

Piedmont Investment Advisors, LLC
Privacy Policy
Pursuant to SEC Regulation S-P

Piedmont Investment Advisors, LLC collects nonpublic personal information about you from the following sources:

- Information we receive from you on applications or other forms;
- Information about your transactions and other account information.

We do not disclose any nonpublic personal information about you to anyone, except as permitted by law.

Piedmont restricts access to your personal and account information to those employees who need to know that information to provide products or services to you. Piedmont Investment Advisors, LLC maintains physical, electronic and procedural safeguards to guard your nonpublic personal information. If you decide to close your account(s), we will continue to adhere to the privacy policies and practices as described in this notice.

If you have questions concerning Piedmont's privacy policy, please contact our Client Relations group at (919) 688-8600. We value your business and are committed to providing you with the highest level of service.

Form ADV Part 2A

Item 1 – Cover Page



Piedmont Investment Advisors, LLC

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Durham, NC 27701

919-688-8600

www.piedmontinvestment.com

March 28, 2013

This Brochure provides information about the qualifications and business practices of Piedmont Investment Advisors, LLC. If you have any questions about the contents of this Brochure, please contact us at (919) 688-8600. 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.

Piedmont Investment Advisors, LLC is a registered investment adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information that you use to determine to hire or retain an Adviser.

Additional information about Piedmont Investment Advisors, LLC also is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

On July 28, 2010, the United State Securities and Exchange Commission published “Amendments to Form ADV,” which amends the disclosure document that we provide to clients as required by SEC Rules.

Pursuant to these SEC rules, as part of our annual updating amendment, we are obligated to summarize material changes to our Brochure since our last annual update, filed on March 29, 2012. During 2012, Piedmont experienced the following material changes:

Piedmont’s CFO & former CCO and Piedmont’s Head of Business Development left the firm. The Corverus Strategic Equity Fund, an open-end registered investment company, closed; consequently, Piedmont no longer acts as an investment adviser to the Fund. In addition, Piedmont introduced a new equity product and re-named an existing equity product.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to current SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business’ fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting Dina Falzon, Director of Investor Services, at (919) 688-8600 or dfalzon@piedmontinvestment.com.

Additional information about Piedmont Investment Advisors, LLC is also available via the SEC’s web site www.adviserinfo.sec.gov. The SEC’s web site also provides information about any persons affiliated with Piedmont Investment Advisors, LLC who are registered, or are required to be registered, as investment adviser representatives of Piedmont Investment Advisor, LLC.

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Item 4 – Advisory Business

Piedmont Investment Advisors, LLC (Piedmont or the “Adviser”) was organized as a North Carolina Limited Liability Company on August 1, 2000. The business of the firm is asset management. It was created with a mission of operating a substantial investment management organization known for generating alpha on a consistent basis. Piedmont began managing tax-exempt funds in October 2000. The firm was registered as an Investment Adviser with the Securities and Exchange Commission on October 16, 2000. Piedmont had approximately \$3.424 billion in assets under management and 45 client accounts as of 12/31/12. Of that amount, \$3.32 billion was managed on a discretionary basis and approximately \$104.9 million on a non-discretionary basis.

On February 28, 2007, CalPERS, through their Manager Development Program II, purchased a 21.09% minority stake in Piedmont. As a result of this transaction, Piedmont employees’ ownership increased to 68.36%, and North Carolina Mutual Life Insurance Company, our early strategic partner, reduced its shares to 10.55%. Piedmont completed a buyback of North Carolina Mutual’s interest on November 30, 2010, thus increasing Piedmont’s employees’ ownership level to 76% and CalPERS’ ownership level to 24%. On April 28, 2011, Rosemont Partners II, L.P., a private equity fund of Rosemont Investment Partners, LLC, acquired a 30% interest in Piedmont. As a result of this transaction, the CalPERS position was redeemed, and the Piedmont employees’ position now stands at 70%.

During 2012, Piedmont’s Chief Financial Officer (CFO) and former Chief Compliance Officer (CCO), Jo Ann Williams, left Piedmont’s employment. The responsibilities of the CFO were consolidated with Piedmont’s Controller, Marion White, CPA. Ellen Sarah Ronnenberg (Sarah) assumed the position of CCO on April 13, 2012. On July 13, 2012, Zaid Abdul-Aleem, Piedmont’s Head of Business Development, left the firm. He was also a member of the firm’s Executive Management Committee.

Piedmont offers equity and fixed income investment strategies. In all cases, Piedmont’s goal is to generate a return on each client’s portfolio that exceeds that of the underlying benchmark. Clients typically provide Piedmont with performance objectives, guidelines, and restrictions, as well as any brokerage requirements, and Piedmont invests the client’s assets within an appropriate strategy accordingly. In addition to offering its equity and fixed income strategies through separate accounts, Piedmont also offers its product on one wrap fee platform.

In April 2009, Piedmont contracted with the U.S. Department of the Treasury (“Treasury”) to provide certain investment advisory services relating to the Capital Purchase Program. In the opinion of the Adviser, the services provided to the U.S. Department of Treasury by Piedmont fall outside of the definition of “investment supervisory services”.

On July 19, 2012, the Corverus Strategic Equity Fund, an open-end registered investment company, closed; consequently, Piedmont no longer acts as an investment adviser to the Fund.

On September 30, 2012, Piedmont began managing money in a new equity product, the Growth & Income product.

In addition, on September 30, 2012 Piedmont also re-named its Midcap Core product to Optimized SMid Core, a small-to-midcap core product, driven by Piedmont's quantitative algorithms.

Item 5 – Fees and Compensation

Piedmont generally bills its clients based upon assets under management. On occasion, Piedmont will agree to perform investment advisory services for a client in exchange for a performance-based fee pursuant to Rule 205-3 of the Investment Advisers Act of 1940. Fees based on the amount of assets under management are outlined below and are expressed in basis points (1% is equal to 100 basis points). Fees are charged to clients on a quarterly basis.

Product	First \$50M	Next \$50M	Over \$100M	Minimum Institutional Account Size
Strategic Core	65 BP	50 BP	40 BP	\$25 million
Market Plus	35 BP	30 BP	25 BP	\$25 million
Yield Advantage Aggregate	35 BP	25 BP	20 BP	\$20 million
Y. A. Intermediate Core	35 BP	25 BP	20 BP	\$20 million
Y. A. Limited Duration	18 BP	16 BP	12 BP	\$25 million

Product	First \$25M	Next \$25M	Next \$25M	Over \$75M	Minimum Institutional Account Size
Optimized Large Cap Value	40 BP	30 BP	20 BP	15 BP	\$25 million

Product	First \$25M	Next \$25M	Next \$50M	Over \$100M	Minimum Institutional Account Size
Growth & Income	50 BP	45 BP	40 BP	37.5 BP	\$10 million
Optimized SMid Core	70 BP	65 BP	60 BP	50 BP	\$5 million
Optimized Midcap Core	60 BP	50 BP	40 BP	30 BP	\$25 million

The fees and institutional account minimums set forth in the schedules above are negotiable. The specific manner in which fees are charged by Piedmont is established in a client's Investment Management Agreement ("IMA") with Piedmont. No compensation will be due prior to the rendering of service. After the end of each quarter, clients will be invoiced in arrears for services rendered during the quarter just ended. Clients may either remit compensation directly to Piedmont, or alternatively, clients may instruct their custodian to compensate Piedmont for its services from the assets contained in the account. If the client has given permission to Piedmont that allows Piedmont to authorize their (the client's) custodian to deduct the fee directly from the client's account, the client must provide written authorization for such withdrawals as provided in their IMA or by a separate written agreement that permits the fee to be paid directly from the client's account.

Management fees shall be prorated for each capital contribution and withdrawal made during the applicable calendar quarter (with the exception of de minimis contributions and withdrawals). Accounts initiated or terminated during a calendar quarter will be charged a prorated fee. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable. The details of the above matter will generally be confirmed in the client's Investment Management Agreement. The account broker/custodian must provide the client, at least quarterly, a written statement that shows the amount of the advisory fee deducted from the account. The fee shown as deducted from the client's account should be identified as "management fee," "advisory fee," or other terms of similar meaning.

Piedmont's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses that shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties, such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Such charges, fees, and commissions are exclusive of and in addition to Piedmont's fee, and Piedmont shall not receive any portion of these commissions, fees, and costs.

Piedmont provides the Treasury with certain investment advisory services relating to the assets acquired by the Treasury pursuant to the Capital Purchase Program. The Treasury pays Piedmont a fixed dollar amount for each financial institution for which Piedmont provides the Treasury with advisory services.

Item 12 further describes the factors that Piedmont considers in selecting or recommending broker-dealers for client transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

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

As a general firm practice, Piedmont does not offer a performance-based fee. In some cases, at a client's specific request, Piedmont has entered into performance fee arrangements. Such fees are subject to individualized negotiation with the client. Piedmont will structure any performance or incentive fee arrangement subject to Section 205(a)(1) of the Investment Advisers Act of 1940 (The Advisers Act) in accordance with the available exemptions there under, including the exemption set forth in Rule 205-3. In measuring a client's assets for the calculation of performance-based fees, Piedmont shall include realized and unrealized capital gains and losses. It has been suggested that performance-based fee arrangements may create an incentive for Piedmont to recommend investments that may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. Piedmont has designed and implemented procedures to ensure that all clients are treated fairly and equally and to prevent conflicts potentially arising from performance-based fees from influencing the allocation of investment opportunities among clients.

In those limited cases that a client does have a performance-based fee, they are not treated differently than other clients. Piedmont uses a model portfolio management approach in which all accounts are mirrored to a selected model, creating substantially equal treatment in terms of investment strategy and investment opportunity. Piedmont's trading allocation policy is designed to ensure to the best of its ability that the allocation of trades among its client accounts is done in a manner that is fair and equitable to all clients. When consistent with client objectives, orders are aggregated if possible. If a block trade is filled in different lots with the same broker, these trades will be average priced to ensure that all the accounts executed in that block trade receive the same price.

Item 7 – Types of Clients

Piedmont provides portfolio management services to corporate pension and profit-sharing plans, public pension plans, Taft-Hartley plans, foundations, endowments, municipalities, and individuals.

Please refer to Item 5 for Piedmont's minimum account requirements.

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

Equity Investment Philosophy and Process

Piedmont's risk-aware equity investment philosophy extracts alpha from three interconnected parts of our process: Quant, Fundamental, and Macro. We believe the diversity of these returns offers us the best opportunity to outperform in the long term, maximize the return per unit of risk for our clients, and emphasize skill-based returns. We:

- Begin with reliable idea generation from our cross-sectional and industry-specific quantitative models and robust fundamental industry reviews. These outputs give us a detailed view of stocks' underlying characteristics and behavior.
- Research and identify improving fundamentals in those names poised for significant and sustainable positive change. We vet the best ideas coming from our quantitative models by conducting deep industry reviews, focused company-specific valuations, and insightful bull/bear stress tests.
- Construct the portfolio, leveraging macro insights that clarify the risks within the portfolio from multiple vantage points, including our own view on economic sectors.

