rates, decreases in market rates for rents, increases in competition, property taxes, capital expenditures or operating expenses, and other economic, political, or regulatory occurrences affecting the real estate industry. To the extent that assets underlying a REIT are concentrated geographically,

by property type, or in certain other respects, these risks may be heightened. An Account will indirectly bear its proportionate share of any expenses, including management fees, paid by a REIT in which it invests.

**ETF Risk:** Investments in ETFs are subject to a variety of risks, including the risks associated with a direct investment in the underlying securities that the ETF holds. For example, the general level of stock prices may decline, thereby adversely affecting the value of the underlying investments of the ETF and, consequently, the value of the ETF. In addition, the market value of the ETF shares may differ from the value of the ETF's portfolio holdings because the supply and demand in the market for ETF shares at any point is not always identical to the supply and demand in the market for the underlying securities.

While shares of an ETF are listed on an exchange, there can be no assurance that active trading markets for an ETF's shares will develop or be maintained. Further, secondary markets may be subject to irregular trading activity, wide bid/ask spreads, and extended trade settlement periods in times of market stress because market makers and authorized participants may step away from making a market in an ETF's shares, which could cause a material decline in the ETF's NAV. At times of market stress, ETF shares may trade at a significant premium or discount to the ETF's NAV. If an Account purchases ETF shares at a time when the market price is at a significant premium to the ETF's NAV or sells ETF shares at a time when the market price is at a significant discount to the ETF's NAV, an Account will pay significantly more, or receive significantly less, respectively, than the ETF's NAV. This may reduce an Account's return or result in losses.

In addition, because certain of an ETF's underlying securities (e.g., foreign securities) trade on exchanges that are closed when the exchange that shares of the ETF trade on is open, and vice versa, there are likely to be deviations between the current pricing of an underlying security and the closing security's price (i.e., the last quote from its closed foreign market) resulting in premiums or discounts to the ETF's NAV that may be greater than those experienced by other ETFs. Also, ETFs that track particular indices typically will be unable to match the performance of the index exactly due to the ETF's operating expenses and transaction costs, among other things. ETFs typically incur fees that are separate from those fees incurred directly by an Account. Therefore, as a shareholder in an ETF (as with other investment companies), an Account would bear its ratable share of the ETF's expenses. At the same time, the Account would continue to pay its own investment management fees and other expenses. As a result, an Account and its shareholders, in effect, will absorb two levels of fees with respect to investments in ETFs.

**Other Risks.** An Account may invest in foreign countries through investment companies, including closed-end funds. Some emerging market countries have laws and regulations that cur-



## APPENDIX 2 (CONT.)

rently preclude direct foreign investments in the securities of their companies. However, indirect foreign investment in the securities of such countries is permitted through investment companies that have been specifically authorized to make such foreign investments. These investments are subject to the risks of investing in foreign (including emerging market) securities.

Because closed-end funds do not issue redeemable securities and, thus, do not need to maintain liquidity to meet daily shareholder redemptions, such funds may invest in less liquid portfolio securities. Moreover, an Account's investment in a closed-end fund is exposed to the risk that a secondary market for such shares may cease to exist. Accordingly, an Account's investment in closed-end fund shares is subject to increased liquidity risk.

### **Loans and Associated Risks**

**Assignments.** An investor in senior loans typically purchases "Assignments" from the Agent or other Loan Investors and, by doing so, typically becomes a Loan Investor under the loan agreement with the same rights and obligations as the assigning Loan Investor. Assignments may, however, be arranged through private negotiations between potential assignees and potential assignors, and the rights and obligations acquired by the purchaser of an Assignment may differ from, and be more limited than, those held by the assigning Loan Investor.

**Bank Loans.** An Account may invest in direct debt instruments, which are interests in amounts owed to lenders or lending syndicates, to suppliers of goods or services, or to other parties by a corporate, governmental, or other borrower. Accordingly, an Account may invest in senior loans and other bank loans and loan interests. Senior loans primarily include senior floating rate loans, first and second lien loans, and secondarily senior floating rate debt obligations (including those issued by an asset-backed pool), and interests therein. Loan interests may take the form of direct interests acquired during a primary distribution and also may take the form of assignments of, novations of, or participations in, a bank loan acquired in secondary markets. The loans an Account generally invests in are originated, negotiated, and structured by a U.S. or foreign commercial bank, insurance company, finance company, or other financial institution (collectively, the "Agent") for a group of loan investors ("Loan Investors"). The Agent typically administers and enforces the loan on behalf of the other Loan Investors in the syndicate. In addition, an institution, typically but not always the Agent, holds any collateral on behalf of the Loan Investors.

Purchasers of forms of direct indebtedness, such as senior loans and other bank loans, depend primarily upon the creditworthiness of the corporate or other borrower for payment of principal and interest, and adverse changes in the creditworthiness of the borrower may affect its ability to pay principal and interest. Investment in the indebtedness of borrowers with low credit worthiness involves substantially greater risks, and may be highly speculative. In the event of non-payment of interest or principal, loans

that are secured by collateral offer an Account more protection than comparable unsecured loans. However, no assurance can be given that the collateral for a secured loan can be liquidated or that the proceeds will satisfy the borrower's obligation.

Senior loans and interests in other bank loans may not be readily marketable and may be subject to restrictions on resale. Senior loans and other bank loans may not be considered "securities," and investors in these loans may not be entitled to rely on anti-fraud and other protections under the federal securities laws. In some cases, negotiations involved in disposing of indebtedness may require weeks to complete.

Consequently, some indebtedness may be difficult or impossible to dispose of readily at what Lord Abbett believes to be a fair price. In addition, valuation of illiquid indebtedness involves a greater degree of judgment in determining the investment's value than if that value were based on available market quotations, and could result in significant variations in the investment's value. At the same time, some loan interests are traded among certain financial institutions and accordingly may be deemed liquid. Further, the settlement period (the period between the execution of the trade and the delivery of cash to the purchaser) for some senior loans and other bank loans transactions may be significantly longer than the settlement period for other investments, and in some case may take longer than seven days. Requirements to obtain the consent of the borrower and/or Agent can delay or impede an Account's ability to sell loans and can adversely affect the price that can be obtained. As a result, it is possible an Account may not receive the proceeds from a sale of a loan for a significant period of time, which may affect an Account's ability to take advantage of new investment opportunities.

