

**Form ADV Part 2A: Firm *Brochure***

JANUARY 31, 2012

**Armajaro Asset Management LLP**

16 Charles Street  
London  
W1J 5DS  
United Kingdom

Telephone: +44 (0) 20 7529 7000  
Fax: +44 (0) 20 7529 7280  
Email: [client.services@armajaro.com](mailto:client.services@armajaro.com)

Website: [www.armajaro.com](http://www.armajaro.com)

Armajaro Asset Management LLP is an investment adviser that is registered with the United States Securities and Exchange Commission. Registration with the United States Securities and Exchange Commission does not imply a certain level of skill or training.

**This brochure provides information about the qualifications and business practices of Armajaro Asset Management LLP. If you have any questions about the contents of this brochure, please contact us at +44 (0) 20 7529 7000 and/or [client.services@armajaro.com](mailto:client.services@armajaro.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 Armajaro Asset Management LLP also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Material Changes**

Armajaro Asset Management LLP is completing Form ADV Part 2A for the first time. As the information in this brochure may contain additional information, Armajaro Asset Management LLP recommends that clients read this brochure in its entirety.

## Table of Contents

1.	Advisory Business	4
2.	Fees and Compensation	5
3.	Performance-Based Fees and Side-by-Side Management	6
4.	Types of Clients	7
5.	Methods of Analysis, Investment Strategies and Risk of Loss	8
6.	Disciplinary Information	15
7.	Other Financial Industry Activities and Affiliations	15
8.	Code of Ethics	17
9.	Brokerage Practices	19
10.	Review of Accounts	20
11.	Client Referrals and Other Compensation	20
12.	Custody	20
13.	Investment Discretion	20
14.	Voting Client Securities	21

## **1. Advisory Business**

### *General*

Armajaro Asset Management LLP (AAM) is an alternative asset management partnership that specialises in the management of hedge funds and managed accounts. Formed in July 2002, AAM is part of the Armajaro Group which was established by Richard Gower and Anthony Ward in 1998.

Richard and Anthony remain the principal owners of the Armajaro Group.

The majority of the original AAM team was previously employed by Salomon Brothers, and following the merger with Citigroup, Salomon Brothers closed the soft commodities team. Anthony was able to keep the Cocoa team together and formed AAM.

AAM provides investment management services to a wide range of clients. We provide discretionary portfolio management services, as well as advisory services, concerning investments and possible investment opportunities. We seek to provide consistent, above-average returns over the long term by taking positions that reflect our firm's specialist investment views of global markets, tailored to each client's particular profile, investment objectives and risk tolerance.

AAM is authorised and regulated in the United Kingdom by the Financial Services Authority (FSA) to provide investment management services.

AAM is a specialist commodity asset management company, specialising in the management of commodity and commodity-related funds. With assets under management of approximately \$2bn, AAM currently operates five specialist hedge funds and a multi-strategy fund.

### *Services to Pooled Investment Vehicles (the "Funds")*

As of the date of this Brochure, AAM acts as the investment manager with discretionary authority for the following Funds (the 'Funds'):

- Armajaro Commodities Fund Limited\*
- Armajaro Commodities Master Fund Limited\*
- Armajaro Emerging Markets Fund Limited
- Armajaro STS Commodities Fund Limited\*
- CC+ Fund Limited\*
- CZAR+ Fund Limited\*
- Armajaro Institutional Multi Strategy Fund Limited\*

\* an exempt commodity pool under CFTC Rule 4.13(a)(4)

AAM also serves as investment manager to a third-party pooled investment vehicle on a discretionary basis.

### *Services to Managed Accounts*

Under a discretionary investment management agreement, AAM has the authority to supervise and direct the investments of managed accounts which closely follow the investment strategies of one or more of the Funds listed above.

AAM determines which investments are bought and sold for the account and the total amount of the purchases and sales. AAM generally places its investment orders through the prime broker with which the client has opened an account for the execution of the mandate or with another broker-dealer determined by AAM based on its execution capabilities and with which a give-up agreement will have been signed with the Prime Broker. For further details, please see the discussion of brokerage practices below.