Quantitative Tools

Piedmont utilizes several internally-developed quantitative models. Our multi-factor cross-sectional and industry group models provide systematic tools that allow us to filter the investable universe of stocks and identify those with the greatest potential for excess return or "alpha." The factors utilized are metrics that reflect and measure fundamental drivers of growth, value, and profitability and have also

been shown to be consistent and predictive drivers of long-term excess returns. Additionally, there is a dynamic component in some of our cross-sectional models, where the weightings of the factors are adjusted monthly, ensuring that stocks found attractive by the models reflect changing company fundamentals, as well as changes in systematic and unsystematic risk inherent the equity markets.

Fundamental Research

Rigorous fundamental research and valuation work is also completed to identify individual stocks and quantify the potential range of prices we believe these stocks can reasonably achieve over the next 12-18 months. Metrics such as Price-to-Earnings, Price-to-Sales, Price-to-Book, Price-to-Cash Flow, and Enterprise-Value-to-EBITDA ratios are used to calculate the upside and downside valuation ranges. Our analysis also includes sensitivity analysis to validate consensus earnings growth estimates in order to forecast target multiples and to test consensus assumptions. Finally, as much of a stock's price movement, especially in the short term, is influenced by how results vary from consensus estimates, we also evaluate research and estimates from leading Wall Street analysts. We engage in discussions with the analysts both to understand their conclusions and price targets and also to test our internally generated assumptions on revenue, earnings growth, margins, and other factors used to establish our price targets.

Should a company's fundamentals prove compelling, based on accelerating revenues and earnings, positive earnings estimate revisions, and reasonable valuations, we subsequently conduct further fundamental analysis to assess the company's positioning relative to:

- Cyclical conditions;
- Competitive environment;
- Brand franchise; and
- Technological advantage

We analyze each company's financial structure, business outlook, and leverage to our macroeconomic thesis. We look for companies with clear evidence of improving fundamentals, such as accelerating sales and expanding margins. We look for positive earnings revisions and an improving competitive environment. Companies with insider buying are also attractive when combined with improving fundamentals. Finally, we listen to quarterly conference calls held by the management of companies that we either own or have under review. This enables us to track whether company fundamentals are progressing as expected. We always work to select stocks that have improving fundamentals relative to their peers. We look for companies that have sound financial profiles and improving valuations relative to their fundamentals. We invest in those companies whose fundamentals are most levered to our market outlook.

Macro Insight

We review a full set of global economic and other inputs, including our global dashboard that helps us pinpoint the direction of sentiment and risk. We identify and track major global investment themes that we believe can override historic predictors of stock or bond performance, from the fiscal cliff to the

Chinese slowdown. This approach provides two important outcomes: it gives us a new lens through which to view our current portfolio, and it allows us to find new investments that take advantage of key themes.

Portfolio Construction & Risk Control

Sector, industry, and security weightings are determined during our portfolio construction process. In constructing portfolios, we seek to control style, market, and stock-specific risk. Style is controlled by including both growth and value stocks in the portfolio, thereby neutralizing this source of volatility of returns. Market risk is managed within a macroeconomic framework while constructing the portfolio. Stock-specific risk is controlled through diversification across economic sectors. When the stock market's fundamentals are deteriorating, we seek to position our portfolios defensively or shorten the equity duration of the portfolio versus the benchmark. When the stock market's fundamentals are improving, our portfolios assume more economic risk.

Industry and security weights are determined both through our industry analysis and review process, as well as quantitative optimization algorithms. We examine key drivers of each industry and analyze prevailing trends. We also evaluate the strength and weakness of key players in each industry. All of these inputs, as well as timeliness, determine the rationale behind overweighting or underweighting particular industries.

Portfolio risk control is critically important to our investment process. Our approach to risk management is to be aware that more than stock specific risk can be diversified away. We classify risk into three main categories: stock specific; the common factors, style and capitalization; and market risk. We believe that superior stock selection provides the best opportunity for repeated outperformance and can be achieved by the implementation of a rigorous investment process.

We use the Northfield US Fundamental Risk Model to manage and monitor risk in our portfolios. This system allows us to use information about excess return volatility to evaluate portfolio risk, to decompose portfolio risk according to common factor exposures, and to evaluate how much of a portfolio's excess return in a given period was due to each common factor exposure and how much was due to stock selection.

Sell Discipline

Our sell discipline is an integral part of our portfolio construction process. It serves to move money out of stocks and groups that have appreciated beyond fair value and to invest it in more attractively priced stocks, where consensus estimates are on an improving trajectory. Secondly, it also serves to take money out of companies whose fundamentals have begun to deteriorate and to put it into stocks with better fundamental trends. We use our sell discipline to move our portfolio constantly towards more attractive issues and characteristics on a highly systematic and quantitative basis.

All of Piedmont's equity products use this three-pronged process with each component used in varying degrees for each product. Strategic Core is fundamentally managed, but utilizes quantitative tools to

screen stocks before fundamental analysis is conducted. In addition, macro insights are taken into consideration in the process of portfolio construction. For the Market Plus, Midcap Core, Large Cap Value, and SmidCap Core products, the quantitative models are the primary drivers of stock selection and portfolio construction. Fundamental and macro insights are also used, however, as inputs for risk control in the portfolio construction process.

Fixed Income Investment Philosophy and Process

Piedmont Investment Advisors' fixed income investment philosophy entails constructing customized, yield-advantaged portfolios with the reasoned expectation of outperformance over a full market cycle. Our yield-advantaged style seeks to dampen performance volatility by encompassing moderate duration shifts, strategically overweighting spread sectors, and being opportunistic along the yield curve. These objectives are synthesized and implemented within the context of a quantitative backdrop. Active management by Piedmont connotes a constant assessment of relative value, that is, whether expected returns are commensurate with the level of risk taken.

Our bias is typically an overweight in the spread sectors. We construct well-diversified portfolios to give our clients the broad benefit of owning these sectors while remaining mindful of not unduly exposing the portfolio to any one issue. Conversely, security selection is emphasized, but within the context of its overall risk versus expected return. Our philosophy for the spread sectors parallel each other in that we consistently seek relative value. This incremental yield/value bias is attained by underweighting Treasuries. We maintain, however, the ability to match and exceed the Treasury weighting, depending on our relative value call. We perform bottom-up analysis on the corporate market, which is supplemented with research from our equity research team. The fixed income portfolio manager evaluates this fundamental equity analysis in the context of the portfolio, market, and the firm's overall macro thesis. Our mortgage-backed securities philosophy differs in that we look to make an over/underweight call on the sector, then deviate away from the index composition (either on coupon, vintage, or other factors), based on our yield curve view and prepayment assumptions.

Piedmont Equity and Fixed Income Product Offerings

Piedmont's Strategic Core product is a large cap equity product with a focused portfolio that typically has 30-40 holdings and offers high excess return potential. It utilizes both fundamental and quantitative research efforts and is benchmarked against the S&P 500 and Russell 1000 indices. Tracking error target range is from 4% to 8%. It is targeted to return-seeking institutional plans seeking a high alpha complement to a large exposure to passive products, as well as to individuals seeking high absolute return potential.

Piedmont's Market Plus product is a low tracking error, large cap core product driven by our quantitative models. The portfolio typically holds 150-175 stocks, and its tracking error target range is from 1% to 2%. This product offers controlled risk and excess return potential and is an attractive alternative to passive index funds.

Piedmont's Growth & Income product is a large cap equity product with a focused portfolio of 35-45 holdings. The goal of the strategy is to deliver a more stable return to investors than traditional equity investments by focusing on stocks that have low idiosyncratic risk and those that are delivering strong, sustainable and growing current dividend yield. The portfolio aims to generate higher current income than the broader market while maintaining enhanced reward-to-risk characteristics compared to the S&P 500.

Piedmont's Optimized Large Cap Value product is a large cap value product driven by our quantitative models. The portfolio typically holds 75-100 stocks, and its tracking error target range is from 3% to 4%. It is benchmarked against the Russell 1000 Value index. It is targeted to return-seeking institutional plans seeking a high alpha complement to a large exposure to passive products, as well as to individuals seeking high absolute return potential.

Piedmont's Optimized Midcap Core product is a mid cap core product driven by our quantitative models. The portfolio typically holds 100 -125 stocks, and its tracking error target range is from 3% to 4%. It is benchmarked against the Russell Midcap index. It is targeted to return-seeking institutional plans seeking a high alpha complement to a large exposure to passive products, as well as to individuals seeking high absolute return potential.

Piedmont's Optimized SMid Core product is a SMid (small-to-midcap) core product driven by our quantitative algorithms. The portfolio typically holds fewer than 100 stocks, has a tracking error target range from 5% to 8%, and is benchmarked against the Russell 2500 index. It is targeted to return-seeking institutional plans seeking a high alpha complement to a large exposure to passive products, as well as to individuals seeking high absolute return potential.

Piedmont's Yield Advantage products are core fixed income vehicles featuring both actively managed and low volatility portfolios with duration ranging from approximately 90% to 110% of the prospective index. Emphasis is placed on generating excess returns by achieving a yield advantage versus the benchmark. Customized portfolios are constructed and monitored using a top-down, whole market framework.

Investing in equity and fixed income securities involves risk of principal and the potential for losses that clients should be prepared to bear.

Item 9 – Disciplinary Information

Piedmont has no information applicable to this Item.

Item 10 – Other Financial Industry Activities and Affiliations

Piedmont is affiliated with Rosemont Investment Partners, LLC, which holds a 30% ownership position through its Rosemont Partners II, L.P. private equity fund.

Piedmont had previously acted as the investment adviser to the Corverus Strategic Equity Fund, an open-end registered investment company. The Corverus Strategic Equity Fund closed on July 19, 2012.

Item 11 – Code of Ethics

Piedmont is required to adopt a Code of Ethics (“Code”) pursuant to Rule 204A-1 of the Investment Advisers Act of 1940. This Code of Ethics is based on the principle that Piedmont and each of its employees owe a fiduciary duty to its clients and a duty to comply with federal and state securities laws and all other applicable laws. Piedmont deems all of its employees and independent contractors to be Access Persons.

Pursuant to its Code, Piedmont requires that all Access Persons obtain written permission of the CCO before buying or selling the shares of a “Covered Security” in their personal brokerage accounts. Furthermore, no Access Person may purchase or sell a security during a period beginning five (5) business days before and ending five (5) business days after (“Blackout Period”) a PIA client account transacts in the security of that issuer or a derivative of such security. An Access Person must hold a covered security for a minimum of a year before being allowed to sell the security. In addition, an Access Person may not participate in an IPO or purchase a security via private placement.