**Bridge Loans.** Bridge loans are short-term loan arrangements (typically 12 to 18 months) usually made by a Borrower in anticipation of receipt of intermediate-term or long-term permanent financing. Most bridge loans are structured as floating-rate debt with "step-up" provisions under which the interest rate on the bridge loan rises (or "steps up") the longer the loan remains outstanding. In addition, bridge loans commonly contain a conversion feature that allows the bridge Loan Investor to convert its interest to senior exchange notes if the loan has not been prepaid in full on or before its maturity date. Bridge loans may be subordinate to other debt and may be secured or under secured.

**Revolving Credit Facility Loans.** For some loans, such as revolving credit facility loans ("revolvers"), a Loan Investor may be obligated under the loan agreement to, among other things, make additional loans in certain circumstances. Delayed draw term loans are similar to revolvers, except that, once drawn upon by the borrower during the commitment period, they remain permanently drawn and become term loans. A prefunded letter of credit (L/C) term loan is a facility created by the borrower in conjunction with an Agent, with the loan backed by letters of credit. Each participant in a prefunded L/C term loan fully funds its commitment amount to the Agent for the facility.





## APPENDIX 2 (CONT.)

**Participations.** “Participations” in a Loan Investor’s portion of a senior loan typically will result in the investing Account having a contractual relationship only with such Loan Investor, rather than with the borrower. As a result, an Account may have the right to receive payments of principal, interest, and any fees to which it is entitled only from the Loan Investor selling the Participation and only upon receipt by such Loan Investor of such payments from the borrower. In connection with purchasing Participations, an Account generally will have no right to enforce compliance by the borrower with the terms of the loan agreement and an Account may not directly benefit from the collateral supporting the senior loan in which it has purchased the Participation. As a result, an Account may assume the credit risk of both the borrower and the Loan Investor selling the Participation. If a Loan Investor selling a Participation becomes insolvent, an Account may be treated as a general creditor of such Loan Investor.

**Prepayment.** Senior loans may require or permit, in addition to scheduled payments of interest and principal, the prepayment of the senior loan from free cash flow. The degree to which borrowers prepay senior loans, whether as a contractual requirement or at their election, is unpredictable. Upon a prepayment, either in part or in full, the actual outstanding debt on which an Account derives interest income will be reduced, and the Account may decide to invest in lower yielding investments. However, an Account may receive both a prepayment penalty fee from the prepaying borrower and a facility fee upon the purchase of a new senior loan with the proceeds from the prepayment of the former. The effect of prepayments on an Account’s performance may be mitigated by the receipt of prepayment fees and an Account’s ability to reinvest prepayments in other senior loans that have similar or identical yields.

### **Options and Associated Risks**

**Foreign Currency Options.** An Account may enter into options on foreign currencies. For example, if an Account were to enter into a contract to purchase securities denominated in a foreign currency, it effectively could fix the maximum U.S. dollar cost of the securities by purchasing call options on that foreign currency. Similarly, if an Account held securities denominated in a foreign currency and anticipated a decline in the value of that currency against the U.S. dollar, it could hedge against such a decline by purchasing a put option on the currency involved. An Account’s ability to establish and close out positions in such options is subject to the maintenance of a liquid secondary market. There can be no assurance that a liquid secondary market will exist for a particular option at any specific time. In addition, options on foreign currencies are affected by all of those factors that influence foreign exchange rates and investments generally. Option markets may be closed while non-U.S. securities markets or round the-clock interbank currency markets are open, and this can create price and rate discrepancies.

The value of a foreign currency option depends on, among other factors, the value of the underlying currency, relative to the U.S.

dollar. Other factors affecting the value of an option are the time remaining until expiration, the relationship of the exercise price to market price, the historical price volatility of the underlying currency and general market conditions. As a result, changes in the value of an option may have no relationship to the investment merit of the foreign currency. Whether a profit or loss is realized on a closing transaction depends on the price movement of the underlying currency and the market value of the option.

There can be no assurance that an Account will be able to liquidate an option at a favorable price at any time before expiration. In the event of insolvency of the counterparty, an Account may be unable to liquidate a foreign currency option. Accordingly, it may not be possible to effect closing transactions with respect to certain options, with the result that an Account would have to exercise those options that it had purchased in order to realize any profit.

**Options Contracts on Securities and Securities Indices.** An Account may purchase call and put options and write covered call and put option contracts. A call option gives the purchaser of the option the right to buy, and obligates the writer to sell, the underlying security or securities at the exercise price at any time during the option period or at a specific date depending on the terms of the option. Conversely, a put option gives the purchaser of the option the right to sell, and obligates the writer to buy, the underlying security or securities at the exercise price at any time during the option period or at a specific date depending on the terms of the option. An Account also may enter into “closing purchase transactions” in order to terminate its obligation to deliver the underlying security. A closing purchase transaction is the purchase of a call option (at a cost that may be more or less than the premium received for writing the original call option) on the same security, with the same exercise price and call period as the option previously written. If an Account is unable to enter into a closing purchase transaction, it may be required to hold a security that it otherwise might have sold to protect against depreciation. “European-style” options only permit exercise on the exercise date. Options that are not exercised or closed out before their expiration date will expire worthless.

A “covered call option” written by an Account is a call option with respect to which an Account owns the underlying security. A put option written by an Account is covered when, among other things, an Account segregates permissible liquid assets having a value equal to or greater than the exercise price of the option to fulfill the obligation undertaken or otherwise covers the transaction. The principal reason for writing covered call and put options is to realize, through the receipt of premiums, a greater return than would be realized on the underlying securities alone. An Account receives a premium from writing covered call or put options, which it retains whether or not the option is exercised. However, an Account also may realize a loss on the transaction greater than the premium received.





## APPENDIX 2 (CONT.)

There is no assurance that sufficient trading interest to create a liquid secondary market on a securities exchange will exist for any particular option or at any particular time, and, for some options, no such secondary market may exist. A liquid secondary market in an option may cease to exist for a variety of reasons. In the past, for example, higher than anticipated trading activity or order flow, or other unforeseen events, at times have rendered certain of the clearing facilities inadequate and resulted in the institution of special procedures, such as trading rotations, restrictions on certain types of orders, trading halts, or suspensions in one or more options. Similar events, or events that may otherwise interfere with the timely execution of customers' orders, may recur in the future. In such event, it might not be possible to effect closing transactions in particular options. If, as a covered call option writer, an Account is unable to effect a closing purchase transaction in a secondary market, it will not be able to sell the underlying security until the option expires or it delivers the underlying security upon exercise, or it otherwise covers its position.

