



DISCLOSURE TO FIXED INCOME PRODUCTS CLIENTS

July 2020

The purpose of this document is to clarify the nature of the trading relationship between you and Daiwa Capital Markets America Inc. ("DCMA" or the "Firm") and to disclose relevant practices and certain terms of dealing of DCMA when acting as a dealer or counterparty, on a principal basis, of fixed income products, including but not limited to securities and other related financial instruments ("Financial Products"). Financial Products do not include cash equities, exchange traded funds or similar securities.

DCMA is dedicated to upholding a high level of integrity and conducting its dealings with counterparties in compliance with all applicable laws and regulations and internal policies. This document sets forth our standard business practices and terms of dealing generally with our customers (together with other market participants, "counterparties") in principal-to-principal transactions involving Financial Products (as well as when you act as agent for another principal). It sets forth how we will handle and transact in relation to requests for quotes, requests for indicative prices, bid lists, discussion or placement of orders and all other expressions or indications of interests that may lead to the execution of transactions and our management of potential or actual conflicts of interest in our principal-dealing and market-making activities.

Principal Trading

- DCMA generally acts in a principal capacity in fixed income markets. In doing so, the Firm acts on an arm's length basis with respect to transactions with our counterparties. DCMA does not act as agent, fiduciary, or financial, legal, regulatory, tax, business, investments or accounting advisor or in any similar capacity on behalf of a counterparty and thus does not undertake any of the duties that an entity acting in that capacity ordinarily would perform, unless otherwise expressly agreed between DCMA and the counterparty, and then only where we act with discretion in execution or where there is a specific regulatory obligation. In this capacity, DCMA's sales and trading personnel and electronic solutions do not serve as brokers or agents to a counterparty. DCMA will be truthful in its statements about any facts, but its statements should not be construed as recommendations or investment, tax, accounting, legal or other advice. A counterparty is expected to evaluate the appropriateness of any transaction based on the counterparty's own facts and circumstances and its assessment of the transaction's merits and execute the transaction based upon its own independent determination of the transaction.
- When DCMA is willing to work a counterparty's "order" (as such term is used herein) at a price (such as a limit order), DCMA is indicating a willingness to attempt to enter into the trade at the price requested by the counterparty. DCMA will exercise its discretion appropriately in deciding whether to work an order, which orders it would be willing to execute, when it would be willing to execute them, and how it would execute them, including whether to execute all or part of the order unless we have otherwise expressly agreed to different terms of execution. As such, DCMA's receipt of an order or any indication of working an order received from a counterparty does not create a contract between the counterparty and DCMA

that commits the Firm to execute any or all of the order in any particular way, nor is it a contract that binds the counterparty to execute the trade with DCMA at the order price.

- As it relates to execution timing, DCMA may look for market opportunities that satisfy both a price where we can execute a counterparty's order at the counterparty's desired price and earn a reasonable return for that activity, including while managing and prioritizing other interests, positions and executions for DCMA's own risk and/or other counterparties. When DCMA is willing to execute an order with a counterparty, the price at which DCMA would do so may include a spread or markup over the price at which DCMA transacted, or may have been able to transact, with other counterparties.