An Access Person must submit an Initial Holdings Report upon employment at Piedmont and subsequent Annual Personal Securities Holding. The report must provide the following information:

- The title, number of shares and principal amount (if fixed income securities) of each covered security in which the Access Person had any direct or indirect beneficial ownership interest or ownership;
- The name of any broker/dealer, bank, or other institution where the Access Person maintains an account in which any covered securities may be or are held for the direct or indirect benefit of the Access Person

The Code requires Access Persons to provide copies of all trade confirmations and duplicate account statements to Piedmont’s Compliance Department. Piedmont also requires all employees to provide a quarterly certification attesting to the approved personal trading they did or did not conduct during the quarter.

At the end of each calendar quarter, Piedmont performs a thorough audit of the personal trading of all associates in order to verify there have been no violations of the firm’s Code. Finally, Piedmont has a

Material Non-Public Information and Insider Trading Policy and has implemented a number of informational barriers that significantly reduce the likelihood that an Associate will obtain or misuse material nonpublic information that may be in the firm's possession.

Current regulations impose strict limitations on business relationships with government entities that have received contributions from an investment adviser or any of its employees (Rule 206(4)-5 of the Investment Advisor's Act of 1940). Therefore, Piedmont has implemented a policy requiring pre-clearance of any contributions to political entities and officials.

Piedmont encourages all of its employees to make charitable contributions to organizations of their choice. Nevertheless, there may be situations in which an individual charitable contribution may create a conflict of interest for Piedmont. In situations where there is a reasonable likelihood that a conflict of interest exists, Piedmont will ask the individual to withhold the contribution.

Piedmont has a Gift and Entertainment Policy that establishes monetary caps for gifts that Piedmont employees may give or may receive. This policy also covers entertainment that Piedmont employees may provide to clients and prospects. Associates of Piedmont and members of their immediate families are prohibited from accepting meals, refreshments, or other forms entertainment except for in situations that are covered in the policy's exemption for investment-related and educational events or functions.

Piedmont has an Outside Business Interests Policy that states that prior to accepting a position as a member, officer, trustee, or director of a non-profit entity or outside enterprise or employment in any other capacity in an outside enterprise, Piedmont employees and members of their immediate families must disclose such information to the CCO.

Employees are required to certify quarterly that they have complied with all provisions of the firm's Personal Securities Transactions Policy, Political Contributions Policy, Charitable Contributions Policy, Gift & Entertainment Policy and Outside Business Interests Policy.

Piedmont may manage assets of individuals or institutions that may have a managerial or ownership interest in the company. To mitigate such conflicts of interest, as a practice, Piedmont uses a model portfolio management approach in which all accounts are mirrored to a selected model, creating substantially equal treatment in terms of investment strategy and investment opportunity. Piedmont's trading allocation policy is designed to ensure to the best of its ability that the allocation of trades among its client accounts is done in a manner that is fair and equitable to all clients. When consistent with client objectives, orders are aggregated if possible. If a block trade is filled in different lots with the same broker, these trades will be average priced to ensure that all the accounts executed in that block trade receive the same price.

Each client may obtain a complete copy of Piedmont's Code of Ethics by contacting E. Sarah Ronnenberg, Chief Compliance Officer, at (919) 688-8600 or at sronnenberg@piedmontinvestment.com.

Item 12 – Brokerage Practices

As an investment manager, Piedmont is a fiduciary to its clients. Consequently, Piedmont owes its clients a number of critical obligations and must always seek to put its clients' best interests first, while avoiding any appearance of conflicts of interest. Among the specific obligations is the requirement to obtain the best price and execution of client securities transactions when the Adviser is in a position to direct brokerage transactions.

Piedmont has established a Best Execution Committee that is charged with providing oversight on all matters related to the Firm's trading, brokerage, trading errors, and other practices affecting client accounts. The Committee draws membership from different functional areas of the firm, including representatives from senior management, operations, compliance, and portfolio management.

Piedmont maintains a list of approved broker/dealers. The Best Execution Committee is responsible for the selection and approval of broker/dealers to be incorporated and used. Minimum requirements for approval include a review of the broker/dealer's financial information from their FOCUS report and audited financial reports, any regulatory issues, and an evaluation of the strength of the relationship established by our team with the broker/dealer. A list of approved broker/dealers and their financial details is maintained in accordance with the broker/dealer selection and approval process.

Periodically, Piedmont will perform transactions for client (equity) accounts with broker/dealers that provide research services or investment decision making tools and have a demonstrable benefit to client accounts (collectively, "soft dollar items"). Soft dollar payments must be used only for bona fide research, trade execution, or market information services. Typically, soft dollar items are used to service all client accounts; however, a particular client account may not benefit to the full extent of the soft dollar items provided every time.

Negotiated commissions paid to broker/dealers supplying soft dollar items may not represent the lowest obtainable commission rate; although, the amount of these commissions must be reasonable in relation to the value of the brokerage and soft dollar items provided by the broker/dealer and are viewed in terms of either the particular transaction or the overall brokerage relationship. Piedmont acts in compliance with the provisions of Section 28(e) under the Securities Exchange Act of 1934 with respect to soft dollar items and other applicable laws in force from time to time.

In certain circumstances, Piedmont may determine that a particular research product or service provides both a demonstrable benefit in the making of investment decisions and also serves functions that are unrelated to the making of investment decisions, such as accounting, compliance or record keeping – a "mixed-use" product. In such a situation, Piedmont will make a good faith estimate in determining the appropriate percentage allocation of between hard and soft dollars and will maintain records to support the firm's determination.

Should a client instruct Piedmont to use a specific broker/dealer ("Directed Brokerage"), that broker/dealer must meet the minimum requirements used in the broker/dealer approval process (e.g.,

financial stability, best execution capability). Additionally, all Directed Brokerage instructions must be communicated to Piedmont in writing. Directed Brokerage requests are accommodated with the understanding that if best execution is compromised, the request may be denied, and the trade will not be directed. Piedmont is not affiliated with a broker/dealer, and therefore does not enter into transactions with an affiliated broker/dealer.

Piedmont has a fiduciary duty under the Investment Advisers Act of 1940 to treat all client accounts fairly and equitably in the allocation and distribution of securities. There are, however, differences in client needs, investment criteria, investment objectives, account size, cash availability, and additional brokerage fees including custodial brokerage, institutional desk, and trade away fees, which prevent all client accounts from being treated equally in all circumstances.

Where possible, client orders in the same securities are aggregated or “bunched” for the purposes of gaining best execution. Piedmont is not required to bunch client orders and will not do so if this action works to the detriment of our clients. Aggregated orders must be averaged for price, and transaction costs must be shared pro rata.

Piedmont’s Best Execution Committee meets periodically to review the quality of executions received by Piedmont’s clients during the previous period. The Best Execution Committee reviews commissions paid on client transactions and then attempts to make a good faith determination on whether the client commissions paid were reasonable in relation to the brokerage and research services received by Piedmont. Trading effectiveness is measured by a third party provider, Global Trading Analytics (GTA), using a VWAP methodology. GTA provides quarterly reports of trading costs separated by broker, portfolio manager, product, trader, etc., which the Best Execution Committee also reviews. In addition, the Best Execution Committee oversees the firm’s soft dollar budget and regularly verifies that the research and brokerage services received by Piedmont pursuant to Section 28(e) of the 1934 Act conform to the guidance promulgated by the Securities and Exchange Commission and other regulators.

Item 13 – Review of Accounts

Piedmont monitors compliance with a client’s guidelines and investment objectives through the Client Account Review Committee. The Committee conducts a thorough account review on no less than an annual basis to ensure compliance with all guidelines and investment objectives. The portfolio manager of the strategy in which the client is invested signs off on the Client Account Review Report. In addition, if a client materially changes their IMA, Investment Policy, investment guidelines or restrictions, Piedmont follows an “Account Change” process with appropriate procedures to document the amendment(s) and make sure all systems are updated accordingly.

Trading activities are monitored quarterly at the Best Execution Meeting. Overall compliance is monitored through periodic forensic tests conducted by the Compliance Area throughout the year for all functional areas of the firm.

Piedmont provides monthly and quarterly reports to its clients along with any requested special or customized reports. Monthly reports include a Summary of Transactions Report, Portfolio Holdings, and Performance Return information. Quarterly reports include a Quarterly Market Commentary, Transactions Report, Portfolio Holdings and Performance. Customized client reports include—but are not limited to—Dividend and Interest Reports, Analytical Reports, Brokerage Reports, Soft Dollar Reporting, and Realized Gains & Losses.

Item 14 – Client Referrals and Other Compensation

Piedmont has no information applicable to this Item.

Item 15 – Custody

Piedmont has no information applicable to this Item.

Item 16 – Investment Discretion

Piedmont usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account. This discretionary authority is granted through the Investment Management Agreement between the client and Piedmont, and the discretion is limited to trading in a client's account.

When selecting securities and determining amounts, Piedmont observes the investment policies, limitations, and restrictions of the clients for which it advises. Client must provide their investment guidelines and restrictions in writing to Piedmont.

Item 17 – Voting Client Securities

Piedmont currently subscribes to ISS Proxy Voting Services, which includes ISS' end-to-end voting service, as well as research & recommendations on the various issues subject to shareholder vote. These services are delivered via an electronic delivery platform.

Piedmont votes the shares that it manages according to ISS' 2012 U.S. Proxy Voting Guidelines. If a client has a custom voting policy, we vote in line with their policy.

Piedmont has a Proxy Committee that meets no less than semi-annually to review proxies and provides proxy reports to those clients on whose behalf Piedmont votes proxies.

Clients may obtain a copy of Piedmont's complete proxy voting policies and procedures and the results of any proxies voted on their behalf upon request by contacting Dina Falzon, Director of Investor Services at (919) 688-8600 or dfalzon@piedmontinvestment.com.

Item 18 – Financial Information

Piedmont has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

Part 2B of Form ADV Firm Brochure



Piedmont Investment Advisors, LLC

300 West Morgan Street, Suite 1200

Durham, NC 27701

919-688-8600

www.piedmontinvestment.com

March 28, 2013

This brochure provides information about the qualification and business practices of Piedmont Investment Advisors, LLC ("PIA"). If you have any questions about the contents of this brochure, please contact us at 919-688-8600 or by email at info@piedmontinvestment.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 Piedmont Investment Advisors, LLC also is available on the SEC's website at www.adviserinfo.sec.gov.

Item 1 – Cover Page

Isaac H. Green, CFA

President & Chief Executive Officer, Chief Investment Officer, Portfolio Manager 300 West Morgan

Street, Suite 1200

Durham, NC 27701

(919) 688-8600

www.piedmontinvestment.com

March 28, 2013

This brochure supplement provides information about Isaac Green that supplements the Piedmont Investment Advisors, LLC brochure. You should have received a copy of that brochure. Please contact Sarah Ronnenberg, Chief Compliance Officer, if you did not receive the Piedmont Investment Advisors, LLC brochure, or if you have any questions about the contents of this supplement

Additional information about Isaac Green is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 – Educational Background and Business Experience

Isaac H. Green serves as Piedmont's Chief Investment Officer and portfolio manager of Piedmont's Strategic Core product.

