

## FORM ADV PART II

# NEXANNUITY ASSET MANAGEMENT, L.P.

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300 Crescent Court  
Suite 700  
Dallas, Texas 75201  
214-276-6300

This brochure provides information about the qualifications and business practices of NexAnnuity Asset Management, L.P., an investment adviser registered with the Securities and Exchange Commission. If you have any questions about the contents of this brochure, please contact us at [compliance@nexannuity.com](mailto:compliance@nexannuity.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about NexAnnuity Asset Management, L.P. is also available at the Securities and Exchange Commission's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Our registration as an investment adviser does not imply any level of skill or training.

## **ITEM 2. MATERIAL CHANGES**

Not applicable.

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## **ITEM 4. ADVISORY BUSINESS**

NexAnnuity Asset Management, L.P. (“NexAnnuity Asset Management”, “NAM”, “Advisor”, “we” or “us”) is an investment adviser registered with the SEC. NAM was formed in January 2021, and we provide investment advice to our affiliated insurance company, Ohio State Life Insurance Company (“OSLIC”). We primarily invest in fixed and variable rate fixed income instruments for OSLIC’s general account in accordance with the Texas Insurance Code and the Investment Management Agreement (“IMA”).

### **OWNERSHIP**

NexAnnuity Holdings, Inc., (“NexAnnuity”) a holding company which is indirectly owned by James Dondero, is the principal owner of NexAnnuity Asset Management, L.P.

### **TYPES OF ADVISORY SERVICES**

NAM provides investment management services to our affiliated insurance company, OSLIC, a U.S. institutional client. As an adviser, NAM generally has discretionary authority to determine which investments are bought and sold and the amounts of such investments that are appropriate for each client. Limitations on NAM’s authority, if any, are set forth in the applicable regulatory and governing documents or IMA. NAM does not plan to have retail clients.

### **TAILORING SERVICES**

We tailor our investment advice to the needs of our clients and would be subject to applicable investment restrictions set forth in the governing documents or IMA for the applicable client.

## **ITEM 5. FEES AND COMPENSATION**

We expect to receive compensation from our clients in the form of fees which may be based on a percentage of assets under management.

**ITEM 6. PERFORMANCE-BASED FEES AND  
SIDE-BY-SIDE MANAGEMENT**

Not applicable.

## ITEM 7. TYPES OF CLIENTS

The Adviser primarily serves the following:

**INSURANCE COMPANIES:** NAM provides investment advisory services to our affiliated insurance company, Ohio State Life Insurance Company. NAM may provide advisory service to other affiliated and non-affiliate insurance companies as well as advise on other insurance assets.

## ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES, AND RISK OF LOSS

The items below are types of investment strategies we currently utilize although we may add or subtract from this list based on various factors including macro-economic conditions.

### INVESTMENT STRATEGY

**High Grade:** High-grade strategy, which is comprised of primarily corporate, but also sovereign, investment grade issues. The primary objective of the bulk of the high-grade strategy is to obtain as high a level of current interest income as is consistent with preservation of invested capital and active management of portfolio assets. The objective can also be achieved through construction of a portfolio that is diversified by type, quality, industry/sector, and maturity.

**Bank Loan Strategy:** NAM's bank loan strategy seeks to generate attractive absolute returns by opportunistically making investments across the capital structure, with a core focus in senior secured bank loans. The bank loan strategy is long-biased and U.S. focused, but has the ability to invest in Canada and Europe.

**Floating Rate Loan Strategy:** This strategy seeks to achieve its objective by investing in a portfolio in adjustable rate senior loans, the interest rates of which float or vary periodically based upon a benchmark indicator of prevailing interests rates, to domestic or foreign corporations, partnerships and other entities that operate in a variety of industries and geographic regions. The strategy may invest all or substantially all of its assets in senior loans that are rated below investment grade and unrated senior loans of comparable quality. This strategy may also include investments in (i) high quality, short-term debt securities; (ii) warrants, equity securities and junior debt securities; (iii) senior loans of foreign issuers that are foreign currency denominated; and (iv) senior loans the interest rate of which are fixed and do not float.

**Structured Products:** The dedicated and experienced structured product team focuses on analysis and investment into structured instruments, issued by unaffiliated third-party issuers. Security selection is made based on credit worthiness of the issuer, analysis of the specific instrument, maturity, and other related risks.

### METHOD OF ANALYSIS

NAM's investment process begins with business line inputs regarding the individual insurance business and projected cash flows. This information is combined with market projections from OSLIC to construct an investment plan.



NAM utilizes both fundamental and technical analysis methods. Our investment philosophy is rooted in a value-oriented, long-term approach, which combines bottom-up research with top-down technical market analysis. Our analysts follow a rigorous and time-tested bottom-up credit analysis for each credit we manage. We have also devised and applied an institutionalized process of credit evaluation and approval, via our Investment Committee, and have built a dedicated experienced restructuring team that has been integrated into NexPoint Advisors, L.P. investment process.

NAM's self-discipline is largely enforced by the ongoing monitoring of individual credit names by the responsible analyst and his or her supervisor.

Other sources of information include obtaining and reviewing due diligence packages prepared by debt issuers and underwriters of institutional private placements and meetings with management of issuers.

Our investment approach combines our management team's experience with a structure that emphasizes thorough market research, local market knowledge, underwriting discipline, and risk management in evaluating potential investments.

#### **MATERIAL RISKS OF SIGNIFICANT STRATEGIES AND METHODS OF ANALYSIS:**

In this section we've summarized some of the material risks of our expected investment strategy and methods of analysis. More complete information about specific risks associated with an investment in an Insurance Fund will be provided in detail in the governing documents for the applicable client. All methods of investments involve risk of loss including risk that an investor will lose the entire value of their investment. No guarantee or representation is made that our investment program will be successful, and investment results may vary substantially over time.

#### ***Investment Strategy and Client Account Risks***

The investment strategy and client account specific risk factors discussed below provide a general description of the nature of various risks a client may be exposed to as a result of pursuing strategies managed by NAM. Investing involves risk of loss that clients should be prepared to bear. Past performance does not guarantee future results. Clients are likely to be exposed to additional risks not described herein. The following list of risks factors do not purport to be a complete enumeration or explanation of the risks involved in an investment in any or all of the strategies of NAM. Clients and prospective clients are advised to review the most current prospectus and statement of additional information, offering documents or private placement memorandum for a complete and in-depth description of the applicable investment strategies, objectives, and risks.

### ***Asset Allocation Risk***

Although allocation among different asset classes is generally intended to limit exposure to risks associated with any one class, the risk remains that NAM may favor an asset class that performs poorly relative to the other asset classes. It is also possible that particular investments NAM selects within a given asset class may perform less favorably than other securities in that class. NAM could also be incorrect in its analysis of economic trends, countries, industries, companies, the relative attractiveness of asset classes or other matters, which may result in asset allocation decisions that detract from investment performance for a given account.