#### *Other Services*

AAM provides technical data input into the BNP Paribas Armajaro Agriculture Index (ARAGER), to enable BNP Paribas to calculate the Index.

Our clients have also appointed our firm to manage a number of specialist institutional mandates.

For more information on the investment strategy of our clients, please see Section 5: Method of Analysis, Investment Strategies and Risk of Loss.

Our firm tailors advisory services in accordance with each client's needs and investment strategy as disclosed in the applicable offering document or managed account agreement.

Our firm strictly adheres to the investment strategy and restrictions set forth in each client's offering document or managed account agreement.

Restrictions on the types of investments in which we invest for our clients vary from client to client as disclosed in the client's governing documents.

As of December 31, 2011, our Regulatory Assets under Management was \$0, however, including commodity future positions, options on futures, cash collateral and cash, we managed \$1.957 billion of clients' assets on a discretionary basis.

We do not manage any assets on a non-discretionary basis.

## **2. Fees and Compensation**

AAM does not charge fees specific to securities investment advisory services. Rather, fees are charged for its asset management services.

Fees charged by AAM do not include custodian fees, fees for trade settlement, brokerage commissions, or any other fee imposed by the custodian bank or the brokers.

Compensation is payable in arrears, *i.e.* at the end of the quarter in which services were provided. AAM may waive, discount, rebate and/or negotiate fees at its discretion. AAM may also charge additional fees for services outside the scope of the services described above. Any additional fees are disclosed to the client.

For more information on brokerage commissions, please see Section 9: Brokerage Practices.

AAM relies on custodian banks of its clients to value the assets in the respective client accounts, and AAM computes its investment advisory fees based on these valuations provided by the custodian. In the context of managed accounts, AAM sends an invoice to the relevant client for the payment of its fee from the respective client's account at the end of each calendar quarter or calendar year.

AAM may receive compensation from third parties in connection with its investment advisory services in addition to the fee paid by the client. Discounts, finder's fees or any other remuneration received by AAM from third parties with respect to managed accounts will be disclosed to the client upon request.

#### *Compensation for Services to the Funds*

AAM charges each Fund an annual management fee, accrued on a daily basis and paid on a monthly basis in arrears, for its investment advisory and asset management service that ranges from 0% to 2% of assets under management depending upon the Fund and share class. AAM also may receive a quarterly or annual performance fee that ranges from 20% to 30% based on the terms of the respective Fund and share class. Performance fees are generally subject to a high water mark and may also be subject to a hurdle. Details of the precise management fee with respect to each Fund can be found in the relevant prospectus or offering memorandum for each Fund. All fees are deducted from the assets of the Funds. Investors affiliated with AAM may invest in share classes with lower management or performance fees or which are not subject to any management or performance fees.

Investors in the Funds may redeem their interests or shares in whole or in part from the applicable Fund in accordance with the withdrawal/redemption terms of the relevant prospectus or offering memorandum.

#### *Compensation for Services to Managed Accounts*

With respect to managed accounts, fees charged by AAM are negotiated with the client and typically carry a management fee of 2% and performance fee of 20%. Fees vary depending on the total assets under management and the investment strategy considered, as well as the existence and rate of a performance fee. The management fee generally is charged quarterly in arrears and is calculated on the basis of the value of the assets under management. When applicable, performance fees are calculated on the basis of the outperformance of the managed account relative to the agreed mandate's benchmark, applied to the value of the assets under management at the beginning of the period (year) and taking into account any capital contribution/withdrawal during the period. Performance fees are payable at the end of each calendar year and are generally subject to a high water mark. Clients of AAM ("Clients") are invoiced for all fees when they become payable.

### **3. Performance-Based Fees and Side-By-Side Management**

A description of the fees charged by AAM is provided above in Section 2.