Isaac (52) has over 27 years of investment experience. He previously served as Executive Vice President and Managing Director of Loomis Sayles' Value Equity Management Division. He was named to this position in 1998, assuming management responsibility for 25 investment professionals who managed seven products, with over \$10 billion in assets under management (as of 12/31/99). Isaac joined Loomis as a portfolio manager in 1993. In 1995, he became Managing Partner of Loomis' Detroit office and was elected a Director of the firm.

Prior to joining Loomis, Sayles & Co., Isaac served as Senior Vice President and Director of Investments at NCM Capital Management. He joined NCM in 1988 as Director of Research.

Isaac received his AB in Economics and History from Duke University, and his MBA in Finance and Business Economics from Columbia University. Isaac began his investment career as a Securities Analyst with NCNB National Bank.

Item 3 – Disciplinary Information

Isaac Green has not been subject to any disciplinary action.

Item 4 – Other Business Activities

None

Item 5 – Additional Compensation

None

Item 6 – Supervision

Isaac is advised by the firm's Board of Managers, senior management, and the Chief Compliance Officer.

Item 7 – Requirements for State-Registered Advisers

Isaac Green has not been subject to any claims or liability awards, nor has he been the subject of a bankruptcy petition.

Item 1 – Cover Page

Sumali Sanyal, CFA

Executive Vice President & Chief Operating Officer, Portfolio Manager

300 West Morgan Street, Suite 1200

Durham, NC 27701

(919) 688-8600

www.piedmontinvestment.com

March 28, 2013

This brochure supplement provides information about Sumali Sanyal that supplements the Piedmont Investment Advisors, LLC brochure. You should have received a copy of that brochure. Please contact Sarah Ronnenberg, Chief Compliance Officer, if you did not receive the Piedmont Investment Advisors, LLC brochure, or if you have any questions about the contents of this supplement

Additional information about Sumali Sanyal is available on the SEC's website at

www.adviserinfo.sec.gov.

Item 2 – Educational Background and Business Experience

Sumali (43), EVP, COO and Portfolio Manager, is responsible for Piedmont's day-to-day operations and manages all aspects of Piedmont's quantitative research activities. She serves as portfolio manager of Piedmont's Market Plus product.

Sumali previously managed Loomis Sayles' Quantitative Research Department. She also served as a senior analyst responsible for providing quantitative support to the Small Cap Value group. She joined Loomis, Sayles in 1997 as an associate in the Quantitative Research Department.

Sumali received her BS and MS in Economics from the University of Calcutta, India, and her MBA in Finance and Management Information Systems from Oakland University, Michigan. She began her investment career in 1995 at Olde Discount Corporation as a Credit Analyst. Sumali is also a member of the Chicago Quantitative Alliance (CQA).

Item 3 – Disciplinary Information

Sumali Sanyal has not been subject to any disciplinary action.

Item 4 – Other Business Activities

None

Item 5 – Additional Compensation

None

Item 6 – Supervision

Isaac Green, CIO and CEO (919-688-8600) supervises Sumali Sanyal. Sumali

Item 7 – Requirements for State-Registered Advisers

Sumali Sanyal has not been subject to any claims or liability awards, nor has he been the subject of a bankruptcy petition.

Item 1 – Cover Page

Charles L. Curry, Jr.

Executive Vice President, Co-Chief Investment Officer, Fixed Income, Portfolio Manager

300 West Morgan Street, Suite 1200

Durham, NC 27701

(919) 688-8600

www.piedmontinvestment.com

March 28, 2013

This brochure supplement provides information about Charles L. Curry, Jr. that supplements the Piedmont Investment Advisors, LLC brochure. You should have received a copy of that brochure. Please contact Sarah Ronnenberg, Chief Compliance Officer, if you did not receive the Piedmont Investment Advisors, LLC brochure, or if you have any questions about the contents of this supplement

Additional information about Charles Curry is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 – Educational Background and Business Experience

Charles Curry (51), EVP, Co-CIO, Fixed Income and Portfolio Manager, manages all aspects of Piedmont's fixed income research activities and serves as portfolio manager for Piedmont's Yield Advantage products. Charles oversees the Bank Advisory Services team that performs a variety of valuation services for the U.S. Department of the Treasury.

Charles previously served as lead portfolio manager at Hughes Capital Management with responsibility for over ~\$800 million in fixed income assets (as of 12/31/00). From 1993 to 1997, Charles was part of a five-member team at Sovran Capital Management responsible for managing a \$5 billion total return portfolio.

Charles received his AB in Political Science from Duke University and his MBA in Finance from Clark-Atlanta University. Charles began his investment career as a credit analyst with Sovran Capital Management.

Item 3 – Disciplinary Information

Charles Curry has not been subject to any disciplinary action.

Item 4 – Other Business Activities

None

Item 5 – Additional Compensation

None

Item 6 – Supervision

Isaac Green, CIO and CEO (919-688-8600) supervises Charles Curry.

Item 7 – Requirements for State-Registered Advisers

Charles Curry has not been subject to any claims or liability awards, nor has he been the subject of a bankruptcy petition.

Item 1 – Cover Page

Robert F. Hill, Jr., CFA

Executive Vice President, Co-Chief Investment Officer, Equities, Portfolio Manager

300 West Morgan Street, Suite 1200

Durham, NC 27701

(919) 688-8600

www.piedmontinvestment.com

March 28, 2013

This brochure supplement provides information about Robert Hill that supplements the Piedmont Investment Advisors, LLC brochure. You should have received a copy of that brochure. Please contact Sarah Ronnenberg, Chief Compliance Officer, if you did not receive the Piedmont Investment Advisors, LLC brochure, or if you have any questions about the contents of this supplement

Additional information about Robert Hill is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 – Educational Background and Business Experience

Bob Hill (48) is an Executive Vice President, Co-Chief Investment Officer, Equities and is responsible for managing the Optimized Large Cap Value, Optimized Midcap Core, and Optimized SMid Core active quantitative products.

Before joining Piedmont, Bob worked at Shenandoah Asset Management, which he co-founded in January, 1999. At Shenandoah, Bob was responsible for the investment management operation, portfolio management, and trading. Prior to Shenandoah, Bob was the Director of Equities at the Virginia Retirement System, where he was responsible for the \$16 billion US equity portfolio as of 12/31/1998, including \$4.5 billion managed internally.

Bob received his BS, Systems Engineering, from the University of Virginia and an MBA from Virginia Commonwealth University. He holds the Chartered Financial Analyst (CFA) designation.

Item 3 – Disciplinary Information

Robert Hill has not been subject to any disciplinary action.

Item 4 – Other Business Activities

None

Item 5 – Additional Compensation

None

Item 6 – Supervision

Isaac Green, CEO (919-688-8600) supervises Robert Hill.

Item 7 – Requirements for State-Registered Advisers

Robert Hill has not been subject to any claims or liability awards, nor has he been the subject of a bankruptcy petition.

Item 1 – Cover Page

Noel McElreath, CFA

Senior Vice President, Fixed Income Portfolio Manager

300 West Morgan Street, Suite 1200

Durham, NC 27701

(919) 688-8600

www.piedmontinvestment.com

March 28, 2013

This brochure supplement provides information about Noel McElreath that supplements the Piedmont Investment Advisors, LLC brochure. You should have received a copy of that brochure. Please contact Sarah Ronnenberg, Chief Compliance Officer, if you did not receive the Piedmont Investment Advisors, LLC brochure, or if you have any questions about the contents of this supplement

Additional information about Noel McElreath is available on the SEC's website at

www.adviserinfo.sec.gov.

Item 2 – Educational Background and Business Experience

Noel McElreath (40) serves as fixed income portfolio manager for Piedmont's Yield Advantage products and conducts research on the various sub-sectors of the fixed income markets.

Noel previously served as the Senior Portfolio Manager at Tattersall Advisory Group in Richmond, Virginia, specializing in corporate credit and derivatives. Prior to Tattersall, Noel led the Credit Strategy effort at Evergreen Investment Management Company in Charlotte, North Carolina, where he was Senior Portfolio Manager and Head of Credit Strategy. Earlier in his career, he worked for a subsidiary of Evergreen in London, England, analyzing multi-currency European credit. Noel began his career as a core fixed income portfolio manager and analyst for First Union Corporation, managing various institutional mandates.

Noel received his BA in History and Political Science from the University of North Carolina at Chapel Hill. He holds the Chartered Financial Analyst designation and is a member of the CFA Institute, CFA Virginia and the CFA North Carolina Society.

Item 3 – Disciplinary Information

Noel McElreath has not been subject to any disciplinary action.

Item 4 – Other Business Activities

None

Item 5 – Additional Compensation

None

Item 6 – Supervision

Charles Curry, EVP, Co-CIO (919-688-8600) supervises Noel McElreath.

Item 7 – Requirements for State-Registered Advisers

Noel McElreath has not been subject to any claims or liability awards, nor has he been the subject of a bankruptcy petition.

Item 1 – Cover Page

Cameron F. McLennan, CFA

Vice President, Portfolio Manager

300 West Morgan Street, Suite 1200

Durham, NC 27701

(919) 688-8600

www.piedmontinvestment.com

March 28, 2013

This brochure supplement provides information about Cameron McLennan that supplements the Piedmont Investment Advisors, LLC brochure. You should have received a copy of that brochure. Please contact Sarah Ronnenberg, Chief Compliance Officer, if you did not receive the Piedmont Investment Advisors, LLC brochure, or if you have any questions about the contents of this supplement

Additional information about Cameron McLennan is available on the SEC's website at

www.adviserinfo.sec.gov.

Item 2 – Educational Background and Business Experience

Cameron McLennan (50) is responsible for managing the Optimized Large Cap Value, Optimized Midcap Core, and Optimized SMid Core active quantitative products.

Cameron came to Piedmont from Shenandoah Asset Management, where he was responsible for their fundamental research effort, as well as portfolio management and trading. Prior to joining Shenandoah, Cameron was a fundamental equity analyst at BB&T Capital Markets. Cameron has also served as an Investment Officer at the Virginia Retirement System, where he was involved in the management of the domestic and international equity programs, including the portfolio management of an Equal Weighted S&P 500 portfolio.

Cameron received his B. Bus. Finance/Marketing, from the University of Southern Queensland, Australia, and an MBA from James Madison University. He holds the Chartered Financial Analyst (CFA) designation.

Item 3 – Disciplinary Information

Cameron McLennan has not been subject to any disciplinary action.

Item 4 – Other Business Activities

None

Item 5 – Additional Compensation

None

Item 6 – Supervision

Robert Hill, SVP, Portfolio Manager (919-688-8600) supervises Cameron McLennan.

Item 7 – Requirements for State-Registered Advisers

Cameron McLennan has not been subject to any claims or liability awards, nor has he been the subject of a bankruptcy petition.