The securities exchanges generally have established limits on the maximum number of options an investor or group of investors acting in concert may write. An Account, Lord Abbett, and other accounts advised by Lord Abbett may constitute such a group. These limits could restrict an Account's ability to purchase or write options on a particular security.

**OTC Options.** OTC options contracts ("OTC options") differ from exchange-traded options in several respects. OTC options are transacted directly with dealers and not with a clearing corporation and there is a risk of nonperformance by the dealer as a result of the insolvency of the dealer or otherwise, in which event an Account may experience material losses. Because there is no exchange, pricing normally is done by reference to information from the counterparty or other market participants.

In the case of OTC options, there can be no assurance that a liquid secondary market will exist for any particular option at any given time. Consequently, an Account may be able to realize the value of an OTC option it has purchased only by exercising it or entering into a closing sale transaction with the dealer that issued it. Similarly, when an Account writes an OTC option, generally it can close out that option before its expiration only by entering into a closing purchase transaction with the dealer to which the Account originally wrote it. If a covered call option writer cannot effect a closing transaction, it cannot sell the underlying security until the option expires or the option is exercised. Therefore, a covered call option writer of an OTC option may not be able to sell an underlying security even though it otherwise might be advantageous to do so. Likewise, a put writer of an OTC option may be unable to sell the securities segregated to cover the put for other investment purposes while it is obligated as a put writer. Similarly, a purchaser of such put or call option also might find it difficult to terminate its position on a timely basis in the absence of a secondary market.

**Specific Options Transactions.** Examples of the types of options an Account may purchase and sell include call and put options in respect of specific securities (or groups or "baskets" of specific securities) such as U.S. Government securities, mortgage related securities, asset backed securities, foreign sovereign debt, corporate debt securities, equity securities (including convertible securities), and Eurodollar instruments that are traded on U.S. or foreign securities exchanges or in the OTC market, or securities indices, currencies, or futures.

An option on an index is similar to an option in respect of specific securities, except that settlement does not occur by delivery of the securities comprising the index. Instead, the option holder receives an amount of cash if the closing level of the index upon which the option is based is greater than in the case of a call, or less than in the case of a put, the exercise price of the option. Thus, the effectiveness of purchasing or writing index options will depend upon price movements in the level of the index rather than the price of a particular security.

An Account may purchase and sell call and put options on foreign currencies. These options convey the right to buy or sell the underlying currency at a price that is expected to be lower or higher than the spot price of the currency at the time the option is exercised or expires.

Successful use by an Account of options and options on futures will be subject to Lord Abbett's ability to predict correctly movements in the prices of individual securities, the relevant securities market generally, foreign currencies, or interest rates. To the extent Lord Abbett's predictions are incorrect, an Account may incur losses. The use of options also can increase an Account's transaction costs.

**Yield Curve Options.** Options on the yield spread or differential between two securities are commonly referred to as "yield curve" options. In contrast to other types of options, a yield curve option is based on the difference between the yields of designated securities, rather than the prices of the individual securities, and is settled through cash payments. Accordingly, a yield curve option is profitable to the holder if this differential widens (in the case of a call) or narrows (in the case of a put), regardless of whether the yields of the underlying securities increase or decrease.

The trading of yield curve options is subject to all of the risks associated with the trading of other types of options. In addition, such options present a risk of loss even if the yield of one of the underlying securities remains constant, or if the spread moves in a direction or to an extent that was not anticipated.

### **Participation Notes and Associated Risks**

**Participation Notes.** Participation notes ("P-notes"), which are a type of structured note, are instruments that may be used by an Account to provide exposure to equity or debt securities, currencies, or markets. P-notes are typically used when a direct investment in the underlying security is either unpermitted or restricted due to country-specific regulations or other restric-



## APPENDIX 2 (CONT.)

tions. Generally, local banks and broker dealers associated with non-U.S.-based brokerage firms buy securities listed on certain foreign exchanges and then issue P-notes which are designed to replicate the performance of certain issuers and markets. The performance results of P-notes will not replicate exactly the performance of the issuers or markets that the notes seek to replicate due to transaction costs and other expenses. P-notes are similar to depositary receipts except that: (1) broker-dealers, not U.S. banks, are depositories for the securities; and (2) note-holders may remain anonymous to market regulators.

The price, performance, and liquidity of the P-note are all linked directly to the underlying securities. If a P-note were held to maturity, the issuer would pay to, or receive from, the purchaser the difference between the nominal value of the underlying instrument at the time of purchase and that instrument's value at maturity. The holder of a P-note that is linked to a particular underlying security or instrument may be entitled to receive any dividends paid in connection with that underlying security or instrument, but typically does not receive voting rights as it would if it directly owned the underlying security or instrument. P-notes involve transaction costs. Investments in P-notes involve the same risks associated with a direct investment in the underlying security or instrument that they seek to replicate. The foreign investments risk associated with P-notes is similar to those of investing in depositary receipts. However, unlike depositary receipts, P-notes are subject to counterparty risk based on the uncertainty of the counterparty's (i.e., the broker's) ability to meet its obligations.

In addition to providing access to otherwise closed or restricted markets, P-notes also can provide a less expensive option to direct investment, where ownership by foreign investors is permitted, by reducing registration and transaction costs in acquiring and selling local registered shares. P-notes can offer greater liquidity in markets that restrict the ability of an Account to dispose of an investment by either restricting transactions by size or requiring registration and/or regulatory approvals. Additionally, while P-notes may be listed on an exchange, there is no guarantee that a liquid market will exist or that the counterparty or issuer of a P-note will be willing to repurchase such instrument when an Account wishes to sell it. Therefore, an Account may be exposed to the risks of mispricing or improper valuation.

