

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
FORM ADV PART 2A: FIRM BROCHURE**

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**This brochure provides information about the qualifications and business practices of Basso Capital Management, L.P. (“Basso”), an investment adviser registered with the United States Securities and Exchange Commission (“SEC”). If you have any questions about the contents of this brochure, please contact us by telephone at (203) 352-6100 or by email at [legalnotices@bassocap.com](mailto:legalnotices@bassocap.com). The information in this brochure has not been approved or verified by the SEC or by any state securities authority.**

**Registration with the SEC does not imply a certain level of skill or training.**

**Additional Information about Basso is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **ITEM 2: MATERIAL CHANGES**

In 2010 the SEC adopted amendments that required significant changes to the content and format of Part 2 of Form ADV. This brochure, which reflects those changes, is materially different in structure from Basso's prior brochures and includes certain new information that was not required to be disclosed in Basso's prior brochures.

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## **ITEM 4: ADVISORY BUSINESS**

### **General Description of Basso**

Basso Capital Management, L.P. (“Basso”), a Delaware limited partnership, was formed in November 2003. Since January 1, 2004, Basso has served as the investment adviser to several private investment funds (“Funds”). For the roughly ten years before Basso’s formation, a predecessor entity named Basso Securities Ltd. was sub-advisor to funds managed by a third party, one of which became a Basso Fund in 2004. The combined advisory period of approximately 17 years has been characterized by a primary focus on investments in convertible securities and the equity shares of the companies that issue those convertible securities. Basso (and other related entities) is owned by its four Founding Managing Partners - CEO Howard Fischer, who started Basso Securities Ltd. in 1994, John Lepore and Philip Platek, each of whom joined Mr. Fischer in 1998, and Dwight Nelson, who joined in 1999. Together they bring to Basso approximately 80 years of investing experience in convertible securities and other types of investments.

### **Investment Strategies**

As noted, Basso primarily focuses on investments in convertible securities and the equity shares of the companies that issue those convertible securities. Basso applies a number of strategies when investing in convertible securities, strategies that are discussed more completely in the confidential offering memorandum for the relevant Funds. The main convertible strategies are:

- **Relative Value** – this strategy typically includes a long position in a convertible security, such as a bond or preferred stock, and a short, or hedge, position in the equity into which the security is convertible. These trades may present various profit opportunities, including the capture of yield differences between the convertible securities and the equity hedge or the realization of gains from relative mispricings between the long and short positions in various market conditions.
- **Low Premium Convertibles** – a convertible security is considered to be “low premium” when it trades near to the price of the equity shares into which it converts. An investment in a low premium convertible is usually hedged by a short position in the underlying equity and may also capture yield differences or benefit from upward or downward movements in the equity price.
- **Credit-Oriented** – convertible securities have a credit component, which at times presents an investment opportunity. These investments are based on a detailed analysis of the issuing company’s financial condition, including its debt and cash positions, its funding needs and the relative position a particular security holds in the capital structure of the company.
- **Equity-Oriented** – Basso also purchases convertibles with a focus on profiting from movements in the issuing company’s stock price. These types of “equity-oriented” trades reflect Basso’s view of the company’s overall soundness. That

view is reached after reviewing company fundamentals including business prospects, finances and management, as well as broader economic conditions.

- Event-Oriented – one further type of investment strategy pursued by Basso is generally referred to as “event-oriented.” The potential events include mergers, acquisitions, spinoffs and restructurings, many of which trigger special rights for holders of securities issued by the companies involved, or cause movements in the market prices for these securities. Analysis of these events is combined with a careful review of the legal documents governing the securities that Basso intends to invest in, as that is significant to understanding the potential impact of the events.

While these strategies are part of Basso’s approach to investing in convertible securities, Basso also applies some of these methods in connection with its management of Funds that do not purchase convertible securities as their core investments. Basso manages a fundamentally driven credit Fund that invests primarily in United States-based companies’ high yield and distressed securities, including bank loans, and reorganized equities of companies emerging or expected to emerge from bankruptcy. This Fund’s positions are initiated in various parts of a company’s capital structure and often have an identified catalyst event which may impact the position’s value. Another Fund managed by Basso focuses on investing in securities issued by special purpose acquisition companies, or SPACs, which attempt to use the money raised in their initial public offerings to purchase one or more existing private businesses. SPACs offer investing opportunities that require careful attention to stock prices, trading activity, company news and company fundamentals. Finally, Basso manages another Fund that focuses on various trading-oriented strategies, including short-term opportunities created by market trading imbalances and other arbitrages.

All of the Funds managed by Basso have a broad investment mandate. The principal types of securities purchased and sold by the two largest Funds include convertible securities and equities; however, the various Funds may also invest in other equity-linked securities such as put and call options, warrants and rights, as well as corporate or government bonds, credit derivatives, futures, currency forwards and the securities of distressed companies. The Funds buy and sell securities on both public and over-the-counter markets. Basso takes both long and short positions in these instruments. There are no material limitations on the instruments that Basso may trade on behalf of the Funds.