Proxy Voting Policies and Procedures

**As Amended
March 28, 2013**

Introduction

Rule 206(4)-6 of the Investment Advisors Act ("the Act") directs investment advisors with proxy voting authority to fulfill the following four requirements:

1. Adopt and implement written proxy voting policies and procedures which have been reasonably designed to ensure that the advisor votes client securities in the best interests of clients and which addresses how the advisor handles conflicts of interest;
2. Disclose its proxy voting policies and procedures to clients and furnish clients with a copy these policies if requested to do so;
3. Inform clients how they can obtain information from the advisor regarding how their securities were voted; and
4. Retain certain records relating to the voting of proxies.

Proxy voting is deemed by the Act to be an investment management function, therefore the delegation of voting authority is implied by the overall delegation of investment discretionary authority to the advisor. The advisor is relieved of its duty to vote proxies only if the investment management agreement explicitly assigns this responsibility to another party¹.

In order to fulfill its proxy voting responsibilities, Piedmont Investment Advisors, LLC ("Piedmont," "the firm") has retained Institutional Shareholder Services Inc.² ("ISS"). ISS provides background information on the various issues subject to shareholder vote, and, based on the proxy voting policies that follow, makes recommendations to Piedmont on how proxies should be voted. ISS also acts as voting agent on the firm's behalf, obtaining, reconciling, and returning completed ballots. Piedmont may cast conflicting votes on certain issues, reflecting the unique interests, and/or investment goals of individual clients. Rule 206(4)-6 does not prevent the advisor from employing different proxy voting policies for different clients.

¹ In SEC Release No. IA-2106, the Commission states that while "the duty of care requires an advisor with proxy voting authority to monitor corporate events and to vote the proxies... We do not suggest that an advisor that fails to vote every proxy would necessarily violate its fiduciary obligations. There may even be times when refraining from voting a proxy is in the client's best interest, such as when the advisor determines that the cost of voting the proxy exceeds the expected benefits to the client". Likewise, in Interpretive Bulletin 94-2, the Department of Labor (DOL) states "fiduciaries have a responsibility to vote proxies on issues that may affect the value of the shares in the plan's portfolio... The Department recognizes that the cost of exercising a vote on a particular proxy proposal could exceed any benefit that the plan could expect to gain in voting on the proposal. In this regard, the Department interprets ERISA Section 404(a)(1) to require the responsible plan fiduciary to weigh the costs and benefits of voting on proxy proposals relating to foreign securities and make an informed decision with respect to whether voting a given proxy proposal is prudent and solely in the interest of the plan participants and beneficiaries".

² ISS is a subsidiary of MSCI Inc.

Proxy Voting Policies

In the release adopting Rule 206(4)-6, the Commission indicates that an advisor's proxy voting policies and procedures should address how the advisor will vote proxies when voting on particular types of proposals, such as changes in corporate governance structures, adoption or amendments to compensation plans, and proposals involving social issues or corporate responsibility. The release makes clear that "...procedures that merely declare that all proxies are voted in the best interests of the clients would not be sufficient to meet the rule's requirements." In general, Piedmont will vote proxies based on the following guidelines.

A. Routine Administrative Items

The Advisor will generally vote with the recommendations of management on routine matters that are unlikely to have a material financial impact on the corporation or its shareholders. The SEC considers the following issues to be routine:

1. The appointment of the auditor (unless there is reason to doubt the independence of the auditor or the quality of the auditor's past work);
2. Name changes;
3. The time and location of the annual meeting.

B. Antitakeover Defenses

The Advisor takes the position that antitakeover devices should not be adopted by the issuer unless approved by shareholders, and structured to protect shareholder interests, rather than entrench management. This policy may also impact the manner in which the Advisor votes on various shareholder proposals as well as some of the routine items discussed above.

C. Mergers and Corporate Restructuring

Piedmont evaluates proposed transactions on a case-by-case basis. Among the factors considered by the Advisor are:

1. The takeover premium and form of consideration to be received by target shareholders;
2. The process followed by the board in evaluating the transaction and the incidence of dissenting votes;
3. The availability of a fairness opinion, (4) the reaction of the market to the proposed deal;
4. Management's track record of successfully integrating past acquisitions.

D. Capital Structure

The Advisor reviews proposals to increase the number of common shares authorized for issuance on a case-by-case basis. Among the factors considered by the Advisor are:

1. The dilutive impact of the request;
2. The risks to shareholders of not approving the proposal.

Piedmont will generally vote for a proposed increase in the number of allowable shares when there is a significant risk that the company may no longer be able to operate as an ongoing concern without the issuance of additional shares.

E. Executive Compensation

The Advisor will vote against equity compensation plans that appear unreasonable, excessive, or not in alignment with shareholder interests. Such proposals are reviewed on a case-by-case basis, employing subjective as well as quantitative factors.

F. Corporate Responsibility Issues

While there are many social, religious, political and other special interest that are worthy of public attention, Piedmont believes that the burden of social responsibility rests with the public sector and, to a qualified extent, with management. Because the Advisor's primary responsibility in voting proxies is to act in our client's economic interest, the Advisor is generally opposed to special interest proposals that involve an economic cost to the corporation's shareholders.

Proxy Voting Committee

A. Referred Votes

Piedmont has determined that the cost of reviewing every ISS vote recommendation outweighs the potential benefit to our clients, unless the outcome of the vote may significantly impact the value of the issuer's outstanding shares, and at least one of the following conditions is met:

1. Piedmont's clients, in the aggregate, own at least one percent (1%) of the issuer's outstanding shares;
2. The security makes up at least three percent (3%) of the market value of any client account over which Piedmont exercises proxy voting authority.

Piedmont has appointed a Proxy Administrator to identify upcoming shareholder votes that meet one or both of these criteria. Where the criteria listed above do not dictate review by the Proxy Committee, the Advisor will vote client proxies consistent with our written policies as interpreted in the recommendation provided by ISS. Where the criteria dictate that the Advisor review the recommendation provided by ISS, the Advisor may vote differently from the recommendation.

B. Conflict of Interest Policy

Before deviating from the ISS recommendation, Piedmont's Compliance group will review the vote to ensure that the decision to override the ISS recommendation is not the result of a conflict of interest faced by the Advisor. Such conflicts of interest include but may not be limited to:

1. The issuer is also a client of Piedmont;
2. Piedmont is in discussions with the issuer concerning managing their assets (or their employee's retirement assets);
3. A proponent of a proxy proposal also has a business or personal relationship with a Piedmont employee;
4. An employee of Piedmont has a material economic interest in the outcome of the shareholder vote.

The attached Due Diligence Questionnaire (Appendix A) will be completed and retained for a period of not less than five years. If, after interviewing members of Piedmont's senior management team and performing additional due diligence, the Compliance officer determines that a material conflict of interest does not exist, written authorization to override the ISS recommendation will be provided to the Proxy Voting Committee. If the Compliance officer determines that the desire to override the ISS recommendation is the result of a conflict

involving the Advisor, the request to override the ISS recommendation will be denied.

C. Monitoring Activities

In addition to reviewing ISS recommendations that meet one or both of the criteria described above, the Proxy Voting Committee performs the following functions:

1. Periodically verifies that the third party proxy voting service is indeed voting proxies on behalf of Piedmont's clients;
2. Periodically performs vendor due diligence to ensure that the proxy voting service is making its voting recommendations based upon the interests of Piedmont's clients and not upon the relationship of ISS to the issuer;
3. Periodically performs due diligence of ISS in order to verify that the firm has the staffing, processes and technology needed to make informed, impartial recommendations³;
4. Identifies potential conflicts of interest faced by Piedmont in the context of voting proxies on behalf of clients⁴. Regularly reviews the procedures used to define conflict situations.

D. Reconciliations

The Proxy Administrator shall regularly reconcile the number of votes cast on behalf of the Advisor's clients to the number of client shares held on the applicable record date in order to verify that Piedmont is fulfilling its fiduciary duty to vote proxies on behalf of clients. The Proxy Administrator will regularly provide copies of such reconciliations to the Proxy Committee for their review.

E. Recordkeeping

The Proxy Administrator shall maintain the following books and records:

1. Copies of all policies and procedures required by Rule 206(4)-6;
2. A copy of each proxy statement that the investment advisor receives regarding client securities. An investment advisor may satisfy this requirement by relying on a third party to make and retain, on the

³ In the Egan-Jones Proxy Services No-Action Letter dated May 27, 2004, for example, the Commission staff states: that "an investment advisor should not ... conclude that it is appropriate to follow the voting recommendations of an independent proxy voting firm without first ascertaining, among other things, whether the proxy voting firm (a) has the capacity and competency to adequately analyze proxy issues, and (b) can make such recommendations in an impartial manner and in the best interests of the advisor's clients. An investment advisor could breach its fiduciary duty of care to its clients by voting its clients' proxies based upon the proxy voting firm's recommendations with respect to an Issuer because the proxy firm could recommend that the advisor vote the proxies in the firm's own interests, to further its relationship with the Issuer and its business of providing corporate governance advice ... The proxy voting firm's relationship with an Issuer thus may present a conflict of interest. Accordingly, an investment advisor should obtain information from any prospective independent third party to enable the advisor to determine that the third party is in fact independent, and can make recommendations for voting proxies in an impartial manner and in the best interest of the advisor's clients. An investment advisor should establish and implement procedures to identify and address conflicts that can arise on an ongoing basis concerning the third party". Such due diligence should include a review of the third party proxy voting firm's written policies and procedures to manage its conflicts of interest.

⁴ In Release No. IA-2106, the SEC states that "an advisor could demonstrate that the vote was not a product of a conflict of interest if it voted client securities, in accordance with a pre-determined policy, based upon the recommendations of an independent third party... Other policies and procedures are also available; their effectiveness... will turn on how well they insulate the decision on how to vote client proxies from the conflict". In the same release, the SEC states: "Clearly, an advisor's policy of disclosing the conflict to clients and obtaining their consents before voting satisfies the requirements of the rule and, when implemented, fulfills the advisor's fiduciary obligations under the Advisors Act. In the absence of client disclosure and consent, we believe that an advisor that has a material conflict of interest with its clients must take other steps designed to ensure, and must be able to demonstrate that those steps resulted in, a decision to vote the proxies that was based on the clients' best interest and was not the product of the conflict".

investment advisor's behalf, a copy of a proxy statement (provided that the advisor obtains an undertaking from the third party to provide such copy promptly upon request). The adviser may also rely upon a publicly available database, such as the SEC Electronic Data Gathering, Analysis, and Retrieval system ("EDGAR");

3. A record of each vote cast by the investment advisor on behalf of a client. An investment advisor may satisfy this requirement by relying on a third party to make and retain, on the investment advisor's behalf, a record of the vote cast (provided that the advisor has obtained an undertaking from the third party to provide a copy of the record promptly upon request);
4. A copy of any document created by the advisor that was material to making a decision how to vote proxies of a client or that memorializes the basis for that decision;
5. and a copy of any written response by the investment advisor to any (written or oral) client request for A copy of each written client request for information on how the advisor voted proxies on behalf of the client information on how the advisor voted proxies on behalf of the requesting client⁵.

F. Disclosures

The disclosures required under 206(4)-6 are included on Schedule F of Piedmont's Form ADV. These disclosures will be updated as the firm's proxy voting policies and procedures change.