### ***Concentration Risk***

To the extent that a fund-of-funds managed by NAM invests a significant portion of its assets in a single underlying fund, it will be particularly sensitive to the risks associated with that underlying fund. Changes in the value of that underlying fund may have a significant effect on the net asset value of the fund-of funds. Similarly, the extent to which an underlying fund invests more than 25% of its assets in a single industry or economic sector may also adversely impact the fund of funds depending on its level of investment in that underlying fund.

### ***Conflicts of Interest***

Potential conflicts of interest situations could occur. For example, NAM may be subject to potential conflicts of interest in selecting underlying funds for its fund-of-funds clients because its affiliates may charge higher fees for managing some underlying funds than for other underlying funds. This potential conflict would be more pronounced where NAM has an opportunity to allocate fund of fund assets to an underlying fund managed by an affiliate, on the one hand, and an underlying fund managed by a third party, on the other. In addition, NAM' portfolio managers may also serve as portfolio managers to one or more underlying funds that its fund-of-fund clients invest in and may have an incentive to select certain underlying funds due to compensation considerations. Moreover, a situation could occur where proper action for the fund-of-funds could be averse to the interest of an underlying fund or vice versa. For example, NAM could face a potential conflict in the management of a fund-of-funds if an underlying fund managed by an affiliate was performing less favorably than a similar fund managed by a third party from which an affiliate would receive no fee income. NAM has a fiduciary duty to its clients to act in the best interest of its clients in selecting underlying funds. In this regard, NAM has established policies and procedures that seek to balance its duties to its fund-of-funds clients and to the underlying funds in its ongoing management of the fund-of-funds' investment portfolios. In addition, where consistent with its duties to the funds of funds, these policies and procedures also seek to manage any potential material adverse effects that might result from a fund-of-funds' investments in an underlying fund.

### ***Active Management Risk***

The portfolio manager's judgments about the value or potential appreciation of an investment may prove to be incorrect or fail to have the intended results, which could adversely impact the strategy's performance and cause it to underperform relative to other strategies with similar goals or relative to its benchmark, or not to achieve its investment objective.

### ***Market and Regulatory Risk***

Events in the financial markets and in the economy could cause volatility and uncertainty and may affect performance. Due to the interdependencies between markets, events in one market may adversely impact other markets or issuers in unforeseen ways which may be damaging to a strategy's performance. Illiquid investments may experience periods of reduced liquidity. During a general downturn in the financial markets, multiple asset classes could decline simultaneously. Governmental and regulatory actions may impair portfolio management and have unexpected consequences on particular markets, strategies, or investments. Future market or regulatory events may impact a strategy in unforeseen ways.

### ***Credit Risk***

The risk that an issuer or guarantor of a debt instrument is unable or unwilling to meet its financial obligations. The credit quality of a portfolio's securities can change rapidly in certain market environments, particularly during volatile markets, and the default of a single holding could cause significant deterioration of a portfolio's value. A debt instrument's issuer (or borrower or counterparty to a repurchase agreement or reverse repurchase agreement) may not be able to meet its financial obligations (e.g., may not be able to make principal and/or interest payments when they are due or otherwise default on other financial terms) and/or may go bankrupt. Even though certain securities (such as loans) may be collateralized, there is no assurance that the liquidation of any collateral would satisfy interest and/or principal payments due to the portfolio on such securities, or that collateral could be easily liquidated in the event of a default. Such collateral may be difficult to identify and/or value, and if the value of the underlying collateral depreciates, recovery upon default may be difficult to realize. Non-investment grade debt instruments are especially subject to credit risk during periods of economic uncertainty or during economic downturns, are considered to be mostly speculative in nature and are more likely to default on their interest and/or principal payments than higher rated securities.

### ***Fixed-Income Investments Risk***

The value of fixed income securities will change as the general levels of volatility in the marketplace and interest rates fluctuate. When interest rates decline, the value of fixed rate and fixed-income securities can be expected to rise. Conversely, when interest rates rise, the value of such securities can be expected to decline. Investments in lower rated or unrated fixed-income securities, while generally providing greater opportunity for gain and income than investments in higher rated securities, usually entail greater risk. In addition, the absence of an active and liquid trading market, issuer ratings downgrades,

macroeconomic or systemic events, and other factors may negatively impact the value of certain fixed income investments.

### ***High-Yield Securities Risk***

High yield securities are typically issued by companies that are highly leveraged, less creditworthy or financially distressed and are considered to be mostly speculative in nature (high risk), are potentially less liquid, and have a greater risk of loss, that is they are more likely to default than higher rated securities.

### ***Technology and Cyber Security***

NAM is dependent on information technology, telecommunication and other operational systems, including both proprietary or internal systems and systems used or provided by third-party service providers (e.g., administrators, custodians, financial intermediaries, transfer agents and other parties to which we or they outsource the provision of services or business operations). These systems may become disabled or fail to operate properly as a result of events or circumstances wholly or partly beyond our or their control. Further, despite implementation of a variety of risk management and security measures, our information technology and other systems, and those of service providers, could be subject to unauthorized access or other security breaches, resulting in a failure to maintain the security, availability, integrity and confidentiality of data assets. In addition, NAM or its third-party service providers may process, store or transmit electronic information, including information relating to the transactions and personally identifiable information. NAM has procedures and systems in place to protect such information and prevent data loss and security breaches. However, such measures cannot provide absolute security. The techniques used to obtain unauthorized access to data, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time. Moreover, third-party service providers of NAM are subject to the same electronic information security threats as NAM. If a service provider fails to adopt or adhere to adequate data security policies, or in the event of a breach of its networks, information relating to the transactions of clients and personally identifiable information may be lost or improperly accessed, used or disclosed. Technology failures or cyber security breaches, whether deliberate or unintentional, including those arising from use of third-party service providers, could have a material adverse effect on our business and could result in, among other things, financial loss, reputational damage, regulatory penalties or the inability to transact business.

### ***Risk of Loss***

All investments involve a risk loss, even in circumstances where measures are taken for the purpose of mitigating that risk.

## **ITEM 9. DISCIPLINARY INFORMATION**

We are required to disclose disciplinary issues, per SEC guidelines if we have any. We have none to disclose.

## ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

NAM and its advisory affiliates manage various strategies and some strategies are managed by more than one adviser. For this reason, certain Clients of NAM (or Clients of NAM's advisory affiliates) may be referred to and enter into advisory agreements with such affiliated adviser. Neither NAM nor its advisory affiliates charge a fee for such referral.

### BROKER-DEALER, BANKING, AND CONSULTING AFFILIATES

Mr. Dondero indirectly owns a majority interest in NexBank Capital, Inc., whose wholly owned subsidiaries include NexBank Securities, Inc. (also doing business as NexBank Capital Advisors) ("NexBank Securities"), and NexBank. Certain employees of NAM's owner, NexAnnuity, including James Dondero, may serve on the Board of Directors of NexBank. Additional entities operating under NexBank Capital, Inc. also perform consulting, title insurance and property management services.