### **Repurchase Agreements and Associated Risks**

**Repurchase Agreements.** A repurchase agreement is a transaction by which an Account acquires a security (or basket of securities) and simultaneously commits to resell that security to the seller (typically, a bank or securities dealer) at an agreed upon date on an agreed upon price, which represents the Account's cost plus interest. The resale price reflects the purchase price plus an agreed upon market rate of interest that is unrelated to the coupon rate or date of maturity of the purchased security.

The use of repurchase agreements involves certain risks. For example, if the seller of the agreement defaults on its obligation to repurchase the underlying securities at a time when the value of these securities has declined, an Account may incur a loss upon disposition of them. In addition, if the seller should be involved in bankruptcy or insolvency proceedings, an Account may incur delay and costs in selling the underlying security or may suffer a loss of principal and interest if the Account is treated as an unsecured creditor and required to return the underlying collateral to the seller's estate. Repurchase agreements may lack liquidity, especially if the issuer encounters financial difficulties. To reduce credit risk and counterparty risk, Lord Abbett intends to limit repurchase agreements to transactions with dealers and financial institutions believed by Lord Abbett to present minimal credit risks. Lord Abbett will monitor the creditworthiness of the repurchase agreement sellers on an ongoing basis.

**Reverse Repurchase Agreements.** In a reverse repurchase agreement, an Account sells a security to a securities dealer or bank for cash and also agrees to repurchase the same security at an agreed upon price on an agreed upon date. Reverse repurchase agreements expose an Account to credit risk (that is, the risk that the counterparty will fail to resell the security to the Account). Engaging in reverse repurchase agreements also may involve the use of leverage, in that an Account may reinvest the cash it receives in additional securities.

### **Structured Notes and Associated Risks**

**Structured Notes.** Structured notes are types of derivative securities whose value is determined by reference to changes in the value of specific securities, currencies, interest rates, commodities, indices, or other financial indicators (the "[Reference Instrument](#)"), or the relative change in two or more Reference Instruments. The interest rate or the principal amount payable upon maturity or redemption may be increased or decreased depending upon changes in the applicable Reference Instrument(s). Structured notes may be positively or negatively indexed, so the appreciation of the Reference Instrument may produce an increase or decrease in the interest rate or value of the security at maturity. The terms of the instrument may be "structured" by the purchaser and the borrower issuing the note. For example, the terms of a structured note may provide that, in certain circumstances, no principal is due at maturity and, therefore, may result in a loss of invested capital. Structured notes may present additional risks that are different from those associated with a direct investment in fixed income or equity securities because the investor bears the risk of the Reference Instrument(s). For example, structured notes may be more volatile, less liquid, and more difficult to price accurately and subject to additional credit risks. An Account that invests in structured notes could lose more than the principal amount invested. CLNs are a type of structured note.



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**Credit-Linked Notes ("CLNs").** An Account may invest in CLNs. CLNs are a type of structured note. CLNs are privately negotiated obligations whose returns are linked to the returns of one or more designated securities or other instruments that are referred to as "reference securities." A CLN is generally issued by one party, typically a trust or a special purpose vehicle, with investment exposure or risk that is linked to a second party. The CLN's price or coupon is linked to the performance of the reference security of the second party.

An Account has the right to receive periodic interest payments from the CLN issuer at an agreed upon interest rate and, if there has been no default or other applicable declines in credit quality, a return of principal at the maturity date. The cash flows are dependent on specified credit-related events. Should the second party default or declare bankruptcy, the CLN holder will generally receive an amount equivalent to the recovery rate. An Account also is exposed to the credit risk of the CLN issuer up to the full CLN purchase price, and CLNs are often not secured by the reference securities or other collateral. CLNs are also subject to the credit risk of the reference securities. If a reference security defaults or suffers certain other applicable declines in credit quality, an Account may, instead of receiving repayment of principal, receive the security that has defaulted.

As with most derivative investments, valuation of a CLN may be difficult due to the complexity of the security. The market for CLNs may suddenly become illiquid. The other parties to the transactions may be the only investors with sufficient understanding of the CLN to be interested in bidding for it. Changes in liquidity may result in significant, rapid, and unpredictable changes in CLN prices. In certain cases, a CLN's market price may not be available or the market may not be active.

**Structured Notes and Other Hybrid Instruments.** An Account may invest in structured notes and other hybrid instruments to pursue a variety of investment strategies, including currency hedging, duration management, and increased total return.

Hybrid instruments include indexed or structured instruments, combining the elements of futures contracts or options with those of debt, preferred equity or a depositary instrument. A hybrid instrument may be a debt security, preferred stock, warrant, convertible security, certificate of deposit or other evidence of indebtedness on which a portion or all of its interest payments, and/or the principal or stated amount payable at maturity, redemption or retirement is determined by changes in the applicable Reference Instrument(s). As with other derivatives, the value of a hybrid instrument may be a multiple of a Reference Instrument and, as a result, may be leveraged and move (up or down) more steeply and rapidly than the Reference Instrument. These Reference Instruments may be sensitive to economic and political events, such as commodity shortages and currency devaluations, which cannot be readily foreseen by the purchaser of a hybrid. A hybrid instrument may not bear interest

or pay dividends, and under certain conditions, the redemption value of a hybrid instrument could be zero. Thus, an investment in a hybrid instrument may entail significant market risks that are not associated with a similar investment in a traditional stock or bond. The purchase of hybrid instruments also exposes an Account to the credit risk of the issuer of the hybrid instruments. These risks may cause significant fluctuations in the value of an Account's portfolio.

**Structured Securities Risk:** Investments in structured securities, which are a type of instrument designed to offer a return linked to particular underlying securities, currencies, or markets, involve the same risks associated with direct investments in the underlying securities or instruments they seek to replicate, as well as additional risks. For example, the Account is subject to the risk that the issuer or the counterparty of the structured security may be unable to perform under the terms of the instrument, or may disagree as to the meaning or application of such terms. In addition, there can be no assurance that the structured securities will trade at the same price or have the same value as the underlying securities or instruments. The secondary markets on which the structured securities are traded may be less liquid than the market for other securities, or may be completely illiquid. Therefore, the Account may be exposed to the risks of mispricing or improper valuation. Also, this may have the effect of increasing the Account's illiquidity to the extent that the Account, at a particular point in time, may be unable to find qualified buyers for these securities.