## **Investment Mandate**

The investment mandate for each Fund is described in its confidential offering memorandum. That Fund-specific mandate guides Basso’s role as investment adviser. Basso generally has full discretion in trading on behalf of the Funds and therefore does not require or seek approval from the Funds or the investors in the Funds before trading. One exception exists in the case of a “single manager Fund” in which a third party investment manager negotiated with Basso to establish a fund solely for investments by accounts and collective investment vehicles advised or managed by that third party investment manager or its affiliate. With respect to this Fund, Basso has agreed to certain investment parameters responsive to investor needs while otherwise retaining full trading discretion. Basso may in the future negotiate managed

account relationships in which Basso would tailor its advisory services to an investor's needs. For example, managed account clients may be allowed to direct brokerage or request certain investing or trading restrictions.

### **No Wrap Fee Programs**

Basso does not participate in wrap fee programs and does not manage wrap fee accounts.

### **Assets Under Management**

As of March 1, 2011, Basso manages approximately \$672,364,000 of client assets on a discretionary basis.

## **ITEM 5: FEES AND COMPENSATION**

### **Management Fees and Performance Based Compensation**

Basso charges its investors a management fee based on their account balance. The fee is payable at the end of each calendar month or quarter, as applicable, and is pro-rated for partial periods. The fee is deducted from the investor's account in arrears, rather than billed or deducted in advance. Basso may, in its discretion, waive or reduce the management fee for certain investors.

Basso charges its investors performance-based compensation on an annual basis. Like the management fee, the performance-based compensation is deducted from the investor's account in arrears. The performance-based compensation is a percentage of the amount by which the net asset value of the investor's investments has grown during the year. The performance-based compensation is not charged, however, unless the net asset value of an investor's account exceeds the investor's "high water mark." The high water mark, generally, is the highest prior net asset value of the investor's account, either at the time of initial investment or at any earlier year end, before reduction for any accrued performance-based compensation. In short, Basso does not earn performance-based compensation unless the investor has recouped losses measured against its high water mark. Basso may, in its discretion, waive or reduce the performance-based compensation for certain investors.

Basso's fee schedule is omitted because this brochure is only being delivered to qualified purchasers, as defined in the Investment Company Act of 1940 and the rules thereunder, and non-U.S. persons.

### **Fund Expenses**

In addition to the compensation it pays to Basso, each Fund also pays all of its ongoing investment, administrative and operating expenses, some of which are:

- Investment expenses such as brokerage commissions and other transaction charges; interest on margin accounts and other indebtedness; borrowing charges, fees and expenses related to short selling; taxes and other governmental charges; legal fees in reviewing and negotiating trading documentation;

- certain limited research expenses;
- legal, accounting, auditing and other professional fees and expenses of the Funds;
- tax preparation fees and expenses and the costs of preparing and distributing annual reports and certain other investor communications;
- administrative costs, including the fees and out-of-pocket expenses of the Funds' third party administrator;
- fees and expenses of service providers;
- litigation-related expenses;
- indemnification payments;
- the Fund's *pro rata* portion of the fees and expenses of any master fund or any trading vehicles that the Fund invests through, including directors' fees and expenses, when applicable; and
- reimbursements due to Basso for all costs and expenses, if any, borne by Basso on behalf of the Fund.

The Funds do not pay any of Basso's internal expenses.

Other types of charges, such as those relating to transaction costs and brokerage fees, are discussed in Item 12.

#### **ITEM 6: PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As described in Item 5 above, Basso receives both performance-based compensation and an asset-based fee with respect to the Funds. The confidential offering memorandum of each Fund sets forth conflicts of interest that Basso may face with respect to receiving performance-based compensation.

Basso does not currently manage any Funds that pay only an asset-based fee.

#### **ITEM 7: TYPES OF CLIENTS**

Basso provides investment advice to the Funds, which are considered to be "pooled investment vehicles" because numerous individuals and entities are invested in each Fund and their assets are commingled prior to being invested by the Fund. The Funds' investors include high net worth individuals, other pooled investment vehicles (sometimes called "funds of funds"), pension plans, trusts, institutional investors and other types of business entities. The Funds based in the United States limit investors to persons who are both "qualified purchasers" as defined in the Investment Company Act of 1940, as amended, and "accredited investors" as defined in the Securities Act of 1933, as amended. Investors in the Cayman Islands-based Funds must be either non-U.S. persons or, if U.S. persons, be both "qualified purchasers" and

“accredited investors.” Generally, the Funds require a minimum initial investment of \$1,000,000, although this minimum can be reduced or waived at the discretion of Basso’s Board of Directors, following discussions with Basso.