#### *NexBank Securities, Inc.*

NexBank Securities is a registered broker-dealer and a Member of FINRA/SIPC. It may provide distribution assistance in connection with the sale or placement of funds managed by its affiliates.

#### *NexBank*

NexBank, a Texas state-chartered bank, is an affiliate of NexAnnuity and may, from time to time, provide banking and agency services to portfolio companies in which Client Accounts may be invested. Client Accounts and portfolio companies may invest in assets originated by, or enter into loans, borrowings and/or financings with NexBank, including in primary or secondary transactions. These services generally may result in compensation to NexBank in various forms, including administrative agent fees, structuring fees, origination and syndication fees, and assignment fees. As a result, we have an incentive to select, or attempt to influence the selection of, NexBank for such services. Fees are charged at rates competitive with those offered by third parties. NAM may also refer Client Accounts or controlled investments to NexBank for banking services. NexBank may charge its customary fees for the provision of such banking services.

To the extent permitted by applicable law, NexBank, may sell or offer participations to NAM Accounts in a variety of commercial loans for which NexBank will receive compensation.

*NexPoint Securities, Inc.*

NexPoint Securities, Inc., a SEC-registered broker dealer and a Member of FINRA/SIPC, is under common control through James Dondero's indirect ownership of NexPoint Securities, Inc. It may provide distribution assistance in connection with the sale or placement of funds and insurance products managed by its affiliates.

INVESTMENT ADVISER AFFILIATES

A related person of NAM is the general partner of a number of other collective investment vehicles organized as partnerships including those managed by the following affiliated investment advisers:

*Highland Capital Management Fund Advisors, L.P. ("HCMFA")*

HCMFA a SEC-registered investment adviser, is under common control with us because James Dondero controls HCMFA as general partner.

Additionally, HCMFA serves as advisor or sub-advisor to investment companies registered under the Investment Company Act of 1940, as amended.

*NexPoint Advisors, L.P.*

NexPoint Advisors, L.P., a SEC-registered investment adviser, is under common control with us because James Dondero controls the NexPoint Advisors, L.P. general partner.

*NexPoint Real Estate Advisors VII, L.P.*

NexPoint Real Estate Advisors VII, L.P., a SEC-registered investment adviser, is under common control with us because James Dondero controls the NexPoint Real Estate Advisors VII, L.P. general partner.

*NexPoint Insurance Solutions, L.P.*

NexPoint Insurance Solutions, L.P., a SEC-registered investment adviser, is under common control with NexPoint because James Dondero controls the NexPoint Insurance Solutions, L.P. general partner.

*NexAdvisors, LLC.*

NexAdvisors, LLC, a SEC-registered investment adviser, is under common control with us because James Dondero controls the NexAdvisors, LLC general partner.

Stephanie Vitiello is the Chief Compliance Officer of Highland Capital Management Fund Advisors, L.P., NexPoint Advisors, L.P., and NexPoint Real Estate Advisors VII, L.P. Eric Holt is the Chief Compliance Officer of NexBank Securities, Inc., , NexPoint Securities, Inc., NexPoint Insurance Solutions, L.P. and NexAnnuity Asset Management, L.P.

#### INSURANCE COMPANY AFFILIATES

Highland Capital Management Services, Inc. is an affiliate of NexAnnuity and parent company of Governance Re Ltd., a captive insurance agency issuing directors & officers' liability insurance and employment practice liability insurance to its affiliates, and their respective portfolio companies. NexVantage Title Services is a title insurance company affiliated with NexBank and NexAnnuity, which may provide title insurance with respect to real property investments owned by Client Accounts or their portfolio companies. A conflict of interest exists since these entities receive premiums from portfolio companies and/or Client Accounts. As a result, NexAnnuity is incentivized to choose these affiliates to provide these services over a third party even though such party's services may be better suited for the company. Other NexAnnuity affiliates may provide insurance related products or services from time to time to Clients and/or portfolio companies and receive arm's length fees for such services. See "Conflicts of Interest," in the section titled Code of Ethics, Participation of Interest in Client Transactions and Personal Trading. In addition, NexAnnuity Asset Management, L.P., a related advisor, provides advisory services to an affiliated insurance company, Ohio State Life Insurance Company.

#### INDEPENDENT BUSINESS ENTITIES

Employees, including the owners, of NexAnnuity also own personal interests in a variety of independent business entities. A conflict of interest exists due to the potential for the owners' personal relationships and financial interests to conflict with our Client's interests.

#### BUSINESS ACTIVITIES WITH PORTFOLIO COMPANIES

Information regarding potential conflicts of interest arising from relationships and activities with its affiliates is provided in the section titled Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.



## **ITEM 11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

We maintain a policy of strict compliance with the highest standards of ethical business conduct and the provisions of applicable federal securities laws, including rules and regulations promulgated by the SEC, and has adopted policies and procedures described in its Code of Ethics. The Code of Ethics applies to each employee of NexAnnuity, its affiliates and any other “access person” as defined under the Advisers Act. It is designed to ensure compliance with legal requirements of NAM’s standard of business conduct.

A complete copy of NAM’s Code of Ethics is available to any client or prospective client upon request.

### **STANDARDS OF CONDUCT**

NAM and its access persons are expected to comply with all applicable federal and state laws and regulations. Access persons are expected to adhere to the highest standards of ethical conduct and maintain confidentiality of all information obtained in the course of their employment and bring any risk issues, violations, or potential violations to the attention of the Chief Compliance Officer. Access persons are expected to deal with clients fairly and disclose any activity that may create an actual or potential conflict of interest between them and NAM or client.

### **ETHICAL BUSINESS PRACTICES**

Falsification or alteration of records or reports, also known as a prohibited financial practice, or knowingly approving such conduct is prohibited. Payments to government officials or employees are prohibited except for political contributions approved by our Chief Compliance Officer. We seek to outperform our competition fairly and honestly and seek competitive advantages through greater performance not illegal or unethical dealings. Access persons are strictly prohibited from (i) participating in online blogging and communication with the media, unless approved by the Chief Compliance Officer or the Compliance Department, and (ii) spreading of false rumors pertaining to any publicly traded company.

### **CONFIDENTIALITY**

Employees must maintain the confidentiality of NAM’s proprietary and confidential information and must not disclose that information unless the necessary approval is obtained. NAM has a particular duty and responsibility, as investment adviser, to safeguard client information. Information concerning the identity and transactions of investors is confidential, and such information will only be disclosed to those employees and outside parties who need to know it in order to fulfill their responsibilities.

## GIFT AND ENTERTAINMENT POLICY

Access persons are permitted, on occasion, to accept gifts and invitations to attend entertainment events. When doing so, however, employees should always act in our best interests and that of our clients and should avoid any activity that might create an actual or perceived conflict of interest or impropriety in the course of our business relationship. Under no circumstances may (i) gifts of cash or cash equivalents be accepted or (ii) may any gifts be received in consideration or recognition of any services provided to or transactions entered into by, clients.