### General Risks

**144A Securities.** An Account also may invest in illiquid securities that are governed by Rule 144A under the 1933 Act. These securities may be resold under certain circumstances to other institutional buyers. Specifically, 144A Securities may be resold to a qualified institutional buyer ("QIB") without registration and without regard to whether the seller originally purchased the security for investment. Investing in 144A Securities may decrease the liquidity of an Account's portfolio to the extent that QIBs become, for a time, uninterested in purchasing these securities. 144A securities may be illiquid or hard to value.

**Blend Style Risk:** Growth stocks typically trade at higher multiples of current earnings as compared to other stocks, which may lead to inflated prices. Growth stocks often are more sensitive to market fluctuations than other securities because their market prices are highly sensitive to future earnings expectations. At times when it appears that these expectations may not be met, growth stocks' prices typically fall. Growth stocks are subject to potentially greater declines in value if, among other things, the stock is subject to significant investor speculation but fails to increase as anticipated. The prices of value stocks may lag the stock market for long periods of time if the market fails to recognize the company's intrinsic worth. Value investing also is subject to the risk that a company judged to be undervalued may



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actually be appropriately priced or even overpriced. A portfolio that combines growth and value styles may diversify these risks and lower its volatility, but there is no assurance this strategy will achieve that result. In addition, different investment styles may shift in and out of favor, depending on market and economic conditions as well as investor sentiment, which may cause an Account to underperform other funds that employ a different or more diversified style.

**Climate-Focused Investing Risk:** For certain Accounts that utilize a climate-focused investment strategy, which may select or exclude securities of certain issuers for reasons other than investment performance considerations, there is the risk that the Account may underperform accounts that do not utilize a climate-focused investment strategy. This investment strategy may affect the Account's investment exposure to certain sectors or types of investments, which could negatively impact the Account's performance depending on whether such investments are in or out of favor. The exclusion of investments in companies principally engaged in the fossil fuel and natural gas related product or distribution sectors, in particular, may adversely affect the Account's relative performance at times when such investments are performing well. In addition, some climate-focused investments may be dependent on U.S. and foreign government policies, including tax incentives and subsidies, or on political support for certain environmental technologies and companies, all of which are subject to change. There may be a limited number of issuers in which the Account may invest given its climate focused investment strategy, and as a result, the markets in which the Account operates may have fewer investment options and limited liquidity. There can be no assurance that the operations of a given issuer in which the Account invests will in fact have a positive impact on the climate. In evaluating a company, Lord Abbett is dependent upon information and data obtained through voluntary or third-party reporting that may be incomplete, inaccurate or unavailable, which could cause Lord Abbett to incorrectly assess a company's business practices with respect to its climate related practices. Socially responsible norms differ by region, and a company's climate-related practices or Lord Abbett's assessment of a company's climate-related practices may change over time. Successful application of the Account's climate-focused investment strategy will depend on Lord Abbett's skill in properly identifying and analyzing material climate-related issues and related business practices, and there can be no assurance that the strategy or techniques employed will be successful.

**Combined Transactions.** An Account may enter into multiple transactions, including multiple options transactions, multiple futures transactions, multiple currency transactions including forward currency contracts and multiple interest rate transactions, swaps, structured notes, and any combination of futures, options, swaps, currency, and interest rate transactions ("component transactions"), instead of a single transaction, as part of a single or combined strategy when, in the opinion of Lord Abbett, it

is in the best interests of an Account to do so. A combined transaction will usually contain elements of risk that are present in each of its component transactions. Although combined transactions normally are entered into based on Lord Abbett's judgment that the combined strategies will reduce risk or otherwise more effectively achieve the desired portfolio management goal, it is possible that the combination instead will increase such risks or hinder achievement of the portfolio management objective.

**Credit Rating Agencies.** Credit rating agencies are companies that assign credit ratings, which operate as a preliminary evaluation of the credit risk of a prospective debtor. Credit rating agencies include, but are not limited to, S&P, Moody's, and Fitch. Credit ratings are provided by credit rating agencies that specialize in evaluating credit risk, but there is no guarantee that a highly rated debt instrument will not default or be downgraded. Credit ratings issued by these agencies are designed to evaluate the safety of principal and interest payments of rated securities. They do not evaluate the market risk and, therefore, may not fully reflect the true risks of an investment. In addition, credit rating agencies may not make timely changes in a rating to reflect changes in the economy or in the conditions of the issuer that affect the market value of the security. Consequently, credit ratings are used only by Lord Abbett as a preliminary indicator of investment quality. Lord Abbett may use any national recognized statistical rating organization when evaluating investment quality. Each agency applies its own methodology in measuring creditworthiness and uses a specific rating scale to publish its ratings opinions.

**Cybersecurity Risk:** As the use of technology has become more prevalent in the course of business, Lord Abbett has become more susceptible to operational and information security risks. Cyber incidents can result from deliberate attacks or unintentional events and include, but are not limited to, gaining unauthorized access to electronic systems for purposes of misappropriating assets, personally identifiable information ("PII") or proprietary information (e.g., trading models and algorithms), corrupting data, or causing operational disruption, for example, by compromising trading systems or accounting platforms. Other ways in which the business operations of Lord Abbett, other service providers, or issuers of securities in which Lord Abbett invests a client's assets may be impacted include interference with a client's ability to value its portfolio, the unauthorized release of PII or confidential information, and violations of applicable privacy, recordkeeping and other laws. A client and/or its Account could be negatively impacted as a result.

While Lord Abbett has established internal risk management security protocols designed to identify, protect against, detect, respond to and recover from cybersecurity incidents, there are inherent limitations in such protocols including the possibility that certain threats and vulnerabilities have not been identified or made public due to the evolving nature of cybersecurity threats. Furthermore, Lord Abbett cannot control the cybersecurity systems of third party service providers or issuers. There currently





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is no insurance policy available to cover all of the potential risks associated with cyber incidents. Unless specifically agreed by Lord Abbett separately or required by law, Lord Abbett is not a guarantor against, or obligor for, any damages resulting from a cybersecurity-related incident.