⁵ Rule 204-2(c)-2

Appendix A
Due Diligence Questionnaire
ISS Override Form

Issuer:

Proposal:

Reason for Override:

Due Diligence Performed By Compliance:

Override Approved By: _____



An MSCI Brand

2013 U.S. Proxy Voting Concise Guidelines

December 19, 2012

Institutional Shareholder Services Inc.

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www.issgovernance.com

ISS' 2013 U.S. Proxy Voting Concise Guidelines

The policies contained herein are a sampling of select, key proxy voting guidelines and are not exhaustive. A full listing of ISS' 2013 proxy voting guidelines can be found at <http://www.issgovernance.com/files/2013ISSUSSummaryGuidelines.pdf>

Routine/Miscellaneous

Auditor Ratification

Vote FOR proposals to ratify auditors unless any of the following apply:

- An auditor has a financial interest in or association with the company, and is therefore not independent;
- There is reason to believe that the independent auditor has rendered an opinion that is neither accurate nor indicative of the company's financial position;
- Poor accounting practices are identified that rise to a serious level of concern, such as: fraud; misapplication of GAAP; and material weaknesses identified in Section 404 disclosures; or
- Fees for non-audit services ("Other" fees) are excessive.

Non-audit fees are excessive if:

- Non-audit ("other") fees > audit fees + audit-related fees + tax compliance/preparation fees.



Board of Directors:

Voting on Director Nominees in Uncontested Elections

Votes on director nominees should be determined CASE-BY-CASE.

Four fundamental principles apply when determining votes on director nominees:

1. Board Accountability
2. Board Responsiveness
3. Director Independence
4. Director Competence

1. Board Accountability

Vote AGAINST¹ or WITHHOLD from the entire board of directors (except new nominees², who should be considered CASE-BY-CASE) for the following:

¹ In general, companies with a plurality vote standard use "Withhold" as the contrary vote option in director elections; companies with a majority vote standard use "Against". However, it will vary by company and the proxy must be checked to determine the valid contrary vote option for the particular company.

Problematic Takeover Defenses

Classified Board Structure:

- 1.1. The board is classified, and a continuing director responsible for a problematic governance issue at the board/committee level that would warrant a withhold/against vote recommendation is not up for election. All appropriate nominees (except new) may be held accountable.

Director Performance Evaluation:

- 1.2. The board lacks accountability and oversight, coupled with sustained poor performance relative to peers. Sustained poor performance is measured by one- and three-year total shareholder returns in the bottom half of a company's four-digit GICS industry group (Russell 3000 companies only). Take into consideration the company's five-year total shareholder return and operational metrics. Problematic provisions include but are not limited to:
 - A classified board structure;
 - A supermajority vote requirement;
 - Either a plurality vote standard in uncontested director elections or a majority vote standard with no plurality carve-out for contested elections;
 - The inability of shareholders to call special meetings;
 - The inability of shareholders to act by written consent;
 - A dual-class capital structure; and/or
 - A non-shareholder-approved poison pill.

Poison Pills:

- 1.3. The company's poison pill has a "dead-hand" or "modified dead-hand" feature. Vote AGAINST or WITHHOLD from nominees every year until this feature is removed;
- 1.4. The board adopts a poison pill with a term of more than 12 months ("long-term pill"), or renews any existing pill, including any "short-term" pill (12 months or less), without shareholder approval. A commitment or policy that puts a newly adopted pill to a binding shareholder vote may potentially offset an adverse vote recommendation. Review such companies with classified boards every year, and such companies with annually elected boards at least once every three years, and vote AGAINST or WITHHOLD votes from all nominees if the company still maintains a non-shareholder-approved poison pill; or
- 1.5. The board makes a material adverse change to an existing poison pill without shareholder approval.

Vote CASE-BY-CASE on all nominees if:

- 1.6. The board adopts a poison pill with a term of 12 months or less ("short-term pill") without shareholder approval, taking into account the following factors:
 - The date of the pill's adoption relative to the date of the next meeting of shareholders—i.e. whether the company had time to put the pill on ballot for shareholder ratification given the circumstances;
 - The issuer's rationale;
 - The issuer's governance structure and practices; and
 - The issuer's track record of accountability to shareholders.

Problematic Audit-Related Practices

² A "new nominee" is any current nominee who has not already been elected by shareholders and who joined the board after the problematic action in question transpired. If ISS cannot determine whether the nominee joined the board before or after the problematic action transpired, the nominee will be considered a "new nominee" if he or she joined the board within the 12 months prior to the upcoming shareholder meeting.

Generally vote AGAINST or WITHHOLD from the members of the Audit Committee if:

- 1.7. The non-audit fees paid to the auditor are excessive (see discussion under “[Auditor Ratification](#)”);
- 1.8. The company receives an adverse opinion on the company’s financial statements from its auditor; or
- 1.9. There is persuasive evidence that the Audit Committee entered into an inappropriate indemnification agreement with its auditor that limits the ability of the company, or its shareholders, to pursue legitimate legal recourse against the audit firm.

Vote CASE-BY-CASE on members of the Audit Committee and potentially the full board if:

- 1.10. Poor accounting practices are identified that rise to a level of serious concern, such as: fraud; misapplication of GAAP; and material weaknesses identified in Section 404 disclosures. Examine the severity, breadth, chronological sequence and duration, as well as the company’s efforts at remediation or corrective actions, in determining whether WITHHOLD/AGAINST votes are warranted.

Problematic Compensation Practices/Pay for Performance Misalignment

In the absence of an Advisory Vote on Executive Compensation ballot item or in egregious situations, vote AGAINST or WITHHOLD from the members of the Compensation Committee and potentially the full board if:

- 1.11. There is a significant misalignment between CEO pay and company performance ([pay for performance](#));
- 1.12. The company maintains significant [problematic pay practices](#);
- 1.13. The board exhibits a significant level of [poor communication and responsiveness](#) to shareholders;
- 1.14. The company fails to submit one-time [transfers of stock options](#) to a shareholder vote; or
- 1.15. The company fails to fulfill the terms of a [burn rate commitment](#) made to shareholders.

Vote CASE-BY-CASE on Compensation Committee members (or, in exceptional cases, the full board) and the Management Say-on-Pay proposal if:

- 1.16. The company's previous say-on-pay proposal received the support of less than 70 percent of votes cast, taking into account:
 - The company's response, including:
 - o Disclosure of engagement efforts with major institutional investors regarding the issues that contributed to the low level of support;
 - o Specific actions taken to address the issues that contributed to the low level of support;
 - o Other recent compensation actions taken by the company;
 - Whether the issues raised are recurring or isolated;
 - The company's ownership structure; and
 - Whether the support level was less than 50 percent, which would warrant the highest degree of responsiveness.

Governance Failures

Under extraordinary circumstances, vote AGAINST or WITHHOLD from directors individually, committee members, or the entire board, due to:

- 1.17. Material failures of governance, stewardship, risk oversight³, or fiduciary responsibilities at the company;

³ Examples of failure of risk oversight include, but are not limited to: bribery; large or serial fines or sanctions from regulatory bodies; significant adverse legal judgments or settlements; hedging of company stock; or significant pledging of company stock.

- 1.18. Failure to replace management as appropriate; or
- 1.19. Egregious actions related to a director's service on other boards that raise substantial doubt about his or her ability to effectively oversee management and serve the best interests of shareholders at any company.

2. Board Responsiveness

Vote AGAINST or WITHHOLD from individual directors, committee members, or the entire board of directors as appropriate if:

- 2.1. For 2013, the board failed to act⁴ on a shareholder proposal that received the support of a majority of the shares outstanding the previous year;
- 2.2. For 2013, the board failed to act on a shareholder proposal that received the support of a majority of shares cast in the last year and one of the two previous years;
- 2.3. For 2014, the board failed to act on a shareholder proposal that received the support of a majority of the shares cast in the previous year;
- 2.4. The board failed to act on takeover offers where the majority of shares are tendered;
- 2.5. At the previous board election, any director received more than 50 percent withhold/against votes of the shares cast and the company has failed to address the issue(s) that caused the high withhold/against vote; or
- 2.6. The board implements an advisory vote on executive compensation on a less frequent basis than the frequency that received the majority of votes cast at the most recent shareholder meeting at which shareholders voted on the say-on-pay frequency.

Vote CASE-BY-CASE on the entire board if:

- 2.7. The board implements an advisory vote on executive compensation on a less frequent basis than the frequency that received a plurality, but not a majority, of the votes cast at the most recent shareholder meeting at which shareholders voted on the say-on-pay frequency, taking into account:
 - The board's rationale for selecting a frequency that is different from the frequency that received a plurality;
 - The company's ownership structure and vote results;
 - ISS' analysis of whether there are compensation concerns or a history of problematic compensation practices; and
 - The previous year's support level on the company's say-on-pay proposal.

3. Director Independence

Vote AGAINST or WITHHOLD from Inside Directors and Affiliated Outside Directors (per the [Categorization of Directors](#)) when:

- 3.1. The inside or affiliated outside director serves on any of the three key committees: audit, compensation, or nominating;

⁴ Responding to the shareholder proposal will generally mean either full implementation of the proposal or, if the matter requires a vote by shareholders, a management proposal on the next annual ballot to implement the proposal. Responses that involve less than full implementation will be considered on a case-by-case basis, taking into account:

- The subject matter of the proposal;
- The level of support and opposition provided to the resolution in past meetings;
- Disclosed outreach efforts by the board to shareholders in the wake of the vote;
- Actions taken by the board in response to its engagement with shareholders;
- The continuation of the underlying issue as a voting item on the ballot (as either shareholder or management proposals); and
- Other factors as appropriate.

- 3.2. The company lacks an audit, compensation, or nominating committee so that the full board functions as that committee;
- 3.3. The company lacks a formal nominating committee, even if the board attests that the independent directors fulfill the functions of such a committee; or
- 3.4. Independent directors make up less than a majority of the directors.

4. Director Competence

Attendance at Board and Committee Meetings:

- 4.1. Generally vote AGAINST or WITHHOLD from directors (except new nominees, who should be considered CASE-BY-CASE⁵) who attend less than 75 percent of the aggregate of their board and committee meetings for the period for which they served, unless an acceptable reason for absences is disclosed in the proxy or another SEC filing. Acceptable reasons for director absences are generally limited to the following:
 - o Medical issues/illness;
 - o Family emergencies; and
 - o Missing only one meeting (when the total of all meetings is three or fewer).
- 4.2. If the proxy disclosure is unclear and insufficient to determine whether a director attended at least 75 percent of the aggregate of his/her board and committee meetings during his/her period of service, vote AGAINST or WITHHOLD from the director(s) in question.

Overboarded Directors:

Vote AGAINST or WITHHOLD from individual directors who:

- 4.3. Sit on more than six public company boards; or
- 4.4. Are CEOs of public companies who sit on the boards of more than two public companies besides their own— withhold only at their outside boards⁶.