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

### **Investment Strategies**

See Item 4 above for a description of the major strategies and the broad types of analyses that Basso uses in its investment process when managing the Funds.

### **Risk Monitoring**

Risk monitoring is part of Basso’s investment activities, designed to help Basso assess certain market exposures and determine whether any portfolio or position level adjustments are warranted. Basso’s beliefs as to the appropriate level of risk at any point in time for a Fund — whether overall, or concerning a particular investment asset, asset class, strategy or market — change in response to various factors, including the global macroeconomic environment and the investment opportunities within the Fund’s strategies. Basso generally is not subject to any requirements with respect to the number of positions or maximum position size maintained for a Fund. Basso’s risk control measures may not prevent losses.

### **Overview of Risks Factors**

Investors in the Funds should understand that even the most rigorous processes do not ensure successful investing. Investing in securities and derivatives involves the possibility of losing some, and possibly all, of a person’s investment. This is true regardless of the amount of hedging undertaken, which varies between the Funds and at differing times within a Fund, and the diversification of the portfolio maintained by a Fund.

The risks posed by an investment in the various Funds are numerous, and discussed in greater detail in the confidential offering memorandum of each Fund. Risks fall into several broad categories, including generalized, market, trading strategy, investment security type, research and Fund structure. Generalized risks center on such things as reliance on continuity of certain Basso personnel, the effects of competition and the availability of good relations with the banks, brokers and custodians who work with Basso and provide access to markets, financing and other services. Market risks are both broad, as was observed across many markets during 2008-2009, and more specific, as is seen at times in the convertible securities market. Market risks also include liquidity, volatility, interest rates and exchange rates, among others. Trading strategy risks are specific to the various strategies discussed in Item 4. For example, a relative value or equity-sensitive convertible position, made up of a long convertible security and a short equity hedge, may be unprofitable if the two securities move in an unexpected direction due to market conditions or other factors. Or, an event-oriented position may lose money because the event doesn’t occur, or occurs with unexpected conditions or requirements. Investments in different security types can present unique risks. For instance, convertible securities are complex instruments, governed by substantial agreements that require careful reading and understanding, and can sometimes only be unraveled through litigation. Equity shares, options, corporate debt



and other securities are all subject to a variety of factors that can impact their pricing, including interest rates, inflation, geopolitical concerns, analyst and media reports, corporate events, market competition and regulatory changes. Research risk is impacted by all of these factors, as well as by the skill of analysts and traders – analysts must rely on experience, and must also sift through these many factors and others to reach an opinion about the advisability of an investment. Finally, another area of risk, while removed from the investment process itself, concerns a Fund’s structure. Risks associated with a Fund’s structure include restrictions on the timing and quantity of investor withdrawals, valuation risks associated primarily with investments that do not have regularly-available market quotations and regulatory risks posed by governments which may impact a Fund’s structure or ability to operate profitably.

## **Trading Strategy and Investment Instrument Risks**

The following is a summary of some of the material risks specifically associated with Basso’s trading strategies and the investment instruments the Funds invest in. The confidential offering memorandum for each Fund contains a more complete description of the risks associated with an investment in the Fund.

*Relative Value Strategies.* The success of relative value strategies depends on Basso’s ability to design an investment process that capitalizes on relative mispricings among interrelated instruments. Success is impacted by several factors. There is not always a reliable relationship between the pricing of a convertible security and its underlying equity, owing in part to various market-related factors. In addition, regulatory issues, corporate events and changes in company fundamentals can each impact convertible and equity valuations, sometimes unequally. Finally, competition in the relative value marketplace for limited investment opportunities can reduce profitability and increase the risk of loss.

*Convertible Securities Hedging Risk.* Convertible security hedging usually involves acquiring convertible securities and selling short a variable amount of the underlying equity security, or vice versa. There are many risks that can impact the success of Basso’s hedging. Some of these include rising interest rates or declining volatility, availability of shares for short selling purposes and material changes in an issuing company’s prospects, dividend policy or credit rating.

*Event-Oriented Strategies.* These strategies, as noted earlier, involve investing in positions whose profitability depends on the occurrence, non-occurrence or other result of some significant corporate or other market event. These events can include mergers, tender offers, exchange offers, proxy contests, restructurings, bankruptcies and regulatory or legal developments. In turn, these events are affected by numerous factors, including market movements, regulatory intervention, shareholders’ consent and changes in interest rates and economic outlook. The risk that the anticipated event does not occur is often high, and unexpected outcomes can lead to substantial losses.