**Duration.** Duration is a measure of the expected life of a bond or other fixed income instrument on a present value basis. Duration incorporates the bond's or other fixed income instrument's yield, coupon interest payments, final maturity, and call features into one measure. Duration allows an investment adviser to make certain predictions as to the effect that changes in the level of interest rates will have on the value of an Account's portfolio of bonds or other fixed income instruments. However, various factors, such as changes in anticipated prepayment rates, qualitative considerations, and market supply and demand, can cause particular securities to respond somewhat differently to changes in interest rates. Moreover, in the case of mortgage backed and other complex securities, duration calculations are estimates and are not precise. This is particularly true during periods of market volatility.

An Account's portfolio will have a duration that is equal to the weighted average of the durations of the bonds or other fixed income instruments in its portfolio. The longer an Account's portfolio's duration, the more sensitive it is to interest rate risk. The shorter an Account's portfolio's duration, the less sensitive it is to interest rate risk. For example, the value of a portfolio with a duration of five years would be expected to fall approximately five percent if interest rates rose by one percentage point and the value of a portfolio with a duration of two years would be expected to fall approximately two percent if interest rates rose by one percentage point.

Some securities may have periodic interest rate adjustments based upon an index such as the 90-day Treasury Bill rate. This periodic interest rate adjustment tends to lessen the volatility of the security's price. With respect to securities with an interest rate adjustment period of one year or less, an Account will, when determining average weighted duration, treat such a security's maturity as the amount of time remaining until the next interest rate adjustment.

Instruments such as securities guaranteed by the Government National Mortgage Association ("[Ginnie Mae](#)"), the Federal National Mortgage Association ("[Fannie Mae](#)"), and the Federal Home Loan Mortgage Corporation ("[Freddie Mac](#)") and similar securities backed by amortizing loans generally have shorter effective maturities than their stated maturities. This is due to changes in amortization caused by demographic and economic forces such as interest rate movements. These effective maturities are calculated based upon historical payment patterns and, therefore, have a shorter duration than would be implied by their stated final maturity. For purposes of determining an Account's average maturity, the maturities of such securities will be calculated based upon the issuing agency's payment factors using

industry accepted valuation models.

**Focused Investing Risk:** To the extent that an Account invests its assets in the securities of a small number of issuers, an Account will be subject to greater volatility with respect to its investments than an account that invests in the securities of a larger number of issuers.

**Future Developments.** An Account may take advantage of opportunities in options, futures contracts, options on futures contracts, and any other derivatives, including derivatives that are not presently contemplated for use by the Account and derivatives that are not currently available but that may be developed, to the extent such opportunities are both consistent with the Account's investment objective and legally permissible for the Account.

**Geographic Focus Risk:** To the extent an Account focuses its investments in a single country or only a few countries in a particular geographic region (and its political subdivisions, agencies, instrumentalities, and public authorities), economic, political, regulatory or other conditions affecting such region may have a greater impact on an Account's portfolio performance.

**Governmental Risk:** Government actions, including U.S. federal government actions and actions by local, state, and regional governments, could have an adverse effect on municipal bond prices. In addition, an Account's performance may be affected by local, state, and regional factors depending on the states or territories in which the Account's investments are issued. These factors may, for example, include economic or political developments, erosion of the tax base, budget deficits and the possibility of credit problems.

**Health Care Sector Risk:** To the extent that an Account invests its assets in health care sector securities, the Account is subject to the risks faced by companies in the health care sector, including companies in the health care equipment and services industry and the pharmaceuticals, biotechnology, and life sciences industry. Investments in companies in the health care sector are subject to the general risks associated with the health care sector, including new or anticipated legislative actions and changes in government regulations, restrictions, funding or subsidies, dependence on patents and intellectual property rights, expenses and losses from litigation based on product liability and similar claims, industry and pricing competition that may result in price discounting, long and costly processes for obtaining new product approval by the FDA, extensive research and development, marketing, and sales costs, thin capitalization, and limited product lines, markets, financial resources, or personnel, and rapid technological change and potential for product obsolescence. In addition to the general risks associated with an Account's investments in the broader health care sector, the Account is also subject to specific risks associated with its investments in companies in the health care equipment and services industry and the pharmaceuticals, biotechnology, and life science industry, which are discussed in more detail below.





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- **Health Care Equipment and Services Industry Risk:** To the extent that an Account invests its assets in health care sector securities, the Account is subject to the risks faced by companies in the health care equipment and services industry. In addition to the risks associated with the health care sector overall, companies in this industry, including health care providers, may have difficulty obtaining staff to deliver services and may be subject to an increased emphasis on the delivery of health care through outpatient services. Further, competition is high among health care equipment companies and can be significantly affected by extensive government regulation or government reimbursement for medical expenses. Health care equipment also may be subject to extensive litigation based on malpractice claims, product liability claims, or other litigation.
- **Pharmaceuticals, Biotechnology and Life Sciences Industry Risk:** To the extent that an Account invests its assets in health care sector securities, the Account is subject to the risks faced by companies in the pharmaceuticals, biotechnology, and life sciences industry. In addition to the risks associated with the health care sector overall, companies in this industry face the risks of new technologies and competitive pressures and regulations and restrictions imposed by the FDA, the U.S. Environmental Protection Agency, state and local governments, and foreign regulatory authorities. Also, stock prices of biotechnology companies may be volatile, particularly when their products are up for regulatory approval or under regulatory scrutiny.

**High Portfolio Turnover Risk:** High portfolio turnover may result in increased transaction costs. These costs can reduce an Account's investment performance. If an Account realizes capital gains when it sells investments, it may result in higher taxes. Realized capital gains that are considered "short term" for tax purposes result in higher taxes than long term capital gains.

**Illiquid Securities.** The purchase price and subsequent valuation of restricted and illiquid securities normally reflect a discount, which may be significant, from the market price of comparable securities for which a liquid market exists. The amount of the discount from the prevailing market price varies depending upon the type of security, the character of the issuer, the party who will bear the expenses of registering the restricted securities (if needed), and prevailing supply and demand conditions.

An Account may not be able to readily liquidate its investment in illiquid securities and may have to sell other investments if necessary to raise cash. In this event, illiquid securities would become an increasingly larger percentage of an Account's portfolio. The lack of a liquid secondary market for illiquid securities may make it more difficult for an Account to assign a value to those securities for purposes of valuing its portfolio.