## PERSONAL TRADING

### *Personal Trading Policy*

Access persons are allowed to trade reportable securities during designated time periods, however all transactions in reportable securities other than ETFs must be pre-approved by the Chief Compliance Officer or his/her designee. Except in very limited circumstances approved by the Chief Compliance Officer, access persons are not permitted to trade any security of which we or a client own any portion of the capital structure or that is on our restricted list without permission. Access persons who violate the personal trading policy are reprimanded in accordance with the sanctions provisions outlined in the Code of Ethics. Personal securities transactions are reviewed by the Chief Compliance Officer or his/her designee for compliance with the personal trading policy and applicable SEC rules and regulations.

### *Prohibition against Insider Trading*

NAM forbids any access person from trading, either personally or on behalf of others, including clients advised by NAM, on material non-public information or communicating material non-public information to others in violation of the law or duty owed to another party. This conduct is frequently referred to as “insider trading”. The concepts of material non-public information, penalties for insider trading, and processes for identifying insider trading are addressed in detail in the Compliance Manual and Code of Ethics.

### *Reporting Requirements*

In compliance with SEC rules, access persons are required to disclose all of their personal brokerage accounts and holdings within 10 days of initial employment with NAM or its affiliates, within 10 days of opening a new account, and annually thereafter. Additionally, the last day of the month following each quarter-end, all access persons must report all transactions in reportable securities over which the access person had any direct or indirect beneficial ownership. Access persons are also required annually to affirm all reportable transactions from the prior year.

## POTENTIAL CONFLICTS

NAM, its affiliates and their respective officers, directors, trustees, stockholders, members, partners and employees and their respective funds and investment accounts (collectively, the “Related Parties”) engage in a broad range of activities, including activities for their own account and for the accounts of Clients. This section describes various potential conflicts that may arise in respect of the Related Parties, as well as how we address such conflicts of interest. The discussion below does not describe all conflicts that may arise.

Any of the following potential conflicts of interest will be discussed and resolved on a case by case basis. Our determination as to which factors are relevant, and the resolution of such conflicts, will be made using our best judgment, but in our sole discretion. In resolving conflicts, we will take into consideration the interests of the relevant Clients, the circumstances giving rise to the conflict and applicable laws. Certain procedures for resolving specific conflicts of interest are set forth below.

### *Allocation of Investment Opportunities*

NAM, together with its affiliated advisors (the “Related Advisors”), acts as investment adviser to Clients that have similar investment objectives and pursue similar strategies. Certain investments identified by the Related Advisors may be appropriate for multiple Clients. Investment decisions for such Clients are made by the applicable Related Advisors in their best judgment, but in their discretion, taking into account such factors as they believe relevant. Such factors may include investment objectives, regulatory restrictions, current holdings, availability of cash for investment, the size of investments generally, risk-return considerations, tax consequences, and limitations and restrictions on a Client’s Account that are imposed by such Client. In addition, if it is fair and reasonable that certain Clients are fully filled of their appetite before others (e.g., for tax considerations, to avoid de minimis partial allocations, to cover or close out an existing position to mitigate risk or losses, etc.), then these Clients may receive full or disproportionate allocations, with the remaining amounts allocated in accordance with normal procedures among the other participating Clients. One or more of the foregoing considerations in this paragraph may (and are often expected to) result in allocations among accounts other than on a pari passu basis. Accordingly, particular investment may be bought or sold for only one Client or in different amounts and at different times for more than one but less than all Clients, even though it could have been bought or sold for other Clients at the same time. Likewise, a particular investment may be bought for one or more Clients when one or more other Clients are selling the investment. In addition, purchases or sales of the same investment may be made for two or more Clients on the same date. There can be no assurance that a Client will not receive less (or more) of a certain investment than it would otherwise receive if the applicable Related Advisors did not have a conflict of interest among Clients.

In effecting transactions, it is not always possible, or consistent with the investment objectives of the Related Advisors' various Clients, to take or liquidate the same investment positions at the same time or at the same prices. Certain investment restrictions may limit the Related Advisors' ability to act for a Client and may reduce performance. Regulatory and legal restrictions (including restrictions on aggregated positions) may also restrict the investment activities of the Related Advisors and result in reduced performance.

The Related Advisors seek to manage and/or mitigate these potential conflicts of interest described by following procedures with respect to the allocation of investment opportunities their Clients, including the allocation of limited investment opportunities. Our allocation policy is based on a fundamental desire to treat each Client Account fairly over time.

#### *Investment Negotiation*

In order to ensure compliance with Section 17(d) under the Investment Company Act whenever an investment professional proposes to negotiate a term other than price for an investment (including any amendments), he/she must check to see if the investment (or any other position in the issuer's capital structure) is held (or proposed to be invested) in any retail accounts of our advisory affiliates.

If the investment is held in any retail accounts, that person must contact the Chief Compliance Officer for guidance.

- (i) The transaction is generally permitted if all accounts are in the same part of the capital structure and participate in the investment pro rata
- (ii) Alternatively, impose "Chinese Wall" between retail/institutional investment decision-making

One person can negotiate, provided final investment decision still made separately.

May also consult outside counsel and/or the retail board for guidance.

#### *Capital Structure Conflicts*

Conflicts will arise in cases when Clients of the Related Advisors invest in different parts of an issuer's capital structure, including circumstances in which one or more Clients own private securities or obligations of an issuer and other Clients may own public securities of the same issuer. In addition, one or more Clients may invest in securities, or other financial instruments, of an issuer that are senior or junior to securities, or financial instruments, of the same issuer that are held by or acquired for, one or more other Clients. If such issuer encounters financial problems, decisions related to such securities (such as over the terms of any workout or proposed waivers

and amendments to debt covenants) will raise conflicts of interests. For example, a Client holding debt securities of the issuer may be better served by a liquidation of the issuer in which it may be paid in full, whereas a Client holding equity securities of the issuer might prefer a reorganization that holds the potential to create value for the equity holders.

In the event of conflicting interests within an issuer's capital structure, the Related Advisors will generally pursue the strategy that reflects what would be expected to be negotiated in an arm's length transaction with due consideration being given to our fiduciary duties to each of our accounts (without regard to the nature of the fees received from such accounts):

- This strategy may be recommended by one or more investment professionals of the Related Advisors
- A single person may represent more than one part of an issuer's capital structure
- The recommended course of action will be presented to our Conflicts Committee for final determination as to how to proceed. We may elect, but are not required, to assign different teams to make recommendations for different parts of the capital structure as the Conflicts Committee determines in its discretion.
- It is acknowledged that the applicable retail portfolio manager will separately and independently make his or her decision on suitability as to the course of action for the applicable retail portfolio and will leave the Conflicts Committee meeting prior to the final determination being made by the Conflicts Committee.