*Securities Lending and Borrowing.* Basso Funds do not directly lend securities to third parties in the ordinary course of business. The Funds’ securities are, however, held by qualified custodians who are permitted to “rehypothecate”, or loan, the securities to third parties. When a Fund’s securities are loaned, the Fund may be unable to exercise voting or other rights with

respect to the securities. In addition, a Fund may experience substantial losses if its qualified custodian defaults on its obligations to return rehypothecated securities or becomes insolvent. The Funds do borrow securities directly. When a Fund borrows securities, it is subject to the risk that the lender will recall them while the Fund has an open short position. If this occurs, the Fund could be compelled to: (i) borrow securities from another source (possibly at a materially higher cost); (ii) close a short position earlier than anticipated (potentially impacting the Fund's ability to hedge certain of its exposures); or (iii) close related positions that Basso believes could be inadequately hedged if borrowable securities cannot be located.

*Short Sales.* Many of the Funds sell securities short. Securities sold short must later be replaced or offset by market purchases, and therefore any increase in the market price of these securities results in a loss (though, the loss may be offset by a gain on the related convertible security). Purchasing securities to close out short positions can itself cause their market price to rise further, in turn increasing losses. Short selling is subject to a potentially unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. Short selling is often the subject of regulatory scrutiny, and regulatory restrictions in one or more markets in which Basso trades, like the short-selling ban imposed by the SEC in September 2008, could severely impair Basso's ability to engage in short selling and render a strategy unprofitable.

*Hedging.* Basso will not, in general, attempt to hedge all market or other risks inherent in a Fund's positions, and will hedge certain risks only partially. Basso may choose not, or may determine that it is economically unattractive, to hedge certain risks — either in respect of particular positions or in respect of the Fund's overall portfolio. A Fund's portfolio may also contain unhedged positions when Basso has a strong fundamental, or directional, view regarding specific positions. While Basso may rely on diversification to control these risks, Basso generally is not subject to any formal diversification requirements with respect to any Fund.

*Leverage.* A Fund may trade on a leveraged basis by purchasing securities on margin, selling securities short and/or using options, repurchase and reverse repurchase agreements and swaps. Leverage increases the magnitude of both the Fund's profits and losses. In addition, trading on margin results in interest charges to the Fund.

*Frequent Trading.* Basso's convertible positions are, as noted, typically comprised of a long convertible security and a short equity hedge. Basso closely monitors both sides of these positions, long and short. Convertible securities are bought and sold in response to market factors, macroeconomic events and investor capital activity — the impact of these and other factors can result in periods of greater and lesser convertible trading activity. Short equity positions are actively, or "dynamically", traded in response to some of these same factors, as well as Basso's perception of likely future events. In addition, when a new convertible security is issued, the relevant Funds may engage in a short period of rapid buying and selling of that security, often on an unhedged basis.

*Corporate Securities in General.* Prices for corporate securities are affected by numerous, often complex and interrelated, factors. Some of these factors are interest rates, general economic conditions, geopolitical forces, foreign exchange rates, market sentiment, analyst research and media reports, trading patterns, credit availability and spreads, an issuer's financial

condition and corporate announcements, competition, lawsuits and regulatory changes. Just as these factors are complex, so too is the investment process. There can be no assurance that Basso will successfully identify the factors affecting the prices of securities or correctly determine their impact on the Fund's investments.

*Convertible Securities.* Convertible securities, including debt, preferred stock and exchangeable and mandatorily convertible instruments, are securities that can at a set price be converted into common shares of the issuer - or, in the case of exchangeable securities, exchanged for shares of a company other than the issuer. Issuers of convertible securities may be in uncertain financial condition. Many of the convertible debt instruments purchased by a Fund are issued by companies that do not have investment grade debt ratings and will have an increased risk of default. Moreover, whether or not an actual default occurs, the prices of non-investment grade debt are often highly volatile. Because convertible securities can also act like equity options on the shares they convert into, they are vulnerable to material declines in value if market volatility declines.

*Equity Securities.* A number of Basso's strategies attempt to gauge the direction or future price level of different equity or equity-related securities or include equity securities as a component of a particular trade (including, as noted, as hedges for convertible positions). Numerous inter-related and difficult-to-quantify economic factors influence the prices of equities, including market sentiment and subjective and extraneous political and economic factors. There can be no assurance that Basso will be able to gauge future equity price levels correctly. A Fund's directional equity positions may be leveraged, and even comparatively minor adverse market movements can result in substantial losses.

*Corporate Debt.* Certain Funds invest in non-convertible debt. This debt is often non-investment grade or unrated, and may be subject to greater market fluctuations and risks of loss of income and principal than investment grade securities. This debt is often influenced by many of the same difficult-to-predict factors that affect equity prices. The value of non-investment grade debt is also determined by the market's view of the issuer's ability to pay the debt in accordance with its terms, the occurrence of issuer-related events such as earnings announcements and, to a lesser degree, by fluctuations in prevailing interest rates.

*Options.* Option trading can be speculative and may involve a high degree of risk. If a Fund purchases a put or a call option, it may lose the entire premium paid. When a Fund writes or sells a put or call option, the loss is potentially unlimited.