**Industry and Sector Risk:** If an Account invests a significant portion of its assets in a particular industry or sector, the Account is

subject to the risk that companies in the same industry or sector are likely to react similarly to legislative or regulatory changes, adverse market conditions, increased competition, or other factors generally affecting that market segment. In such cases, the Account would be exposed to an increased risk that the value of its overall portfolio will decrease because of events that disproportionately affect certain industries and/or sectors. The industries and sectors in which an Account may be overweighted will vary. Furthermore, investments in particular industries or sectors may be more volatile than the broader market as a whole, and an Account's investments in these industries and sectors may be disproportionately susceptible to losses even if not overweighted.

**Investment Strategy Risk:** The strategies used and securities selected by an Account's portfolio management team may fail to produce the intended result and the Account may not achieve its objective. Through the integration of fundamental research and quantitative analysis, an Account expects that stock selection is likely to be a primary driver of an Account's performance relative to its benchmark index. In addition, there is no guarantee that an Account's use of quantitative analytic tools will be successful. Factors that affect a security's value can change over time and these changes may not be reflected in an Account's quantitative models. Investments selected using these models may perform differently than expected as a result of the factors used in the models, the weight placed on each factor, changes from the factors' historical trends, and technical issues in the construction and implementation of the models. In addition, an Account's performance will reflect, in part, an Account's portfolio management team's ability to make active qualitative decisions and timely adjust the quantitative models, including the models' underlying metrics and data. As a result of the risks associated with an Account's investment strategies, an Account may underperform its benchmark or other funds with the same investment objective and which invest in large and mid-sized companies, even in a favorable market. An Account's strategy of focusing on dividend-paying companies means an Account will be more exposed to risks associated with that particular market segment than a fund that invests more widely.

**Large Company Risk:** Larger, more established companies may be less able to respond quickly to certain market developments. In addition, larger companies may have slower rates of growth as compared to successful, but less well-established, smaller companies, especially during market cycles corresponding to periods of economic expansion. Large companies also may fall out of favor relative to smaller companies in certain market cycles, causing an Account to incur losses or underperform.

**Leverage.** Consistent with its investment objectives and guidelines, an Account may engage in transactions or purchase instruments that give rise to forms of leverage. Such transactions and instruments may include, among others, the use of reverse repurchase agreements, credit default swaps, when issued,



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delayed delivery and forward commitment transactions, dollar rolls, borrowings, such as through bank loans, loans of portfolio securities, and derivatives.

Leverage may cause the value of an Account to be more volatile than if the Account did not use leverage. Leverage increases an Account's losses when the value of its investments (including derivatives) declines. In addition, interest and other leverage related expenses are borne by the Account. The use of leverage may also cause an Account to liquidate portfolio positions when it would not be advantageous to do so in order to satisfy its related obligations, among other reasons.

**Liquidity/Redemption Risk:** An Account may lose money when selling securities at inopportune times to fulfill client liquidity requests. The risk of loss may increase depending on the size and frequency of liquidity requests, whether the requests occur in times of overall market turmoil or declining prices, and whether the securities an Account intends to sell have decreased in value or are illiquid. An Account may be less able to sell illiquid securities at its desired time or price. It may be more difficult for an Account to value its investments in illiquid securities than more liquid securities. Illiquidity can be caused by a variety of factors, including economic conditions, market events, events relating to the issuer of the securities, a drop in overall market trading volume, an inability to find a ready buyer, or legal restrictions on the securities' resale. Certain securities that are liquid when purchased may later become illiquid, particularly in times of overall economic distress. Liquidity risk may be magnified in a rising interest rate environment or other circumstances where investor redemptions from the mutual funds may be higher than normal, causing increased supply in the market due to selling activity.

**Market Disruption and Geopolitical Risk:** Geopolitical and other events (e.g., wars, terrorism or natural disasters) may disrupt securities markets and adversely affect global economies and markets, thereby decreasing the value of an Account's investments. Sudden or significant changes in the supply or prices of commodities or other economic inputs (e.g., the marked decline in oil prices that began in late 2014) may have material and unexpected effects on both global securities markets and individual countries, regions, sectors, companies, or industries, which could significantly reduce the value of an Account's investments. Terrorist attacks, natural disasters, epidemics or pandemics could result in unplanned or significant securities market closures or declines. Securities markets also may be susceptible to market manipulation (e.g., the manipulation of the London Interbank Offered Rate (LIBOR)) or other fraudulent trading practices, which could disrupt the orderly functioning of markets, increase overall market volatility, or reduce the value of investments traded in them, including investments of an Account. Instances of fraud and other deceptive practices committed by senior management of certain companies in which an Account invests may undermine Lord Abbett's due diligence efforts with respect to

such companies, and if such fraud is discovered, negatively affect the value of an Account's investments.

Financial fraud also may impact the rates or indices underlying an Account's investments. While the U.S. Government has always honored its credit obligations, a default by the U.S. Government (as has been threatened in recent years) would be highly disruptive to the U.S. and global securities markets and could significantly reduce the value of an Account's investments. Similarly, political events within the United States at times have resulted, and may in the future result, in a shutdown of government services, which could adversely affect the U.S. economy, decrease the value of many Account investments, and increase uncertainty in or impair the operation of the U.S. or other securities markets. Uncertainty surrounding the sovereign debt of several European Union ("EU") countries, as well as the continued existence of the EU itself, has disrupted and may continue to disrupt markets in the United States and around the world. If a country changes its currency or leaves the EU or if the EU dissolves, the world's securities markets likely will be significantly disrupted. In March 2017, the UK commenced the formal process of withdrawing from the EU (commonly known as "Brexit"). The European Parliament formally approved the withdrawal on January 30, 2020, and the withdrawal agreement between the UK and EU became effective January 31, 2020. At this time, the UK is no longer a member of the EU. An eleven-month transition period will take place, ending December 31, 2020, during which the UK will negotiate its future relationship with the EU. During this time, the UK will remain subject to the EU's rules, but will have no role in the EU's law-making process.