The Related Advisors may elect, but are not required, to assign different teams to make recommendations for different parts of the capital structure as the Conflicts Committee determines in its discretion.

In the event any Related Parties serve on the Board of the subject company, they may recuse themselves from voting on transactions involving a capital structure conflict.

- Related Party board members may still make recommendations to the Conflicts Committee
- If any such persons are also on the Conflicts Committee, they may recuse themselves from the Committee's determination.

The Related Advisors may use external counsel for guidance and assistance.

The foregoing procedures are not applicable to the advisors to retail accounts, which advisors generally make their own independent determination as to the course of action that is most appropriate for the applicable retail accounts.

### *Position Conflicts*

Another type of conflict may arise if we cause one Client account of a Related Advisor to buy a security and another Client account to sell or short the same security. Currently, such opposing positions are generally not permitted within the same account without prior trade approval by the Chief Compliance Officer. However, a portfolio manager may enter into opposing positions for different Clients to the extent each such Client has a different investment objective and each such position is consistent with the investment objective of the applicable Client. In addition, transactions in investments by one or more affiliated Client accounts may have the effect of diluting or otherwise disadvantaging the values, prices or investment strategies of other Client accounts.

Generally, a Related Advisor does not purchase, sell or hold securities on behalf of Clients contrary to the current recommendations made to other affiliated Client accounts. However, because certain Client accounts may have investment objectives, strategies or legal, contractual, tax or other requirements that differ (such as the need to take tax losses, realize profits, raise cash, diversification, etc.), a Related Advisor may purchase, sell or continue to hold securities for certain Client accounts contrary to other recommendations. In addition, a Related Advisor may be permitted to sell securities or instruments short for certain Client accounts and may not be permitted to do so for other affiliated Client accounts.

### *Principal Trading*

The Related Advisors, through their ownership interest in certain Unregistered Investment Funds, may be deemed a *related person* of such entity. In situations where we determine that we are a *related person* by our ownership of greater than 25% of such entity, such fund is considered a “*Principal Account*.”

To the extent a Related Advisor wishes to trade an asset from a Client account to or from a Principal Account (a “Principal Cross Trade”), the SEC has stated that the Principal Cross Trade may only occur if the Client account on the other side from the Principal Account consents to the trade after a disclosure by the Related Advisor of all material facts. Our Compliance Manual sets forth procedures for executing both cross trades and principal cross trades.

### *Cross Trading*

In an effort to reduce transaction costs, increase execution efficiency, and capitalize on timing opportunities, we may execute cross trades, or sell a security for one affiliated Client to another affiliated Client, without interposing a broker-dealer. All cross trades are subject to the cross-trade procedures set forth in our Compliance Manual. Cross trades present an inherent conflict of interest because we and/or our

affiliates represent the interest of the buyer and seller in the same transaction. As a result, Clients involved in a cross-trade bear the risk that the price obtained from a cross trade may be less favorable than if the trade had been executed in the open market.

#### *Conflicts Related to Investment Activities*

The Related Advisors may buy or sell the same securities for an affiliate's account that they buy or sell for a Client or may pursue the same investment strategies for an affiliate's account as for a Client's. The Related Advisors also may receive greater management or performance-based fees or incentives in connection with managing certain Client accounts than from other Client accounts. In addition, if the Related Advisors allocate a Client's assets among pooled vehicles managed by the Related Advisors, they may have an incentive to allocate assets into vehicles that produce the greatest fees for the Related Advisors. Each of these situations give rise to a potential conflict of interest in the allocation of investment opportunities. In addition, the Related Advisors have an incentive to resolve conflicts of interest in favor of affiliated Clients over non-affiliated Clients. As previously described, the Related Advisors adopted trade allocation policies and procedures that seek to ensure fair and equitable access to investment opportunities for all accounts.

#### *Trade Aggregation*

In some circumstances, the Related Advisors may seek to buy or sell the same securities contemporaneously for multiple Client accounts. The Related Advisors may, in appropriate circumstances, aggregate securities trades for a Client with similar trades for other Clients but are not required to do so. In particular, the Related Advisors may determine not to aggregate transactions that relate to portfolio management decisions that are made independently for different accounts or if the Related Advisors determine that aggregation is not practicable, not required or inconsistent with Client direction. When transactions are aggregated and it is not possible, due to prevailing trading activity or otherwise, to receive the same price or execution on the entire volume of securities purchased or sold, the various prices may be averaged or allocated on another basis deemed to be fair and equitable. In addition, under certain circumstances, the Clients will not be charged the same commission or commission equivalent rates in connection with a bunched or aggregated order. The effect of the aggregation may therefore, on some occasions, either advantage or disadvantage any particular Client.

From time to time, aggregation may not be possible because a security is thinly traded or otherwise not able to be aggregated and allocated among all affiliated Client accounts seeking the investment opportunity or a Client may be limited in, or precluded from, participating in an aggregated trade as a result of that Client's

specific brokerage arrangements. Also, an issuer in which Clients wish to invest may have threshold limitations or aggregate ownership interests arising from legal or regulatory requirements or company ownership restrictions, which may have the effect of limiting the potential size of the investment opportunity and thus the ability of the applicable Client to participate in the opportunity.

### *Company Errors*

For the Company's Clients, the Company's responsibility for its trade errors is set forth in the governing documents for the relevant Client. No soft-dollars may be used to satisfy any trade errors. In addition, the Company may not use the securities in one Client's account to settle the trade error in another Client's account.

### *Conflicts Related to Valuation*

The Related Advisors may have a role in determining asset values with respect to Client accounts and may be required to price an asset when a market price is unavailable or unreliable. This may give rise to a conflict of interest because a Related Advisor may be paid an asset-based fee on certain Client accounts. In order to mitigate these conflicts, the Related Advisors determine asset values in accordance with valuation procedures, which generally are set forth in their applicable Compliance Manual.

### *Conflicts Related to Investments in Affiliated Funds*

The Related Advisors purchase for Client accounts interests in other pooled vehicles, including Structured Product Vehicles, Unregistered Investment Funds and Retail Funds, offered by Related Parties. Investment by a Client in such a vehicle means Related Parties receive advisory or other fees from the Client in addition to advisory fees charged for managing the Client's Account. The details of any possible fee offsets, rebates or other reduction arrangements in connection with such investments are provided in the documentation relating to the relevant Client account and/or underlying investment vehicle. In choosing between vehicles managed by Related Parties and those not affiliated with Related Parties, Related Parties may have a financial incentive to choose Related Parties-affiliated vehicles over third parties by reason of additional investment management, advisory or other fees or compensation Related Parties may earn. The potential for fee offsets, rebates or other reduction arrangements may not necessarily eliminate this conflict and Related Parties may nevertheless have a financial incentive to favor investments in Related Parties-affiliated vehicles. If the Related Advisors invest in an affiliated vehicle, a Client should not expect the Related Advisors to have better information with respect to that vehicle than other investors may have (and if the Related Advisors do have better information they may be prohibited from acting upon it in a way that disadvantages other investors).