*Derivatives in General.* A Fund may trade derivative financial instruments such as warrants, options, futures contracts and forwards, and may use derivative techniques for hedging and other trading purposes. The use of derivative instruments involves a variety of material risks, including the extremely high degree of leverage often embedded in derivatives and possible deviations between the actual and theoretical value of a derivative. When a Fund trades derivative instruments "over-the-counter," the Fund may be subject to the credit risk of the parties they trade with and may also bear the risk of settlement default. These risks may differ materially from those connected with exchange-traded transactions, which generally are backed by clearing organization guarantees, daily marking-to-market, settlement and segregation and minimum capital requirements applicable to intermediaries. In addition, the markets for certain

derivatives are frequently characterized by limited liquidity, which can make it difficult and costly for the Fund to close out positions in order to realize gains or limit losses.

*Non-U.S. Markets.* Many of the Funds invest in securities of non-U.S. issuers. Non-U.S. investments involve certain special risks, including: political or economic instability; the possibility of non-U.S. governmental actions such as expropriation, nationalization or confiscatory taxation; currency controls; withholding taxes on dividends, interest and gains; different bankruptcy laws and practice; fluctuating currency exchange rates; and restrictive regulations. As compared to U.S. entities, non-U.S. entities generally disclose less financial and other information publicly, and are subject to less stringent and less uniform accounting, auditing and financial reporting standards.

*Futures.* Futures prices are highly volatile, and their price movements are influenced by a multitude of factors such as supply and demand relationships, government trade, fiscal, monetary and exchange control policies, political and economic events and marketplace emotions. Futures trading is highly leveraged. Furthermore, futures trading may be illiquid as a result of daily limits on movements of prices. A Fund's futures trading could be adversely affected by speculative position limits.

#### **ITEM 9: DISCIPLINARY INFORMATION**

There have been no legal or disciplinary actions that are material to a client's or prospective client's evaluation of Basso's advisory business.

#### **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Basso Management, LLC, a Delaware limited liability company, serves as general partner or managing member to certain of the U.S. Funds managed by Basso. Basso Management, LLC has the same principals as Basso (i.e., Howard Fischer, John Lepore, Dwight Nelson and Phil Platek).

Basso has delegated certain discretionary investment management and trading authority to Basso Associates UK Limited ("BAUK"), a wholly-owned subsidiary of Basso, which is registered with the U.K. Financial Services Authority under Part IV of the U.K. Financial Services and Markets Act 2000, and has been granted a certificate of registration as a Foreign Institutional Investor by the Securities and Exchange Board of India pursuant to Regulation 7 of the SEBI (Foreign Institutional Investors) Regulations, 1995. Basso is responsible for compensation payable to BAUK, but any trading expenses incurred by BAUK as a result of its trading a Fund's assets are borne by the relevant Fund. Personnel who provide advisory services on behalf of BAUK are subject to Basso's policies and procedures and Code of Ethics.

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

##### **Code of Ethics**

As an SEC-registered advisor, Basso has adopted a Code of Ethics pursuant to SEC rule 204A-1 that is built on the principle that Basso owes a fiduciary duty to the Funds. The Code of

Ethics and related compliance procedures in place at Basso seek to prevent activities that run, or appear to run, contrary to the best interests of the Funds. Some of the underlying principles of the Code include the obligation to act with integrity, competence and respect in all work matters, to place the interests of Basso and its clients above personal interests, to avoid actual or potential conflicts of interest and to uphold the rules governing capital markets. All principals and employees of Basso must acknowledge that they understand the Code of Ethics and agree to comply with it both upon initial employment and through an annual certification.

Basso's principals and employees may trade securities for their own accounts, including securities in which a Fund may invest. However, every personal securities transaction must comply with the procedures and restrictions set forth in the Code of Ethics, which are designed to mitigate and manage potential or actual conflicts of interest that may arise from personal securities transactions. Basso's policy requires nearly all personal trades to be pre-cleared by the Chief Compliance Officer or his designee. The two basic exceptions to the pre-clearance policy are trades involving securities issued by open-end mutual funds or the common stock of companies in the Standard & Poor's 500 Index.

The pre-clearance policy for all other personal trades involves a multi-step process that includes confirming whether the security is issued by a company that is on Basso's "restricted list." The restricted list contains the names of companies whose securities cannot be purchased by Basso, its personnel or the Funds. The typical reasons for a restriction are that Basso has entered into a confidentiality agreement with a company or that Basso has received material non-public information about the company. The pre-clearance policy is designed to ensure that no personal trading is done in restricted securities.

In addition, the pre-clearance process also confirms whether any Fund has a position in a company's securities. If so, an analysis is done with the appropriate portfolio manager to determine whether a personal trade in the same securities can go forward without negatively impacting the Fund's position. The answer may depend on the size and direction of the trade, the type of securities held by the Fund and the timing of expected trading by the Fund.