Market Making

- As a market maker or liquidity provider in Financial Products that handles a portfolio of positions for multiple counterparties' competing interests, as well as DCMA's own interests, DCMA acts as principal and may trade prior to or alongside a counterparty's transaction to execute transactions for DCMA or to facilitate executions with other counterparties, to manage risk, to source liquidity or for other reasons. These activities can have an impact on the prices we offer a counterparty on a transaction and the availability of liquidity at levels necessary to execute counterparty orders. They also can trigger stop loss orders, barriers, knock-outs, knock-ins and similar conditions. In conducting these activities, DCMA endeavors to employ reasonably designed means to avoid undue market impact.
- In addition, as a market maker or liquidity provider in Financial Products, DCMA may receive requests for quotations and multiple orders for the same or related Financial Products. DCMA acts as principal and may seek to satisfy the requests of all of its counterparties and its independent risk management objectives, but it retains discretion with respect to how to satisfy its counterparties, including with respect to order execution, aggregation, priority and pricing. DCMA is not required to disclose to a counterparty when the counterparty attempts to leave an order that DCMA is handling other counterparties' orders or DCMA orders ahead of, or at the same time as, or on an aggregated basis with, the counterparty's order. DCMA is under no obligation to disclose to a counterparty why DCMA is unable to execute the counterparty's order in whole or in part.
- Unless otherwise expressly agreed, any firm or indicative bid, offer or price quoted by DCMA to a counterparty is an "all-in" price, inclusive of any spread or markup above the price at which DCMA may be able to transact, or has transacted, with other counterparties, regardless of the circumstances under which a counterparty receives or otherwise learns of a price.
- DCMA and a counterparty may from time to time discuss a bid, offer or order designated as "pay on top," "on top" or otherwise involving a payment arrangement linked to, or in addition to, a proposed or actual transaction execution price. DCMA's acceptance of and/or effort to fulfill such bids, offers or orders does not constitute an agreement that DCMA is acting as the counterparty's agent. Consequently, DCMA, as principal, may transact with another counterparty at a price different than the bid, offer or order and may also earn compensation (such as markup or an on-top amount from such other counterparty) in connection with fulfilling any such bid, offer or order in addition to any designated on top amount and need not disclose that compensation to the counterparty.
- DCMA's sales and trading personnel are not obligated to disclose the amount of revenue DCMA expects to earn from a transaction, nor are they required to disclose the components of DCMA's all-in price. While we do not have any duties to disclose to a counterparty any markup included in the transaction price, we will be truthful with the counterparty if we choose to make a disclosure about whether and how much markup is included in the price.

- As principal, DCMA always attempts to execute an order to make an appropriate and reasonable return on the transaction if possible, taking into account DCMA's position, including its inventory strategy and overall risk management strategies, its costs, its risks and other business factors and objectives, in DCMA's sole discretion. If and when a counterparty's order can be executed at the order price, it does not mean that DCMA held, acquired, or would acquire, inventory to complete the transaction at the order price level or that there exists a tradable market at that level. DCMA reserves the right to execute a transaction with a counterparty using DCMA's inventory or through acquisition or other hedging activities without disclosing to the counterparty the source and DCMA's cost of the liquidity.
- When solicited for, and prior to the execution of, a transaction, DCMA may risk-mitigate or hedge any exposure that would be created by such transaction.
- DCMA has discretion to offer different prices or services to different counterparties for the same or substantially similar transactions. In determining any mark-up or spread applicable for a particular transaction, we may consider factors such as liquidity of the transaction type in prevailing markets, size and/or complexity of the transaction, credit risk, counterparty risk, maturity, balance sheet and capital usage, risk limit utilization, hedging costs, hedge effectiveness, sales efforts, and other considerations. DCMA may also be compensated for execution of transactions in the form of an agreed upon fee.
- It should be expected that DCMA's sales, trading and other personnel will consult, including with respect to a counterparty's interests, trading behavior and expectations, markup, spread, and any other relevant factors, on a need-to-know basis in order to handle DCMA's market-making positions, and for the benefit of DCMA's trading positions and the handling of other counterparty transactions.

Information Handling

- Protecting the confidentiality and security of counterparty information is an important part of how we do business. DCMA has policies, procedures and controls that are designed to protect a counterparty's confidential information. However, a counterparty should understand that DCMA makes use of information provided to it as principal in order to effectuate and risk manage portfolios and transactions. Specifically, unless otherwise expressly agreed, DCMA may use the economic terms of a transaction (but not the counterparty identity) as part of the process of sourcing liquidity and/or executing risk-mitigating transactions. In addition, as part of its obligations as a regulated entity, DCMA also shares counterparty information as required by its global regulators.
- With regard to executed transactions, DCMA analyzes this information on an individual and aggregate basis and may use the information for a variety of purposes, including counterparty risk management, business strategy, sales coverage, and counterparty relationship management.
- We also may analyze, comment on, and disclose information regarding executed transactions, as appropriate and on an anonymized basis (except where information regarding executed transactions has previously been publicly disclosed), together with other relevant market information, internally and to third parties, as market color.

U.S. Government Securities Activities

DCMA is active in the U.S. government securities markets in a number of different respects. Except as otherwise expressly addressed below, all of the material set forth above is applicable to such activities.