Additionally, Related Parties may sponsor and manage funds and accounts that compete with the Related Advisors or make investment with funds sponsored or managed by third-party advisers that would reduce capacity otherwise available to the Related Advisors' Clients.

#### *Other Potential Conflicts*

Related Parties may provide services other than advice to a Client, including administration, organizing/managing business affairs, executing and reconciling trades, preparing financials and providing audit support, preparing tax documents, sales and investor relations support, and diligence and valuation services, for additional fees. A potential conflict arises in such circumstances because Related Parties are incentivized to favor its Clients that pay such additional fees. However, the individuals who provide advice to Clients do not provide these additional services.

The Related Advisors may cause a Client to purchase, sell or hold securities of issuers in which Related Parties make a market or has an equity, debt or other financial interest or securities of issuers or other investments in which Related Parties, their officers or employees or their affiliated broker-dealers and other Related Parties and their officers or employees have positions or other financial interests. For example, the Related Advisors may purchase on behalf of a Client unregistered securities for which an affiliate acts as placement agent, which may result in additional fees to the affiliate or assist the affiliate in meeting its contractual obligations. The Related Advisors may also cause a Client to borrow money from Related Parties, and the Related Parties may earn interest or fees on such transactions. Conflicts also may arise if the Related Advisors implement a portfolio decision or strategy (including a decision to hold an investment) for one Client ahead of, or contemporaneously with, another Client. Such transactions may have the effect of diluting or otherwise disadvantaging the values, prices or investment strategies of other Client accounts and could result in one Client receiving more favorable trading results or reduced costs at the expense of the other Client.

Related Parties may invest (or recommend that a Client invest) in securities issued by a Client and may hedge derivative positions by buying or selling securities issued by a Client. A potential conflict may arise in such circumstances because a Related Advisor may be incentivized to favor its Clients that issue securities, or such Clients of its affiliates, over other Clients. In addition to Clients, some of the Related Advisors' service providers are issuers of securities. The Related Advisors may determine that it is in the best interests of a Client to purchase securities issued by one of these entities. The Related Advisors have adopted policies and procedures designed to address conflicts of interest arising from the foregoing activities. Furthermore, it is the Related Advisors' general policy not to take into account the

fact that an issuer is a Client, service provider or vendor when making investment decisions.

Certain qualified employees and affiliates may invest in Clients either through general partner entities or as limited partners, shareholders or otherwise. The Related Advisors generally reduce or waive all or a portion of the management fee, performance-based fee related to the investments by such persons.

*Conflicts Related to Information Possessed by or Provided by the Related Advisors*

Certain Related Parties may receive or create information (*e.g.*, proprietary technical models) that is not generally available to the public. The Related Advisors have no obligation to provide such information to Clients or effect transactions for Clients on the basis of such information and in many cases the Related Advisors will be prohibited from trading for the same Clients based on the information. Similarly, some Clients may have access to information regarding Related Parties' transactions or views that is not available to other Clients, and may act on that information through accounts managed by persons other than Related Parties. Such transactions may negatively impact other Clients (*e.g.*, through market movements or decreasing availability or liquidity of securities). Additionally, our personnel or those of our advisory affiliates may from time to time serve on the board of directors of portfolio companies, and in such capacity may recommend investment opportunities to such companies.

*Conflicts Related to the Related Advisors' Relationships with Third Parties*

The Related Advisors may advise third-parties regarding valuation, risk management, transition management and potential restructuring or disposition activities in connection with proprietary or Client investments, which may create an incentive to purchase securities or other assets from those third parties or engage in related activities to bid down the price of such assets, which may have an adverse effect on a Client.

The Related Advisors may work with pension or other institutional investment consultants and such consultants may also provide services to the Related Advisors. Consultants may provide brokerage execution services to Related Parties and Related Parties may attend conferences sponsored by consultants. The Related Advisors also may be hired to provide investment management or other services to a pension or other institutional investment consultant that works with a Client, which may create conflicts.

Related Parties may in-source or out-source to third parties certain processes or functions, which may give rise to conflicts. There may be conflict when negotiating with third-party service providers if Related Parties bear operational expenses of

various Clients to the extent that a given fee structure would tend to place more expense on Clients for which Related Parties have a greater entitlement to reimbursement or less expense on Clients for which Related Parties have lesser (or no) entitlement to reimbursement. Related Parties may provide information about a Client's portfolio positions to unrelated third parties to provide additional market analysis and research to Related Parties and they may use such analysis to provide investment advice to other Clients.

Related Parties may purchase information (such as periodicals, conference participation, papers, surveys) from professional consultant firms, and such firms may have an incentive to give favorable evaluations of Related Parties to their Clients.

In selecting broker-dealers that provide research or other products or services that are paid with soft dollars, conflicts may arise between a Related Advisor and a Client because a Related Advisor may not produce or pay for these benefits but may use brokerage commissions generated by Client transactions. Soft dollar arrangements may also give a Related Advisor an incentive to select a broker-dealer based on a factor other than the Related Advisor's interest in receiving the most favorable execution. Conflicts of interest related to soft dollar relationships with brokerage firms may be particularly influential to the extent that a Related Advisor uses soft dollars to pay expenses it might otherwise be required to pay itself. Furthermore, research or brokerage services obtained using soft dollars or that are bundled with trade execution, clearing, settlement or other services provided by a broker-dealer may be used in such a way that disproportionately benefits one Client over another (*e.g.*, economics of scale or price discounts). For example, research or brokerage services paid for through one Client's commission may not be used in managing that Client's account. Additionally, where a research product or brokerage service has a mixed-use, determining the appropriate allocation of the product or service may create conflicts. Please refer to the section titled Brokerage Practices for information regarding the Related Advisors' use of soft dollars.

Conflicts may arise where a Related Advisor has the responsibility and authority to vote proxies on behalf of its Clients. Please refer to the section titled Voting Client Securities for information regarding the policies and procedures governing the Related Advisors' proxy voting activities.

Related Parties may serve on the boards of directors and/or investment committees of external organizations, including those organizations that are currently or may become Clients of Related Parties, and such service may present conflicts of interest to the extent the employee become aware of material non-public information and may be unable to initiate some transactions for other Clients while in possession of that information.

The Related Advisors may conduct business with institutions such as broker dealers or investment banks that invest, or whose Clients invest, in pooled vehicles sponsored or advised by the Related Advisors, or may provide other consideration to such institutions or recognized agents, and as a result the Related Advisors may have a conflict of interest in placing its brokerage transactions.

Related Parties may receive stock options from companies, the securities of which may be held in accounts of Related Parties' Clients, in exchange providing consulting work, including but not limited to, advisory services and financial services, for those companies.