Basso personnel understand that circumstances may change following their purchases of securities and prevent the sale of the securities. For instance, a company can be added to the restricted list following a purchase. In addition, Basso personnel understand that any security purchased must be held for at least 30 days, and once sold, cannot be repurchased for another 30 days. It is Basso's view that these restrictive periods discourage its personnel from diverting attention from their duties towards the Funds, as could occur if Basso personnel were permitted to trade more frequently for their personal accounts.

Ultimately, while there can be overlap between Fund positions and personal positions, Basso believes that such overlap is rare and not in quantities large enough to impact the Funds. Basso reviews all personal trading records on a monthly, after-the-fact, basis to confirm that all necessary pre-clearances were obtained, all 30-day holding periods were complied with and no restricted list securities were traded. In addition, Basso undertakes a "front running" check to confirm whether personal trading has taken place prior to Fund trading, and if it has, to determine whether improper advantage was taken or the Funds were disadvantaged.

Another integral part of Basso's Code of Ethics and compliance program is continuing education. Basso personnel receive training in a number of areas. For instance, insider trading is addressed bi-annually in firm-wide trainings sessions as well as in periodic emailed "compliance reminders." Other training sessions and compliance reminders cover such topics as market manipulation, regulations that govern trading, government filings required to be made by the Funds and conflicts of interest that can impact Basso and the Funds.

Investors or prospective investors may obtain a copy of Basso's Code of Ethics by making a written request to Basso Capital Management, L.P., Attention: Chief Compliance Officer, 1266 East Main St., 4th Floor, Stamford, CT 06902.

### **Conflicts of Interest**

Basso is subject to additional conflicts of interest which may impact its clients and investors beyond those discussed immediately above. The confidential offering memorandum for each Fund contains a more complete description of the most significant conflicts of interest associated with an investment in the Fund, and potential investors should read about those conflicts carefully. Briefly, those conflicts concern i) other business activities that Basso and its partners may engage in, which may create time and resource competition with the Funds, ii) other accounts and funds that Basso may open which may have differing features and rights than those of the Funds and iii) allocation issues between Funds and accounts, which are discussed below in Item 12. In addition, although Basso devotes a significant amount of time to the Funds in order to carry out its responsibilities, Basso is required to devote only such time and attention to the business and affairs of the Funds as it determines to be necessary or advisable. Basso and/or its principals may currently be involved in other business ventures (which may include proprietary trading) or may organize or become involved in other business ventures in the future. The Funds will not share in the risks or rewards of these other ventures, which may compete with the Funds for the time and attention of Basso and/or its principals and therefore create additional conflicts of interest.

## **ITEM 12: BROKERAGE PRACTICES**

### **Selection of Broker-Dealers**

The Funds maintain a number of different brokerage and custody arrangements with banks and other established financial institutions. The selection of brokers to execute securities transactions for the Funds' accounts is guided by the primary goal of obtaining "best execution" for clients. In determining whether a Fund is receiving best execution from specific counterparties, and in circumstances where execution may be obtained from more than one broker or dealer, Basso evaluates a variety of factors that may include price (including commissions), the financial stability, credit quality and reputation of the broker, and the quality of the investment research, investment strategies, execution capabilities, clearance, settlement, custody, recordkeeping and other services provided by the broker, even though the Fund may not always be the direct or indirect beneficiary of the research or other services provided. Best execution does not always mean getting the lowest possible price for any particular trade.

Basso currently uses two principal electronic communications networks for the trading of common stock and options. In selecting these networks, Basso considered certain factors similar to those reviewed when determining which brokers to execute transactions with, plus pricing and commission rates, ease of use, speed and routing of trades and trade execution and the fullness of market price disclosure. It is those factors which also lead Basso to generate “soft dollar” commissions through its use of these networks – in that the Funds pay commissions somewhat higher than would ordinarily accompany this type of equity and option trading because these networks provide the execution, pricing, visibility and ease of use needed to trade effectively. In addition, the providers of these networks also provide other services to Basso and the Funds, in the form of research reports on particular industries and companies, economic surveys and analyses and other news services.

The soft dollar commissions generated are used by Basso to pay for certain research products and services that typically fall with the “safe harbor” created by section 28(e) of the U.S. Securities Exchange Act of 1934, as amended. These products and services assist Basso in its investment decision making, and include earnings estimates, company research, commentary on economic and financial markets, security pricing and convertible security databases. In addition, soft dollars are used to pay for software that allows Basso to actively model convertible securities and determine appropriate pricing. Soft dollars are also used to access a research service used to understand legal issues affecting Basso and the Funds. On occasion, soft dollars usage may fall outside the 28(e) safe harbor, but Basso believes these circumstances are infrequent, and the usage will fall within Basso’s fiduciary duty to the Funds.