Proxy Access

ISS supports proxy access as an important shareholder right, one that is complementary to other best-practice corporate governance features. However, in the absence of a uniform standard, proposals to enact proxy access may vary widely; as such, ISS is not setting forth specific parameters at this time and will take a case-by-case approach in evaluating these proposals.

Vote CASE-BY-CASE on proposals to enact proxy access, taking into account, among other factors:

⁵ For new nominees only, schedule conflicts due to commitments made prior to their appointment to the board are considered if disclosed in the proxy or another SEC filing.

⁶ Although all of a CEO's subsidiary boards will be counted as separate boards, ISS will not recommend a withhold vote from the CEO of a parent company board or any of the controlled (>50 percent ownership) subsidiaries of that parent, but will do so at subsidiaries that are less than 50 percent controlled and boards outside the parent/subsidiary relationships.

- Company-specific factors; and
- Proposal-specific factors, including:
 - The ownership thresholds proposed in the resolution (*i.e.*, percentage and duration);
 - The maximum proportion of directors that shareholders may nominate each year; and
 - The method of determining which nominations should appear on the ballot if multiple shareholders submit nominations.



Proxy Contests—Voting for Director Nominees in Contested Elections

Vote CASE-BY-CASE on the election of directors in contested elections, considering the following factors:

- Long-term financial performance of the target company relative to its industry;
- Management’s track record;
- Background to the proxy contest;
- Qualifications of director nominees (both slates);
- Strategic plan of dissident slate and quality of critique against management;
- Likelihood that the proposed goals and objectives can be achieved (both slates);
- Stock ownership positions.

When the addition of shareholder nominees to the management card (“proxy access nominees”) results in a number of nominees on the management card which exceeds the number of seats available for election, vote CASE-BY-CASE considering the same factors listed above.



Shareholder Rights & Defenses

Poison Pills- Management Proposals to Ratify Poison Pill

Vote CASE-BY-CASE on management proposals on poison pill ratification, focusing on the features of the shareholder rights plan. Rights plans should contain the following attributes:

- No lower than a 20% trigger, flip-in or flip-over;
- A term of no more than three years;
- No dead-hand, slow-hand, no-hand or similar feature that limits the ability of a future board to redeem the pill;
- Shareholder redemption feature (qualifying offer clause); if the board refuses to redeem the pill 90 days after a qualifying offer is announced, 10 percent of the shares may call a special meeting or seek a written consent to vote on rescinding the pill.

In addition, the rationale for adopting the pill should be thoroughly explained by the company. In examining the request for the pill, take into consideration the company’s existing governance structure, including: board independence, existing takeover defenses, and any problematic governance concerns.



Poison Pills- Management Proposals to Ratify a Pill to Preserve Net Operating Losses (NOLs)

Vote AGAINST proposals to adopt a poison pill for the stated purpose of protecting a company’s net operating losses (NOL) if the term of the pill would exceed the shorter of three years and the exhaustion of the NOL.

Vote CASE-BY-CASE on management proposals for poison pill ratification, considering the following factors, if the term of the pill would be the shorter of three years (or less) and the exhaustion of the NOL:

- The ownership threshold to transfer (NOL pills generally have a trigger slightly below 5 percent);
- The value of the NOLs;
- Shareholder protection mechanisms (sunset provision, or commitment to cause expiration of the pill upon exhaustion or expiration of NOLs);
- The company's existing governance structure including: board independence, existing takeover defenses, track record of responsiveness to shareholders, and any other problematic governance concerns; and
- Any other factors that may be applicable.



Shareholder Ability to Act by Written Consent

Generally vote AGAINST management and shareholder proposals to restrict or prohibit shareholders' ability to act by written consent.

Generally vote FOR management and shareholder proposals that provide shareholders with the ability to act by written consent, taking into account the following factors:

- Shareholders' current right to act by written consent;
- The consent threshold;
- The inclusion of exclusionary or prohibitive language;
- Investor ownership structure; and
- Shareholder support of, and management's response to, previous shareholder proposals.

Vote CASE-BY-CASE on shareholder proposals if, in addition to the considerations above, the company has the following governance and antitakeover provisions:

- An unfettered⁷ right for shareholders to call special meetings at a 10 percent threshold;
- A majority vote standard in uncontested director elections;
- No non-shareholder-approved pill; and
- An annually elected board.



CAPITAL/RESTRUCTURING

Common Stock Authorization

Vote FOR proposals to increase the number of authorized common shares where the primary purpose of the increase is to issue shares in connection with a transaction on the same ballot that warrants support.

Vote AGAINST proposals at companies with more than one class of common stock to increase the number of authorized shares of the class of common stock that has superior voting rights.

Vote AGAINST proposals to increase the number of authorized common shares if a vote for a reverse stock split on the same ballot is warranted despite the fact that the authorized shares would not be reduced proportionally.

⁷ "Unfettered" means no restrictions on agenda items, no restrictions on the number of shareholders who can group together to reach the 10 percent threshold, and only reasonable limits on when a meeting can be called: no greater than 30 days after the last annual meeting and no greater than 90 prior to the next annual meeting.

Vote CASE-BY-CASE on all other proposals to increase the number of shares of common stock authorized for issuance. Take into account company-specific factors that include, at a minimum, the following:

- Past Board Performance:
 - The company's use of authorized shares during the last three years
- The Current Request:
 - Disclosure in the proxy statement of the specific purposes of the proposed increase;
 - Disclosure in the proxy statement of specific and severe risks to shareholders of not approving the request; and
 - The dilutive impact of the request as determined by an allowable increase calculated by ISS (typically 100 percent of existing authorized shares) that reflects the company's need for shares and total shareholder returns.



Dual Class Structure

Generally vote AGAINST proposals to create a new class of common stock unless:

- The company discloses a compelling rationale for the dual-class capital structure, such as:
 - The company's auditor has concluded that there is substantial doubt about the company's ability to continue as a going concern; or
 - The new class of shares will be transitory;
- The new class is intended for financing purposes with minimal or no dilution to current shareholders in both the short term and long term; and
- The new class is not designed to preserve or increase the voting power of an insider or significant shareholder.



Preferred Stock Authorization

Vote FOR proposals to increase the number of authorized preferred shares where the primary purpose of the increase is to issue shares in connection with a transaction on the same ballot that warrants support.

Vote AGAINST proposals at companies with more than one class or series of preferred stock to increase the number of authorized shares of the class or series of preferred stock that has superior voting rights.

Vote CASE-BY-CASE on all other proposals to increase the number of shares of preferred stock authorized for issuance. Take into account company-specific factors that include, at a minimum, the following:

- Past Board Performance:
 - The company's use of authorized preferred shares during the last three years;
- The Current Request:
 - Disclosure in the proxy statement of the specific purposes for the proposed increase;
 - Disclosure in the proxy statement of specific and severe risks to shareholders of not approving the request;
 - In cases where the company has existing authorized preferred stock, the dilutive impact of the request as determined by an allowable increase calculated by ISS (typically 100 percent of existing authorized shares) that reflects the company's need for shares and total shareholder returns; and
 - Whether the shares requested are blank check preferred shares that can be used for antitakeover purposes.



Mergers and Acquisitions

Vote CASE-BY-CASE on mergers and acquisitions. Review and evaluate the merits and drawbacks of the proposed transaction, balancing various and sometimes countervailing factors including:

- *Valuation* - Is the value to be received by the target shareholders (or paid by the acquirer) reasonable? While the fairness opinion may provide an initial starting point for assessing valuation reasonableness, emphasis is placed on the offer premium, market reaction and strategic rationale.
- *Market reaction* - How has the market responded to the proposed deal? A negative market reaction should cause closer scrutiny of a deal.
- *Strategic rationale* - Does the deal make sense strategically? From where is the value derived? Cost and revenue synergies should not be overly aggressive or optimistic, but reasonably achievable. Management should also have a favorable track record of successful integration of historical acquisitions.
- *Negotiations and process* - Were the terms of the transaction negotiated at arm's-length? Was the process fair and equitable? A fair process helps to ensure the best price for shareholders. Significant negotiation "wins" can also signify the deal makers' competency. The comprehensiveness of the sales process (e.g., full auction, partial auction, no auction) can also affect shareholder value.
- *Conflicts of interest* - Are insiders benefiting from the transaction disproportionately and inappropriately as compared to non-insider shareholders? As the result of potential conflicts, the directors and officers of the company may be more likely to vote to approve a merger than if they did not hold these interests. Consider whether these interests may have influenced these directors and officers to support or recommend the merger. The CIC figure presented in the "ISS Transaction Summary" section of this report is an aggregate figure that can in certain cases be a misleading indicator of the true value transfer from shareholders to insiders. Where such figure appears to be excessive, analyze the underlying assumptions to determine whether a potential conflict exists.
- *Governance* - Will the combined company have a better or worse governance profile than the current governance profiles of the respective parties to the transaction? If the governance profile is to change for the worse, the burden is on the company to prove that other issues (such as valuation) outweigh any deterioration in governance.



COMPENSATION

Executive Pay Evaluation

Underlying all evaluations are five global principles that most investors expect corporations to adhere to in designing and administering executive and director compensation programs:

1. Maintain appropriate pay-for-performance alignment, with emphasis on long-term shareholder value: This principle encompasses overall executive pay practices, which must be designed to attract, retain, and appropriately motivate the key employees who drive shareholder value creation over the long term. It will take into consideration, among other factors, the link between pay and performance; the mix between fixed and variable pay; performance goals; and equity-based plan costs;
2. Avoid arrangements that risk "pay for failure": This principle addresses the appropriateness of long or indefinite contracts, excessive severance packages, and guaranteed compensation;

3. Maintain an independent and effective compensation committee: This principle promotes oversight of executive pay programs by directors with appropriate skills, knowledge, experience, and a sound process for compensation decision-making (*e.g.*, including access to independent expertise and advice when needed);
4. Provide shareholders with clear, comprehensive compensation disclosures: This principle underscores the importance of informative and timely disclosures that enable shareholders to evaluate executive pay practices fully and fairly;
5. Avoid inappropriate pay to non-executive directors: This principle recognizes the interests of shareholders in ensuring that compensation to outside directors does not compromise their independence and ability to make appropriate judgments in overseeing managers' pay and performance. At the market level, it may incorporate a variety of generally accepted best practices.

Advisory Votes on Executive Compensation—Management Proposals (Management Say-on-Pay)

Vote CASE-BY-CASE on ballot items related to executive pay and practices, as well as certain aspects of outside director compensation.

Vote AGAINST Advisory Votes on Executive Compensation (Management Say-on-Pay—MSOP) if:

- There is a significant misalignment between CEO pay and company performance ([pay for performance](#));
- The company maintains significant problematic pay practices;
- The board exhibits a significant level of poor communication and responsiveness to shareholders.

Vote AGAINST or WITHHOLD from the members of the Compensation Committee and potentially the full board if:

- There is no MSOP on the ballot, and an AGAINST vote on an MSOP is warranted due to pay for performance misalignment, problematic pay practices, or the lack of adequate responsiveness on compensation issues raised previously, or a combination thereof;
- The board fails to respond adequately to a previous MSOP proposal that received less than 70 percent support of votes cast;
- The company has recently practiced or approved problematic pay practices, including option repricing or option backdating; or
- The situation is egregious.