#### *Other Accounts and Relationships*

As part of our regular business, NAM and its Related Parties hold, purchase, sell, trade or take other related actions both for their respective accounts and for the accounts of their respective Clients, on a principal or agency basis, subject to applicable law including Section 206(3) of the Advisers Act, with respect to loans, securities and other investments and financial instruments of all types. The Related Parties also provide investment advisory services, among other services, and engage in private equity, real estate and capital markets-oriented investment activities. The Related Parties will not be restricted in their performance of any such services or in the types of debt, equity, real estate or other investments which they may make. The Related Parties may have economic interests in or other relationships with respect to investments made by Clients. In particular, but subject to NAM's personal trading policy the Related Parties may make and/or hold an investment, including investments in securities, that may compete with, be pari passu, senior or junior in ranking to an, investment, including investments in securities, made and/or held by Clients or in which partners, security holders, members, officers, directors, agents or employees of such Clients serve on boards of directors or otherwise have ongoing relationships. Each of such ownership and other relationships may result in restrictions on transactions by Clients and otherwise create conflicts of interest for Clients. In such instances, the Related Parties may in their discretion make investment recommendations and decisions that may be the same as or different from those made with respect to Client investments, subject to the capital structure conflicts procedures discussed above. In connection with any such activities described above, but subject to NAM's personal trading policy the Related Parties may hold, purchase, sell, trade or take other related actions in securities or investments of a type that may be suitable for Clients. Subject to NAM's personal trading policy, the Related Parties will not be required to offer such securities or investments to Clients or provide notice of such activities to Clients. In addition, in managing Client portfolios, each of the Related Advisors may take into account its relationship or the relationships of its affiliates with obligors and their respective affiliates, which may create conflicts of interest. Furthermore, in connection with actions taken in the

ordinary course of business of the Related Advisors in accordance with their fiduciary duties to their other Clients, the Related Advisors may take, or be required to take, actions which adversely affect the interests of their Clients.

The Related Parties have invested and may continue to invest in investments that would also be appropriate for Clients. Such investments may be different from those made on behalf of Clients. No Related Advisor nor any Related Party has any duty, in making or maintaining such investments, to act in a way that is favorable to Clients or to offer any such opportunity to Clients, subject to NAM's allocation policy and personal trading policy. The investment policies, fee arrangements and other circumstances applicable to such other parties may vary from those applicable to Clients. Any Related Party may also provide advisory or other services for a customary fee with respect to investments made or held by Clients, and no stockholders nor Clients shall have any right to such fees except to the extent the governing documents of the applicable Client expressly provide otherwise. Any Related Party may also have ongoing relationships with, render services to or engage in transactions with other Clients, who make investments of a similar nature to those of Clients, and with companies whose securities or properties are acquired by Clients and may own equity or debt securities issued by Clients. In connection with the foregoing activities any Related Party may from time to time come into possession of material nonpublic information that limits the ability of the Related Advisors to effect a transaction for Clients, and Client investments may be constrained as a consequence of the Related Advisors' inability to use such information for advisory purposes or otherwise to effect transactions that otherwise may have been initiated on behalf of its Clients.

Although the professional staff of the Related Advisors will devote as much time to Clients as they deem appropriate to perform their duties, the staff may have conflicts in allocating its time and services among Client accounts.

The directors, officers, employees and agents of the Related Parties may, subject to applicable law, serve as directors (whether supervisory or managing), officers, employees, partners, agents, nominees or signatories, and receive arm's length fees in connection with such service, for Clients or any Related Party, or for any Client joint ventures or any affiliate thereof, and no Clients nor their stockholders shall have the right to any such fees except to the extent the governing documents of the applicable Client expressly provide otherwise.

The Related Parties serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as Clients, or of other investment funds managed by Related Advisors. In serving in these multiple capacities, they may have obligations to other Clients or investors in those entities, the fulfillment of which may not be in the best interests of Clients or their stockholders. Clients may compete

with other entities managed by Related Advisors for capital and investment opportunities.

There is no limitation or restriction on Related Advisors with regard to acting as investment manager (or in a similar role) to other parties or persons. This and other future activities of Related Parties may give rise to additional conflicts of interest. Such conflicts may be related to obligations that Related Advisor or their affiliates have to other Clients.

Certain Related Parties, including NexBank SSB and Governance Re among others, may provide banking, agency, insurance and other services to Clients and their operating affiliates for customary fees, and no Client, nor its subsidiaries will have a right to any such fees except to the extent the governing documents thereof expressly provide otherwise.

Related Advisors may direct Clients to acquire or dispose of investments in cross or principal trades involving Clients of the Advisory Parties in accordance with applicable legal and regulatory requirements as described above. In addition, Clients may make and/or hold an investment, including an investment in securities, in which Related Parties have a debt, equity or participation interest, and the holding and sale of such investments by Clients may enhance the profitability of Related Parties' own investments in such companies. Moreover, Clients and their operating affiliates may invest in assets originated by, or enter into loans, borrowings and/or financings with Related Parties, including but not limited to NexBank, including in primary and secondary transactions with respect to which Related Parties may receive customary fees from the applicable issuer, and no Client nor their subsidiaries shall have the right to any such fees except to the extent the governing documents of such Client expressly provide otherwise. In each such case, Related Parties may have a potentially conflicting division of loyalties and responsibilities regarding Clients and the other parties to such investment. Under certain circumstances, the Related Advisors may determine that it is appropriate to avoid such conflicts by selling an investment at a fair value that has been calculated pursuant to our valuation procedures to another fund managed or advised by the Related Advisors. In addition, the Related Advisors may enter into agency cross-transactions where it or any of its affiliates act as broker for Clients, to the extent permitted under applicable law.

Related Parties may act as an underwriter, arranger or placement agent, or otherwise participate in the origination, structuring, negotiation, syndication or offering of investments purchased by Clients. Such transactions are on an arm's-length basis and may be subject to arm's-length fees. There is no expectation for preferential access to transactions involving investments that are underwritten, originated, arranged or placed by Related Parties and no Client nor their stockholders shall have

the right to any such fees except to the extent the governing documents of such Client expressly provide otherwise.

*Material Non-Public Information*

There are generally no ethical screens or information barriers among the Related Advisors and certain of their affiliates of the type that many firms implement to separate persons who make investment decisions from others who might possess material, non-public information that could influence such decisions. If any Related Advisor, any of their personnel or affiliates were to receive material non-public information about an investment or issuer, or have an interest in causing a Client to acquire a particular investment, we may be prevented from causing the Client to purchase or sell such asset due to internal restrictions imposed on us. Notwithstanding the maintenance of certain internal controls relating to the management of material non-public information, it is possible that such controls could fail and result in the Related Advisors, or one of its investment professionals, buying or selling an asset while, at least constructively, in possession of material non-public information. In addition, while the Related Advisors and certain of their affiliates generally operate without information barriers on an integrated basis, such entities could be required by certain regulations, or decide that it is advisable, to establish information barriers. In such event, our ability to operate as an integrated platform could also be impaired, which would limit our access to personnel of our affiliates and potentially impair our ability to manage Client investments.