When Basso uses client commissions to buy research, it receives a benefit because it does not have to furnish or pay for the research itself. Because Basso pays somewhat higher commissions to generate soft dollars, it faces a conflict of interest between its need to access the research and the Funds’ possible interest in paying the lowest commission rate available. Basso attempts to address this conflict by reviewing the factors noted above when selecting the broker-dealers and electronic networks it uses. Finally, soft dollars generated by trades executed on behalf of one particular Fund may be used for services that benefit that Fund or other Funds – however, because the soft dollar services purchased typically are research related and shared across the various Funds, there is some proportionality between the amount of soft dollars generated from a given Fund, and the amount of benefit that Fund receives.

## **Directed Brokerage**

Basso does not currently permit its clients or investors to direct brokerage, which is the practice of requiring Basso to execute transactions through a specified broker-dealer. As noted above, Basso considers numerous factors in determining which brokers to work with, and looks to obtain best execution at all times. Basso may in the future provide investment advisory services to additional Funds whose investors are advised by a single manager (“single manager Funds”) or a managed account in which the client may want Basso to execute transactions through a specified broker-dealer. These clients should understand that compliance with a directed brokerage arrangement may result in Basso’s being unable to achieve the most favorable execution of the client’s trades. Directing brokerage may also cost clients more money. For example, in a directed brokerage account, clients may pay higher brokerage commissions

because Basso may not be able to aggregate orders to reduce transaction costs, or clients may receive less favorable prices.

### **Trade Aggregation and Allocation**

Trade aggregation is important to the Funds that trade similar securities. Basso typically executes trades on an aggregate basis and allocates the securities bought or sold on a *pro rata* basis to the individual Funds participating in the trade. The *pro rata* allocation may at times be altered depending upon a number of factors, principal among these is whether a Fund is paying out redemptions or receiving new investments. The ebb and flow of investor capital impacts the amount of cash available for the Funds to invest, and impacts the level of leverage the Funds use. In addition, Basso will consider the participating Funds' respective portfolios, hedges, investment programs and other possible tax and legal considerations in determining whether a *pro rata* allocation is appropriate. If a trade cannot be fully executed under existing market conditions, the amount executed will be allocated among the appropriate accounts on a basis that Basso considers fair and equitable.

### **Trade Errors**

In the course of trading and investing for the Funds, Basso personnel may make "trade errors" — *e.g.*, errors in executing specific trading instructions. Trade errors may result from a variety of situations, including, for example, when the wrong security is purchased or sold, a security that was intended to be purchased is instead sold, the correct security is purchased or sold but for the wrong account or the wrong quantity is purchased or sold. Trade errors may result in losses or gains. Basso attempts to identify and minimize trade errors by promptly reconciling confirmations with order tickets and intended orders. On a quarterly basis, trade errors resulting in losses are netted against trade errors resulting in gains. When this netting identifies a balance due to a Fund, Basso reimburses the Fund for the amount due. Netting is done exclusively on a Fund-by-Fund basis, and not between different Funds. Material trading error losses are immediately reimbursed by Basso. Any Fund for which periodic netting is not applied due to ERISA considerations is reimbursed by Basso for trade errors resulting in losses as they occur.

## **ITEM 13: REVIEW OF ACCOUNTS**

Basso's Investment Committee oversees strategy allocation and risk management for all Basso Funds on an active basis. The committee's members are Basso's Founding Managing Partners, Howard Fischer, John Lepore, Dwight Nelson and Phil Platek. The committee meets on a periodic basis as well as on an ad-hoc basis when economic events, investor actions or newly-arising issues indicate. The members of the committee are also the four principal portfolio managers for the Funds, and engage in daily monitoring and trading of the Funds' positions, often in consultation with Basso's analysts. Reviews focus on macroeconomic issues, leverage, diversification, trends, analyst and research opinions and overall strategy. Committee members also work with Basso's risk manager, whose reports provide various risk measures and matrices. The committee also establishes quantitative and qualitative guidelines within which other trading desk personnel are given discretion to trade for the Funds.



In addition, Basso's operations personnel, including its two Senior VPs of Operations, perform a variety of account reviews on an ongoing basis together with the Funds' administrator. These reviews focus on cash management, cash reconciliation, trade confirmation and reconciliation, pricing and corporate actions. Basso's legal and compliance personnel, under the oversight of Basso's General Counsel and Chief Compliance Officer, perform a variety of review functions, in some cases on a daily basis. Reviews cover Basso's restricted trading list, personal trading, beneficial ownership levels and reporting obligations, trade errors, short selling and proxy voting. Basso's Chief Financial Officer and Chief Accounting Officer each perform a variety of review functions on an ongoing basis, including in connection with the preparation of monthly accounts and annual financial statements, new issue allocations, investor capital activity and other matters.

