

Arrowstreet Capital was established in 1999 with a mission and set of business principles designed to ensure the long term success of the firm and our clients. Our values, culture and vision, all of which revolve around client needs and interests, are embodied in these principles. The purpose of this document is to: 1) articulate our mission and business principles, and 2) highlight some of the specific business practices employed to uphold these principles.

## Mission

Our mission is to be a leader in the investment management industry by providing:

- Global / International and Emerging Market investment products that seek to outperform on a consistent basis.
- A strategic partnership with our clients centered around Non-Investment Alpha, defined as sharing insights into the firm's research and providing solutions to related investment issues.

## Business Principles

### 1. Meet Client Needs

Institutional investor needs are evolving. Not only do they require predictable and consistent alpha, they are also increasingly relying on their managers for tools and insights on a broad set of investment issues. This need for "non-investment alpha" is being driven by the growth and complexity of investment markets combined with ever tighter budgets. Arrowstreet's mission is specifically designed to meet these needs:

- **Alpha:** We develop and maintain state-of-the-art investment processes that identify and exploit systematic mispricings in the global equity markets. Our innovative and dynamic approach seeks to outperform during a broad range of market environments and to minimize the likelihood of large negative surprises by managing the risk profile of the strategy according to changing market conditions.
- **Non-Investment Alpha:** We further strengthen client relationships by sharing research insights to help our clients become better investors and fiduciaries. These insights are shared in client research seminars as well as individual meetings, and cover a variety of investment topics ranging from advising Boards on long-term strategic asset allocation issues to working with staff to improve internally managed investment processes.

### 2. Align the Firm's Interests with those of the Clients

As institutional funds have grown in size, they have become increasingly exposed to potential losses (both real and opportunity) arising from differences in their interests versus those of their managers. For example, the interests of clients revolve around obtaining consistent alpha and investment insights. To achieve these goals, managers must continually reinvest in research and improve existing investment processes while limiting the size of their assets under management. The interests of owners of investment firms, on the other hand, revolve around current and future profits. Meeting these goals often requires an expansionary policy involving the development of new products and/or expansion into new target client markets. When these paths are at odds, managers of investment firms are faced with a dilemma: whose interests should they try to serve?

We have designed our corporate structure and incentives to align the firm's interests as closely as possible with those of our clients. Specific examples include:

- **Corporate structure:** We are structured as a limited partnership that is wholly owned and controlled by senior professionals. Firm ownership and control is of critical importance to clients. Firms that keep ownership and control in the hands of management are better able to ensure that the firm is managed in the interests of its clients, than are firms which are owned and controlled by external shareholders. An additional benefit of management ownership is that it allows firms to attract and retain a more stable and talented group of investment professionals.
- **Incentives:** Firm and employee compensation:
  - Firm compensation: Sensibly structured performance fees provide shared rewards for managers and clients and thus can be an effective method of aligning incentives. We encourage all clients to consider performance fee arrangements.
  - Employee compensation: Performance related bonuses are a very effective way to align employee incentives with those of clients. At Arrowstreet, every employee's annual bonus is influenced by the firm's ability to meet its clients' investment goals.

### 3. Protect Client Interests

As it is impossible to perfectly align manager / client interests, we have taken several additional steps to directly protect client interests. These include:

- **Capping assets under management:** Investing suffers from diseconomies of scale: as trade size grows, costs rise disproportionately. To ensure that our strategies continue to add value as assets grow, we monitor them closely and close them once they reach capacity.

Based on current liquidity conditions, Arrowstreet anticipates closing its Global/ International Equity strategy when assets reach 0.20% of the investable universe. As of June 30, 2010 this value was US\$39.2 billion when measured on a global basis and US\$17.7 billion when measured on an EAFE basis.

Arrowstreet anticipates closing its Global/International Small Cap Equity Strategy when assets reach 0.20% of the investable universe (as defined as Standard & Poor's SmallCap Index universe of stocks which have institutional liquidity). As of June 30, 2010, this value was US\$8.6 billion when measured on a global basis and \$4.9 billion when measured on a global ex. US basis. billion when measured on a global basis and \$5.3 billion when measured on a global ex. US basis.

Arrowstreet set an original capacity of 0.15% of the MSCI EMF Index for its Emerging Markets strategy and closed it to new dedicated emerging markets mandates on July 1, 2005. On September 1, 2006, Arrowstreet Capital increased that capacity to 0.20% of the investable universe after performing liquidity and trading analysis on market impact costs. In August of 2007, Arrowstreet closed the strategy to new dedicated emerging markets mandates. Arrowstreet reestablished the capacity limit at 0.25% of the MSCI Emerging Market IMI effective November 1, 2008. As of September 30, 2009, we have again reached our capacity and closed the strategy to new dedicated emerging markets mandates

Our default capacity limits will remain these percentages going forward, unless future market changes or research into capacity suggests either lowering or raising these percentages.

- **Capping number of client relationships:** In addition to measuring capacity in terms of assets under management, we also measure capacity in terms of the number of client relationships we are able to manage. To ensure that we are able to fulfill our pledge of providing large institutional clients with non-investment alpha (defined as a sharing of insights into a variety of investment topics), we will limit to approximately 40 – 50 the number of clients interested in receiving this level of service. We also expect to take on additional clients who do not wish to receive non-investment alpha.
- **Business Focus:** To ensure that we continue to serve the interests of our existing clients, we pursue a business strategy narrowly focused on global and emerging market equities for one client type (institutional investors) in selected geographic areas. This allows us to devote all of our resources to continually improving our existing investment processes rather than diluting its resources through an expansionary policy that involves branching out into different asset classes or client markets. In addition, in order to remain focused on investing and client service, we have outsourced our back-office function.
- **Client / Portfolio Equality:** To ensure that all clients are treated fairly (i.e., get the best ideas and best execution in their portfolios), we have adopted certain best practices which involve rebalancing accounts at the same time using the same set of return, risk and transaction cost forecasts as well as portfolio construction routine. Such best practices allow for trading all accounts concurrently so that investment opportunities are allocated fairly amongst all clients.
- **Broker / Vendor Management:** As Soft Dollars and Directed Commissions may not always be in the client's interests, we do not engage in soft dollar activity and limit the amount of directed brokerage in every account. In addition, as vendor gifts (including entertainment, etc.) are never in the clients' interests, employees may not accept gifts, favors, preferential treatment or any other form of special arrangements.