DCMA has been designated as a primary dealer that trades in U.S. government securities with the Federal Reserve Bank of New York (“FRBNY”). The role of a primary dealer includes the obligations to: (i) participate consistently in open market operations to carry out U.S. monetary policy pursuant to the direction of the Federal Open Market Committee and (ii) provide the FRBNY's trading desk with market information and analysis helpful in the formulation and implementation of monetary policy. Primary dealers are also required to participate on a proportional basis in all U.S. government securities auctions and to make reasonable markets for the FRBNY when the FRBNY transacts on behalf of its foreign official account-holders. Auctions are open to primary dealers, their clients and direct bidders.

DCMA acts as a market-maker in when-issued U.S. government securities. Following the announcement of an auction of such securities by the U.S. Treasury but prior to the auction settlement, dealers and other market participants will trade the new security on a when-issued basis. Transactions in when-issued securities will settle on the date of the issuance of the new security. DCMA is also active in market-making and trading activities in the secondary market for U.S. government securities. DCMA provides pricing for multiple counterparties' competing interests, while also handling DCMA's own interests. In addition to the DCMA trading desks that are dedicated to performing primary dealer functions and market-making and secondary trading in U.S. government securities, a number of other trading desks within DCMA transact in such securities and products linked to such securities (e.g., futures and swaps) for a variety of reasons, including for the purpose of pricing such products and hedging interest rate and other risks.

As noted above, DCMA is dedicated to adhering to rules, regulations and requirements in our dealings with counterparties, including, in the context of transacting in U.S. government securities, 31 C.F.R. 356 and the Treasury Market Practices Group *“Best Practices for Treasury, Agency Debt, and Agency Mortgage-Backed Securities Markets.”*

DCMA acts as a principal when participating in U.S. government securities auctions, acting as a market maker in the when-issued and secondary markets, and transacting in related products such as swaps. There are designated trading desks that are responsible for submitting DCMA's bid as a primary dealer for its proportional share of any U.S. government securities auction. These desks, as well as other trading desks within DCMA (e.g., interest rate swap desks), may submit multiple bids in any auction for different amounts and at different yields.

DCMA's bids in auctions, as well as its bid/offer spreads in the when-issued and secondary markets and in related products, are determined by its traders based on a variety of factors. These factors include, but are not limited to, the traders' then current risk positions and their perception of the market, hedging strategies, liquidity, volatility, anticipated flow and expected demand, and global political and economic forces that could affect U.S. interest rates, such as foreign rates, commodities prices, and corporate bond spreads. When making markets, DCMA's pricing may also reflect its willingness to transact with a particular counterparty.

DCMA's market-making activity in the when-issued market involving transactions between DCMA and its various counterparties prior to an auction, its activities in the secondary market, and its conversations with clients that are permitted under its policies and procedures, as well as trading activities in related financial products, may provide information to DCMA regarding the depth, the direction and/or price levels that might be relevant to how participants in an auction may bid and the ultimate outcome of the auction. While this information may form an incomplete representation of other market-wide activities (including by other dealers and/or market-participants away from DCMA), such information may be used to shape DCMA's views with respect to how DCMA may bid in an auction, determine bid/offer spreads in the when-issued and secondary markets, and transact in related financial products, including with respect to DCMA's objectives to cover any short positions and/or to accumulate the relevant or related U.S. government securities for DCMA's trading position.

DCMA will, at the request of a client, submit the client's bid for U.S. government securities in an auction. DCMA's policies and practices restrict personnel involved in handling client bids from sharing client bid information (including client names, bid amounts and bid rates) with DCMA's trading personnel prior to the auction close. Notwithstanding the foregoing, prior to an auction close, a client may request to communicate with a trader about an upcoming auction and may, as part of that discussion and in the client's discretion, indicate the amounts and yields the client plans to bid in the auction.

Although DCMA's traders may provide or receive market color to or from DCMA's salespeople, other DCMA trading desks and clients in respect of topics such as general market conditions or expectations about the result of the auction, DCMA's employees involved in the process of formulating or submitting DCMA bids will not communicate information to any client or other dealer regarding specific yields at which DCMA or any client plans to bid in any upcoming auction, the specific amounts of securities for which DCMA or any client plans to bid in any upcoming auction, the size of any U.S. government security position that DCMA or any other client currently holds, has held or plans to acquire, or the specific investment strategy that DCMA or any other client plans to follow with respect to any auctioned U.S. government security.

This document is also available at <https://us.daiwacm.com/disclosure-documents/regulatory-disclosures/>. If you have questions after reading this document or concerning DCMA's dealings with you, we encourage you to contact your senior DCMA representative.