All Fund investors receive reports of estimated investment performance on a monthly basis. Certain Funds also provide a weekly estimate of investment performance. Basso also provides investors with audited financial statements annually through the Funds' administrator. In addition, investors in most of the Funds receive monthly "transparency" reports that contain data (*e.g.*, strategy, geographic and industry allocations, leverage and other information) about their Funds. Communications with any clients other than those described above are as agreed between Basso and the client.

#### **ITEM 14: CLIENT REFERRALS AND OTHER COMPENSATION**

Please see Item 12 above for a description of "soft dollar" research or other services that Basso may receive from broker-dealers or other counterparties as a result of Basso executing transactions with these persons and related conflicts of interest.

Basso has one active agreement in place with a placement agent that markets certain Funds outside of the United States to potential investors who are not United States citizens or entities. This agent is primarily compensated by receiving a specified percentage of the management fee earned by Basso on investments brought to the Funds by the agent. Basso also continues to compensate a different agent that no longer actively markets the Funds, for investments the agent previously brought to Basso.

Basso personnel occasionally speak at conferences and programs sponsored by prime brokers for investors interested in hedge funds. These conferences and programs can provide Basso with an introduction to potential Fund investors. Basso generally does not compensate prime brokers for providing access to "capital introduction" opportunities. However, when deciding which prime brokers to use among prime brokers that provide the Funds with the same approximate quality of services and pricing, Basso may take into account access to capital introduction opportunities and other services that the prime brokers offer.

#### **ITEM 15: CUSTODY**

Basso is deemed to have custody of client funds or securities because Basso acts as the manager or as the investment adviser to clients with the authority to dispose of funds and securities in their accounts. Client assets are held in custody by unaffiliated broker-dealers or banks. Investors in the Funds do not receive statements from these custodians. Instead, the

Funds are subject to an annual audit and the audited financial statements are distributed to each investor in the Funds. The audited financial statements are prepared in accordance with U.S. generally accepted accounting principles and generally distributed within 120 days (or as soon as practicable) following a Fund's fiscal year end.

#### **ITEM 16: INVESTMENT DISCRETION**

Basso generally has full discretionary authority to manage client accounts. The authority is discussed in the confidential offering memorandum of each Fund, and is established in certain legal agreements such as the Limited Partnership Agreements or Investment Management Agreements governing the Funds. This discretion includes the authority to determine the securities to be bought and sold, the timing, quantity and price of these securities transactions, the broker or dealer to be used and the commission rates paid. Basso generally also has full discretion, as discussed above in Item 12, to select prime brokerage and other banking and counterparty relationships, as well as other related investment parameters, such as leverage.

In connection with the existing "single manager Fund" discussed earlier, Basso has agreed to certain portfolio leverage and liquidity limitations sought by the investor, but otherwise retains all other investment discretion. Basso would consider other investor requests in a "single manager Fund" or managed account arrangement, but will generally still expect to retain full, day-to-day, discretionary authority over the investment process within the agreed upon parameters.

#### **ITEM 17: VOTING CLIENT SECURITIES**

Basso has the authority to vote all securities held by each of the Funds. Basso has adopted proxy voting policies and procedures consistent with Rule 206(4)-6 under the Investment Advisers Act of 1940, as amended. The general policy is to vote proxy proposals in a way that Basso believes will cause the related investment to increase the most or decline the least. In limited circumstances, Basso may refrain from voting proxies where it believes that abstaining from voting would be in the applicable Fund's best interest.

Basso's legal and compliance personnel, in coordination with Basso's investment professionals and operations staff, prime brokers and an independent proxy voting service: receive proxy voting materials; determine each Fund's holdings as of the record date; identify and address any material conflicts between Basso's interests and those of the Funds, or among the Funds; determine how to vote, or whether, in limited situations, to abstain from voting; submit proxy votes and keep proxy voting records. If a conflict of interests is identified, Basso will not vote the proxy on behalf of the client accounts until it has determined that the conflict is not material or has agreed upon, implemented and documented a method for resolving the conflict.

As a standard practice, the portfolio manager in charge of the security being voted is asked how the Funds should vote. A description of the issues being voted is circulated to the portfolio manager, along with the recommendations of company management. Votes contrary to company management's recommendation on routine matters are supported by an explanation from the portfolio manager, as are all votes on non-routine matters. Examples of non-routine

matters include mergers, substantial asset dispositions, material acquisitions and certain corporate governance changes.

Basso does not permit individual investors or a group of investors to direct proxy voting.

Investors may obtain a copy of Basso's proxy voting policy, and information regarding how client securities have been voted, by making a written request to Basso Capital Management, L.P., Attention: Chief Compliance Officer, 1266 East Main St., 4th Floor, Stamford, CT 06902.

#### **ITEM 18: FINANCIAL INFORMATION**

Basso does not solicit prepayment of fees from its clients, and has not been the subject of a bankruptcy petition during the past ten years.