AAM charges a performance-based fee for the management of the Funds and managed accounts it provides investment management services to. AAM therefore has an incentive to favour accounts for which it receives a performance-based fee. In order to manage this conflict, AAM has allocation and customer order priority policies, and we follow these policies strictly.

AAM is the investment manager for a number of commodities funds and certain of these funds have managed accounts that follow the same (or a substantially similar) strategy.

With regards to commodity trades for Clients that follow the same (or a substantially similar) strategy, AAM will endeavour to allocate trades on the following basis:

- i. Client 1 always receives the highest buy and the highest sell price of each trade.
- ii. Client 2 always receives the next highest buy and the next highest sell price of each trade.

- iii. Client 3 always receives the next highest buy and the next highest sell price of each trade.
- iv. And so on until all allocations have been made.

AAM will endeavour to keep the allocation ratio at a level reflecting assets under management

Where there is some overlap in the commodities traded across funds, orders for the funds are not aggregated.

Details of the above policies are disclosed to all Clients and investors in the Funds.

Managed accounts may have different and possibly more favourable terms regarding, among other things, transparency and liquidity than those of the Funds. Each Fund imposes minimum investment limits upon investors in the Fund that can be waived in certain circumstances as set forth in each Fund's prospectus or offering memorandum.

Conflicts related to side-by-side management of different managed accounts or the Funds may exist. For example, AAM may manage more than one account according to the same or a substantially similar investment strategy. Side-by-side management of different types of accounts may raise conflicts of interest when two or more accounts invest in the same assets or pursue a similar strategy and/or where one Fund invests in one or more other Funds. These potential conflicts include the favourable or preferential treatment of an account or a group of accounts, conflicts related to the allocation of investment opportunities, particularly with respect to assets that have limited availability, such as initial public offerings, and transactions in one account that closely follow related transactions in a different account and such clients trading with or through or obtaining credit lines with the same brokers. AAM has policies and procedures in place that are reasonably designed to ensure that such conflicts are resolved fairly. In addition, the results of the investment activities for one account may differ significantly from the results achieved for other accounts. AAM may give advice or exercise investment responsibility or take other actions for some clients (including related persons) that may differ from the advice given, or the timing and nature of actions taken, for other clients. Investment results for different accounts, including accounts that are generally managed in a similar style, also may differ as a result of these considerations. Some clients may not participate at all in some investments in which other clients participate, or may participate to a different degree or at a different time. AAM has policies and procedures in place that are reasonably designed to allocate investment opportunities to client accounts in a fair and equitable manner. In brief, our policies require us to allocate investments to entities with similar investment strategies on a fair and equitable basis, in accordance with the allocation procedures set forth above

#### **4. Types of Clients**

AAM provides investment management service to the Funds, third-party sponsored non-U.S. pooled investment vehicles, and to managed accounts owned by large corporations and other business entities.

AAM's managed account services are only available to large professional corporations and business entities.

AAM determines, in its sole discretion, any requirements for entering into an investment management contract with a client.

There is generally no set account minimum for managed accounts. A minimum will be agreed with a client taking into account the strategy and terms of the proposed managed account.

Details regarding investment minimums for each Fund are provided in the respective prospectus or offering memorandum and subscription documents for each Fund.

## **5. Methods of Analysis, Investment Strategies and Risk of Loss**

Please refer to each Fund's prospectus or offering memorandum for a more detailed discussion of AAM's respective investment strategy and related risks.

AAM's investment management technique uses both discretionary strategies relying on its fundamental research capabilities and macro-economic analysis and quantitative systematic investment strategies based on proprietary methodologies.

AAM invests primarily in exchange traded commodity futures and options on futures in an effort to preserve capital and liquidity whilst obtaining investment performance. AAM may also engage in various transactions in, securities, fixed income, sovereign debt, forward contracts, swaps, credit default swaps, interest rate swaps and other derivatives and instruments to manage or hedge interest rate and currency exchange risks. Cash is utilised as collateral to commodities positions.