## ITEM 12. BROKERAGE PRACTICES

### BROKER-DEALER SELECTION

NAM has an obligation to obtain “best execution” for Client transactions considering the execution price and overall commission costs paid and certain other factors. Our trading desk routes orders to various broker-dealers for execution at their discretion. Where possible, we deal directly with the dealers who make a market in the securities involved, except in those circumstances where we believe better prices and execution are available elsewhere.

Factors involved in selecting brokerage firms include:

#### *Broker Specific*

- ❖ Size of broker
- ❖ Reputation
- ❖ Quality of service
- ❖ Experience
- ❖ Financial stability and creditworthiness
- ❖ Financial statements
- ❖ Regulatory filings
- ❖ Standing in financial community
- ❖ Ability to handle block trades
- ❖ Acceptable record of delivery and payment on past transactions
- ❖ Quality of research and investment information provided

#### *Transaction Specific*

- ❖ Best available execution
- ❖ Market knowledge regarding specific industries and securities
- ❖ Access to sources of supply or markets
- ❖ Nature of the market for the security



## THE APPROVAL PROCESS

The Registrant's trading desk is only allowed to trade with broker-dealers that are approved by our Brokerage Committee unless interim approval is expressly provided by the Compliance Department, in which case such approval shall be ratified by the Brokerage Committee at the next meeting of the Committee. New broker-dealers are added to Registrant's approved list of broker-dealers subject to a formal review process which closely analyzes all of the above-mentioned broker specific selection items. The Brokerage Committee reviews the requirements and determines what additional procedures or reporting are necessary.

## SOFT DOLLARS

NAM and its affiliates may engage in soft dollar activities. In those circumstances where more than one broker-dealer is able to satisfy our obligation to obtain best execution, NAM may place a trade order on behalf of Client Accounts with a broker-dealer that charges more than the lowest available commission cost or price. NAM may do this in exchange for certain brokerage and research services provided either directly from the broker-dealer or through a third party ("Soft Dollar Arrangements"), provided that each of the following is met:

❖ NAM determines:

1. The research or brokerage product or service constitutes an eligible brokerage or research service;
2. The product or service provides lawful and appropriate assistance in the performance of NAM's investment decision making responsibilities; and
3. In good faith the amount of Client commissions paid is reasonable in light of the value of the products or services provided.

❖ The brokerage or research is "provided by" a broker-dealer who participates in effecting the trade that generates the commission. NAM may not incur a direct obligation for research with a third-party vendor and then arrange to have a broker-dealer pay for that research in exchange for brokerage commissions.

❖ NAM may only generate soft dollars with commissions in agency transactions. NAM may not use dealer markups in principal transactions to generate soft dollars. In addition, a trade for a fixed income security or over-the-counter ("OTC") security may be done on an agency basis only if the trader determines that it would not result in a broker-dealer unnecessarily being inserted between NAM and the market for that security.

❖ No soft dollars are generated on accounts for which:

1. Investment discretion resides with the Client (i.e. non-discretionary accounts);

2. Client mandates restrict or prohibit the generation of soft dollar commissions;
3. The Client has a directed brokerage arrangement.

❖ The brokerage trade placed is for “securities” transactions (and not, for example, futures transactions).

Research services furnished by brokers through whom NAM effects securities transactions may be used in servicing all of NAM’s accounts, and not all such services may be used in connection with the accounts which paid commissions to the broker providing such services.

If a Client Account is under the custody of one brokerage firm and another brokerage firm is a selling group member for an underwriting syndicate, such a Client Account may not be able to participate in the purchase of securities in the underwriting because the custodial brokerage firm was not a selling group member. In addition, to the extent that a Client directs brokerage trades to be placed with a particular broker, the allocation of securities transactions may be impacted.

When NAM uses Client brokerage commissions (or markups or markdowns) to obtain research or other products or services, NAM receives a benefit because the firm does not have to produce or pay for research, products, or services. Consequently, NAM may have an incentive to select or recommend a broker-dealer based on our interest in receiving the research or other products or services, rather than Clients’ interest in receiving most favorable execution.

#### TRADE AGGREGATION

Orders of Clients may be combined (or “bunched”) when possible to obtain volume discounts resulting in a lower per share commission. Please see the section entitled Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading for additional information regarding NAM’s trade aggregation procedures.

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

### **ACCOUNT REVIEW**

All of our existing and potential investments are expected to be reviewed no less frequently than annually, by the portfolio management team, which consists of James Dondero, our President, and Bradford Heiss, EVP and CIO.

### **REPORTING**

We expect our clients to receive the periodic and or other reporting required under the Securities Act of 1933 and the Exchange Act of 1934, each as amended.

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

Not applicable.

## **ITEM 15. CUSTODY**

NAM does not act as custodian for Client assets. The Registrant's advisory fee for each client is debited by the custodian on a quarterly basis. Clients are provided, at least quarterly, with written transaction confirmation notices and regular written summary account statements directly from the broker-dealer/custodian and/or program sponsor for the client accounts, and we encourage clients to review those statements and compare them to any statements we provide. The Registrant may also provide a written periodic report summarizing account activity and performance.

## ITEM 16. INVESTMENT DISCRETION

We intend to manage OSLIC's general account on a discretionary basis. For a description of limitations imposed on our discretionary authority to manage securities, please see the section titled Our Advisory Business. Prior to assuming this authority, we entered into an advisory agreement with Ohio State Life Insurance Company pursuant to which we will be granted a power of attorney (subject to any limitations imposed by the Texas Insurance Code, the IMA and the board of directors).

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

### **SECURITIES HELD IN CLIENT ACCOUNTS**

NAM's proxy voting policy ensures proxies are voted on behalf of each client account's securities and in the best economic interests of such client, without regard to the interests of NAM or any other client of NAM. Portfolio Manager(s) of the applicable client account(s) evaluate the subject matter of each proxy and vote on behalf of the client account in accordance to the guidelines set forth in our proxy voting policy.

The client cannot direct proxy voting.

If the Portfolio Manager(s) determines that NAM may have a potential material conflict of interest in voting a proxy, the Portfolio Manager(s) will contact NAM's Compliance Department prior to the voting deadline. NAM also may determine not to vote proxies with respect to securities of any issuer if it determines it would be in its client's overall best interests not to vote.

### **OBTAINING A COPY OF THE POLICY**

Clients and prospective clients can obtain a copy of the proxy voting policy or information on how we voted proxies by contacting our Chief Compliance Officer at [compliance@nexannuity.com](mailto:compliance@nexannuity.com).

## **ITEM 18. FINANCIAL INFORMATION**

NAM does not charge or solicit pre-payment of more than \$1200 in fees per Client six or more months in advance.

There is no financial condition that is reasonably likely to impair our ability to meet contractual commitments to Clients.



## **ITEM 19. REQUIREMENTS FOR STATE-REGISTERED ADVISERS**

Not applicable.