Significant uncertainty remains in the market regarding the ramifications of the withdrawal of the UK from the EU, and the range and potential implications of possible political, regulatory, economic and market outcomes are difficult to predict. The world's securities markets may be significantly disrupted and adversely affected by the withdrawal. Substantial government interventions (e.g., currency controls) also could negatively impact an Account. War, terrorism, economic uncertainty, and related geopolitical events have led, and in the future may lead, to increased short-term market volatility and may have adverse long-term effects on U.S. and world economies and markets generally. Likewise, natural and environmental disasters, such as the earthquake and tsunami in Japan in early 2011, epidemics or pandemics, such as the COVID-19 outbreak which began in late 2019, and systemic market dislocations of the kind surrounding the insolvency of Lehman Brothers in 2008, have been highly disruptive to economies and markets, adversely affecting individual companies and industries, securities markets, interest rates, credit ratings, inflation, investor sentiment, and other factors affecting the value of an Account's investments. During such market disruptions, an Account's exposure to the risks described elsewhere in this Appendix 2 will likely increase. Market disruptions, including sudden government interventions, can also prevent an Account



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from implementing its investment strategies and achieving its investment objective. To the extent an Account has focused its investments in the stock index of a particular region, adverse geopolitical and other events in that region could have a disproportionate impact on the Account. The transmission of COVID-19 and efforts to contain its spread have resulted in, among other things, border closings and other significant travel restrictions and disruptions, significant disruptions to business operations, supply chains and customer activity, lower consumer demand for goods and services, event cancellations and restrictions, service cancellations, reductions and other changes, significant challenges in healthcare service preparation and delivery, and prolonged quarantines, as well as general concern and uncertainty. The impact of the COVID-19 outbreak could negatively affect the global economy, the economies of individual countries, and the financial performance of individual issuers, sectors, industries, asset classes, and markets in significant and unforeseen ways. The COVID-19 pandemic and its effects may be short term or may last for an extended period of time, and in either case could result in significant market volatility, exchange trading suspensions and closures, declines in global financial markets, higher default rates, and a substantial economic downturn or recession. The foregoing could disrupt the operations of an Account and its service providers, adversely affect the value and liquidity of an Account's investments, and negatively impact the Account's performance.

**Market Risk:** The market values of securities will fluctuate, sometimes sharply and unpredictably, based on overall economic conditions, governmental actions or intervention, market disruptions caused by trade disputes or other factors, political developments, and other factors. Changes in the financial condition of a single issuer can impact a market as a whole. In addition, data imprecision, technology malfunctions, operational errors, and similar factors may adversely affect a single issuer, a group of issuers, an industry, or the market as a whole. Prices of equity securities tend to rise and fall more dramatically than those of debt securities. A slower-growth or recessionary economic environment could have an adverse effect on the prices of the various securities held by an Account. Economies and financial markets throughout the world are becoming increasingly interconnected, which raises the likelihood that events or conditions in one country or region will adversely affect markets or issuers in other countries or regions.

The increasing popularity of passive index-based investing may have the potential to increase security price correlations and volatility. As passive strategies generally buy or sell securities based on inclusion and representation in an index, securities prices may have an increasing tendency to rise or fall based on whether money is flowing into or out of passive strategies rather than based on an analysis of the prospects and valuation of individual securities.

**Micro-Cap, Small, and Mid-Sized Company Risk:** Investments in microcap, small, and mid-sized companies may involve greater risks than investments in larger, more established companies. As compared to larger companies, micro-cap, small, and mid-sized companies may have limited management experience or depth, limited ability to generate or borrow capital needed for growth, and limited products or services, or operate in less established markets. Accordingly, securities of micro-cap, small, and mid-sized companies tend to be more sensitive to changing economic, market, and industry conditions and tend to be more volatile and less liquid than equity securities of larger companies, especially over the short term. The securities of micro-cap, small, and mid-sized companies tend to trade less frequently than those of larger, more established companies, which can adversely affect the pricing of these securities and the ability to sell these securities in the future. Micro-cap, small, and mid-sized companies also may fall out of favor relative to larger companies in certain market cycles, causing an Account to incur losses or underperform.

**State and Territory Risk:** From time to time, an Account may be more exposed to risks affecting a particular state, territory (such as Puerto Rico), municipality, or region. As a result, adverse economic, political, and regulatory conditions affecting a single state, territory, municipality, or region (and their political subdivisions, agencies, instrumentalities, and public authorities) can disproportionately affect an Account's performance. For example, Puerto Rico has experienced difficult financial and economic conditions in recent years, which may negatively affect the value of an Account's holdings in Puerto Rico municipal securities. An Account that is more heavily invested in Puerto Rico municipal securities will have increased exposure to this risk. The values of municipal bonds fluctuate due to economic or political policy changes, tax base erosion, state constitutional limits on tax increases, budget deficits and other financial difficulties, changes in the credit ratings assigned to the state's municipal bond issuers, environmental events, and similar conditions and developments impacting the ability of municipal bond issuers to repay their obligations. Such conditions and developments can change rapidly.

**Taxability Risk:** There is a risk that a bond purchased by an Account that was issued as tax-exempt may be reclassified by the IRS as taxable (for example, if the bond was issued in a transaction deemed by the IRS to be abusive), creating taxable rather than tax-exempt income. Furthermore, future legislative, administrative, or court actions could adversely impact the qualification of income from tax-exempt securities as tax-free. Such reclassifications or actions could (i) subject you to increased tax liability, possibly retroactively, and/or (ii) cause the value of a security to decline. From time to time, proposals have been introduced before Congress for the purpose of restricting or eliminating the federal income tax exemption for interest on certain types of municipal bonds. Additionally, certain other proposals have been introduced that would have the effect of taxing a portion of exempt



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interest and/or reducing the tax benefits of receiving exempt interest. These legal uncertainties could affect the municipal bond market generally, certain specific segments of the market, or the relative credit quality of particular securities.

**When-Issued or Forward Transactions.** When-issued or forward transactions involve a commitment by an Account to purchase securities, with settlement to take place in the future. When issued purchases and forward transactions are negotiated directly with the other party, and such commitments are not traded on exchanges. The value of fixed income securities to be delivered in the future will fluctuate as interest rates vary. Securities purchased or sold on a when-issued or forward commitment basis involve a risk of loss if the value of the security to be purchased declines before the settlement date or if the value of the security to be sold increases before the settlement date.

An Account may purchase new issues of municipal bonds, which generally are offered on a when-issued basis, with delivery and payment normally taking place approximately one month after the purchase date. However, the payment obligation and the interest rate to be received by an Account are each fixed on the purchase date.