Unencumbered cash within the Funds is deposited with credit institutions which meet certain minimum criteria and is subject to maximum concentration limits.

Foreign currency risk is managed for hedging or replication purposes based on the Fund / managed account mandate or guidelines.

The nature of the Fund's investments involve certain risks and the Funds utilises investment techniques (such as leverage, short selling and the use of derivatives) which may carry additional risks. An investment in shares in the Funds therefore carries substantial risk and is suitable only for persons who can assume the risk of losing their entire investment. Prospective investors should consider, among others, the following factors before subscribing for shares:

### Counterparty Risk

The Funds may have exposure to trading counterparties other than the clearing brokers. Where a Fund delivers collateral to its trading counterparties under the terms of its trading master agreements with such parties, a counterparty may be over collateralised and that Fund will, therefore, be exposed to the creditworthiness of such counterparties to the extent of the over collateralisation. In addition, that Fund may from time to time have uncollateralised exposure to its trading counterparties in relation to its rights to receive securities and cash under contracts governing its trading positions. In the event of the insolvency of a trading counterparty, the Funds will rank as an unsecured creditor in relation to amounts equivalent to both any uncollateralised exposure to such trading counterparties and any such over collateralisation, and in such circumstances it is likely that the Fund will not be able to recover any debt in full, or at all.

### Currency Options

A Fund may acquire currency options, the value of which depend largely upon the likelihood of favourable price movements in the underlying currency in relation to the exercise (or strike) price during the life of the option. Many of the risks applicable to trading the underlying currencies are also applicable to over-the-counter options trading. In addition, there are a number of other risks associated with the trading of options including the risk that the purchaser of an option may at worst lose his entire investment (the premium it pays).



### Debt Securities

A Fund may invest in fixed income securities which may be unrated by a recognised credit-rating agency or below investment grade and which are subject to greater risk of loss of principal and interest than higher-rated debt securities. A Fund may invest in debt securities which rank junior to other outstanding securities and obligations of the issuer, all or a significant portion of which may be secured on substantially all of that issuer's assets. A Fund may invest in debt securities which are not protected by financial covenants or limitations on additional indebtedness. A Fund will therefore be subject to credit, liquidity and interest rate risks. In addition, evaluating credit risk for debt securities involves uncertainty because credit rating agencies throughout the world have different standards, making comparison across countries difficult. Also, the market for credit spreads is often inefficient and illiquid, making it difficult to accurately calculate discounting spreads for valuing financial instruments.

### Derivatives

The Funds invest in both exchange-traded and over-the-counter derivatives, including, but not limited to, futures, forwards, swaps, options and contracts for differences, as part of their investment policy. These instruments can be highly volatile and expose investors to a high risk of loss. The low initial margin deposits normally required to establish a position in such instruments permit a high degree of leverage. As a result, depending on the type of instrument, a relatively small movement in the price of a contract may result in a profit or a loss which is high in proportion to the amount of funds actually placed as initial margin and may result in unquantifiable further loss exceeding any margin deposited. In addition, daily limits on price fluctuations and speculative position limits on exchanges may prevent prompt liquidation of positions resulting in potentially greater losses. Transactions in over-the-counter contracts may involve additional risk as there is no exchange market on which to close out an open position. It may be impossible to liquidate an existing position, to assess the value of a position or to assess the exposure to risk. Contractual asymmetries and inefficiencies can also increase risk, such as break clauses, whereby a counterparty can terminate a transaction on the basis of a certain reduction in net asset value, incorrect collateral calls or delays in collateral recovery. The Funds may also buy and/or sell covered and uncovered options on securities. To the extent that sold options are uncovered, a Fund could incur an unlimited loss.