Vote AGAINST an equity plan on the ballot if:

- A pay for performance misalignment is found, and a significant portion of the CEO's misaligned pay is attributed to non-performance-based equity awards, taking into consideration:
 - Magnitude of pay misalignment;
 - Contribution of non-performance-based equity grants to overall pay; and
 - The proportion of equity awards granted in the last three fiscal years concentrated at the named executive officer (NEO) level.

Primary Evaluation Factors for Executive Pay

Pay-for-Performance Evaluation

ISS annually conducts a pay-for-performance analysis to identify strong or satisfactory alignment between pay and performance over a sustained period. With respect to companies in the Russell 3000 index, this analysis considers the following:

1. Peer Group⁸ Alignment:
 - The degree of alignment between the company's TSR rank and the CEO's total pay rank within a peer group, as measured over one-year and three-year periods (weighted 40/60);
 - The multiple of the CEO's total pay relative to the peer group median.
2. Absolute Alignment – the absolute alignment between the trend in CEO pay and company TSR over the prior five fiscal years – i.e., the difference between the trend in annual pay changes and the trend in annualized TSR during the period.

If the above analysis demonstrates significant unsatisfactory long-term pay-for-performance alignment or, in the case of non-Russell 3000 index companies, misaligned pay and performance are otherwise suggested, our analysis may include any of the following qualitative factors, if they are relevant to the analysis to determine how various pay elements may work to encourage or to undermine long-term value creation and alignment with shareholder interests:

- The ratio of performance- to time-based equity awards;
- The overall ratio of performance-based compensation;
- The completeness of disclosure and rigor of performance goals;
- The company's peer group benchmarking practices;
- Actual results of financial/operational metrics, such as growth in revenue, profit, cash flow, etc., both absolute and relative to peers;
- Special circumstances related to, for example, a new CEO in the prior FY or anomalous equity grant practices (e.g., bi-annual awards);
- Realizable pay compared to grant pay; and
- Any other factors deemed relevant.

Problematic Pay Practices

The focus is on executive compensation practices that contravene the global pay principles, including:

- Problematic practices related to non-performance-based compensation elements;
- Incentives that may motivate excessive risk-taking; and
- Options Backdating.

Problematic Pay Practices related to Non-Performance-Based Compensation Elements

Pay elements that are not directly based on performance are generally evaluated CASE-BY-CASE considering the context of a company's overall pay program and demonstrated pay-for-performance philosophy. Please refer to ISS' Compensation FAQ document for detail on specific pay practices that have been identified as potentially problematic and may lead to negative recommendations if they are deemed to be inappropriate or unjustified relative to executive pay best practices. The list below highlights the problematic practices that carry significant weight in this overall consideration and may result in adverse vote recommendations:

- Repricing or replacing of underwater stock options/SARS without prior shareholder approval (including cash buyouts and voluntary surrender of underwater options);
- Excessive perquisites or tax gross-ups, including any gross-up related to a secular trust or restricted stock vesting;
- New or extended agreements that provide for:
 - CIC payments exceeding 3 times base salary and average/target/most recent bonus;

⁸ The revised peer group is generally comprised of 14-24 companies that are selected using market cap, revenue (or assets for certain financial firms), GICS industry group and company's selected peers' GICS industry group with size constraints, via a process designed to select peers that are closest to the subject company in terms of revenue/assets and industry and also within a market cap bucket that is reflective of the company's.

- o CIC severance payments without involuntary job loss or substantial diminution of duties ("single" or "modified single" triggers);
- o CIC payments with excise tax gross-ups (including "modified" gross-ups).

Incentives that may Motivate Excessive Risk-Taking

- Multi-year guaranteed bonuses;
- A single or common performance metric used for short- and long-term plans;
- Lucrative severance packages;
- High pay opportunities relative to industry peers;
- Disproportionate supplemental pensions; or
- Mega annual equity grants that provide unlimited upside with no downside risk.

Factors that potentially mitigate the impact of risky incentives include rigorous claw-back provisions and robust stock ownership/holding guidelines.

Options Backdating

The following factors should be examined CASE-BY-CASE to allow for distinctions to be made between “sloppy” plan administration versus deliberate action or fraud:

- Reason and motive for the options backdating issue, such as inadvertent vs. deliberate grant date changes;
- Duration of options backdating;
- Size of restatement due to options backdating;
- Corrective actions taken by the board or compensation committee, such as canceling or re-pricing backdated options, the recouping of option gains on backdated grants; and
- Adoption of a grant policy that prohibits backdating, and creates a fixed grant schedule or window period for equity grants in the future.

Board Communications and Responsiveness

Consider the following factors CASE-BY-CASE when evaluating ballot items related to executive pay on the board’s responsiveness to investor input and engagement on compensation issues:

- Failure to respond to majority-supported shareholder proposals on executive pay topics; or
- Failure to adequately respond to the company's previous say-on-pay proposal that received the support of less than 70 percent of votes cast, taking into account:
 - o The company's response, including:
 - Disclosure of engagement efforts with major institutional investors regarding the issues that contributed to the low level of support;
 - Specific actions taken to address the issues that contributed to the low level of support;
 - Other recent compensation actions taken by the company;
 - o Whether the issues raised are recurring or isolated;
 - o The company's ownership structure; and
 - o Whether the support level was less than 50 percent, which would warrant the highest degree of responsiveness.



Frequency of Advisory Vote on Executive Compensation ("Say When on Pay")

Vote FOR annual advisory votes on compensation, which provide the most consistent and clear communication channel for shareholder concerns about companies' executive pay programs.



Voting on Golden Parachutes in an Acquisition, Merger, Consolidation, or Proposed Sale

Vote CASE-BY-CASE on say on Golden Parachute proposals, including consideration of existing change-in-control arrangements maintained with named executive officers rather than focusing primarily on new or extended arrangements.

Features that may result in an AGAINST recommendation include one or more of the following, depending on the number, magnitude, and/or timing of issue(s):

- Single- or modified-single-trigger cash severance;
- Single-trigger acceleration of unvested equity awards;
- Excessive cash severance (>3x base salary and bonus);
- Excise tax gross-ups triggered and payable (as opposed to a provision to provide excise tax gross-ups);
- Excessive golden parachute payments (on an absolute basis or as a percentage of transaction equity value); or
- Recent amendments that incorporate any problematic features (such as those above) or recent actions (such as extraordinary equity grants) that may make packages so attractive as to influence merger agreements that may not be in the best interests of shareholders; or
- The company's assertion that a proposed transaction is conditioned on shareholder approval of the golden parachute advisory vote.

Recent amendment(s) that incorporate problematic features will tend to carry more weight on the overall analysis. However, the presence of multiple legacy problematic features will also be closely scrutinized.

In cases where the golden parachute vote is incorporated into a company's advisory vote on compensation (management say-on-pay), ISS will evaluate the say-on-pay proposal in accordance with these guidelines, which may give higher weight to that component of the overall evaluation.



Equity-Based and Other Incentive Plans

Vote CASE-BY-CASE on equity-based compensation plans. Vote AGAINST the equity plan if any of the following factors apply:

- The total cost of the company's equity plans is unreasonable;
- The plan expressly permits repricing;
- A pay-for-performance misalignment is found;
- The company's three year burn rate exceeds the burn rate cap of its industry group;
- The plan has a liberal change-of-control definition; or
- The plan is a vehicle for problematic pay practices.



Social/Environmental Issues

Global Approach

Issues covered under the policy include a wide range of topics, including consumer and product safety, environment and energy, labor standards and human rights, workplace and board diversity, and corporate political issues. While a variety of factors goes into each analysis, the overall principle guiding all vote recommendations focuses on how the proposal may enhance or protect shareholder value in either the short term or long term.

Generally vote CASE-BY-CASE, taking into consideration whether implementation of the proposal is likely to enhance or protect shareholder value, and in addition the following will also be considered:

- If the issues presented in the proposal are more appropriately or effectively dealt with through legislation or government regulation;
- If the company has already responded in an appropriate and sufficient manner to the issue(s) raised in the proposal;
- Whether the proposal's request is unduly burdensome (scope, timeframe, or cost) or overly prescriptive;
- The company's approach compared with any industry standard practices for addressing the issue(s) raised by the proposal;
- If the proposal requests increased disclosure or greater transparency, whether or not reasonable and sufficient information is currently available to shareholders from the company or from other publicly available sources; and
- If the proposal requests increased disclosure or greater transparency, whether or not implementation would reveal proprietary or confidential information that could place the company at a competitive disadvantage.



Political Spending & Lobbying Activities

Generally vote AGAINST proposals asking the company to affirm political nonpartisanship in the workplace so long as:

- There are no recent, significant controversies, fines or litigation regarding the company's political contributions or trade association spending; and
- The company has procedures in place to ensure that employee contributions to company-sponsored political action committees (PACs) are strictly voluntary and prohibit coercion.

Vote AGAINST proposals to publish in newspapers and other media the company's political contributions. Such publications could present significant cost to the company without providing commensurate value to shareholders.

Generally vote FOR proposals requesting greater disclosure of a company's political contributions and trade association spending policies and activities. However, the following will be considered:

- The company's current disclosure of policies and oversight mechanisms related to its direct political contributions and payments to trade associations or other groups that may be used for political purposes, including information on the types of organizations supported and the business rationale for supporting these organizations; and
- Recent significant controversies, fines, or litigation related to the company's political contributions or political activities.

Vote AGAINST proposals barring the company from making political contributions. Businesses are affected by legislation at the federal, state, and local level; barring political contributions can put the company at a competitive disadvantage.

Vote AGAINST proposals asking for a list of company executives, directors, consultants, legal counsels, lobbyists, or investment bankers that have prior government service and whether such service had a bearing on the business of the company. Such a list would be burdensome to prepare without providing any meaningful information to shareholders.

Vote CASE-BY-CASE on proposals requesting information on a company's lobbying (including direct, indirect, and grassroots lobbying) activities, policies, or procedures, considering:

- The company's current disclosure of relevant policies and oversight mechanisms;
- Recent significant controversies, fines, or litigation regarding the company's lobbying-related activities; and
- The impact that the public policy issues in question may have on the company's business operations, if specific public policy issues are addressed.



Foreign Private Issuers Listed on U.S. Exchanges

Vote AGAINST (or WITHHOLD from) non-independent director nominees at companies which fail to meet the following criteria: a majority-independent board, and the presence of an audit, a compensation, and a nomination committee, each of which is entirely composed of independent directors.

Where the design and disclosure levels of equity compensation plans are comparable to those seen at U.S. companies, U.S. compensation policy will be used to evaluate the compensation plan proposals. In all other cases, equity compensation plans will be evaluated according to ISS International Proxy Voting Guidelines.

All other voting items will be evaluated using ISS International Proxy Voting Guidelines.



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