### Forward Foreign Exchange Contracts

The Funds may enter into forward foreign exchange contracts. A forward foreign exchange contract is a contractually binding obligation to purchase or sell a particular currency at a specified date in the future. Forward foreign exchange contracts are not uniform as to the quantity or time at which a currency is to be delivered and are not traded on exchanges. Rather, they are individually negotiated transactions. Forward foreign exchange contracts are effected through a trading system known as the interbank market. It is not a market with a specific location but rather a network of participants electronically linked. Documentation of transactions generally consists of an exchange of telex, electronic or facsimile messages. There is no limitation as to daily price movements on this market and in exceptional circumstances there have been periods during which certain banks have refused to quote prices for forward foreign exchange contracts or have quoted prices with an unusually wide spread between the price at which the bank is prepared to buy and that at which it is prepared to sell. In general, transactions in forward foreign exchange contracts between institutional counterparties are not regulated by any regulatory authority, nor are forward foreign exchange contracts guaranteed by an exchange or clearing house. A Fund will be subject to the risk of the inability or refusal of its counterparties to perform with respect to such contracts. Any such default would eliminate any profit potential and compel the Fund to cover its commitments for resale or repurchase, if any, at the then current market price. These events could result in significant losses.

### General Economic and Market Conditions

The success of the activities of a Fund is affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws, trade barriers, currency exchange controls and national and international political circumstances. These factors may affect the level and volatility of securities prices and the liquidity of a Fund's investments. Volatility and liquidity could impair the profitability of a Fund or result in losses.

### Leverage

A Fund may employ leverage, including through the use of borrowings, for the purpose of making investments. The level of interest rates at which a Fund can borrow will affect the operating results of the Fund. If a Fund leverages its assets to borrow additional funds for investment purposes, the Fund will be required to pledge its assets to secure such borrowings, potentially reducing the Fund's liquidity. A Fund may also, in effect, borrow funds through entering into repurchase agreements and may leverage its investment return with options, short sales, swaps, forwards and other derivative instruments. Investments made by a Fund may also contain a significant amount of leverage.

AAM will consider any inherent leverage in such investments in assessing the leverage to be applied in respect of a Fund's overall portfolio. The use of leverage may significantly increase a Fund's investment risk; whilst leverage creates an opportunity for greater yield and total return, at the same time, it will increase a Fund's exposure to capital risk and interest costs. Any investment income and gains earned on investments made through the use of leverage that are in excess of the interest costs associated therewith may cause the net asset value of a Fund to increase more rapidly than would otherwise be the case. Conversely, where the associated interest costs are greater than such income and gains, the net asset value of a Fund may decrease more rapidly than would otherwise be the case. Any limitation on the availability of borrowing facilities may have a detrimental effect on a Fund's ability to maintain its intended level of leverage. As the holders of shares rank for repayment after all other creditors, they may not get back their full investment if there are insufficient funds to discharge creditors (including such holders of shares who have redeemed such shares but have not been paid their redemption proceeds in full).

### Liquidity and Market Characteristics

In some circumstances, investments may be relatively illiquid making it difficult or impossible to acquire or dispose of them at the prices quoted on the various exchanges or at the prices which AAM considers reflects their value. Accordingly, a Fund's ability to respond to market movements may be impaired and the Fund may experience adverse price movements upon liquidation of its investments. Settlement of transactions may be subject to delay and administrative uncertainties. The market prices, if any, for such investments tend to be volatile and may not be readily ascertainable, and a Fund may not be able to sell them when it desires to do so or to realise what it perceives to be their fair value in the event of a sale. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. A Fund may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale.

### Market Crisis and Governmental Intervention

The global financial markets have recently undergone pervasive and fundamental disruptions which has led to extensive and unprecedented governmental intervention. Such intervention was in certain cases implemented on an "emergency" basis without much or any notice with the consequence that some market participants' ability to

continue to implement certain strategies or manage the risk of their outstanding positions was suddenly and/or substantially eliminated. In addition, as one would expect given the complexities of the global financial markets and the limited time frame within which governments were able to take action, these interventions were sometimes unclear in scope and application, resulting in confusion and uncertainty which in itself was materially detrimental to the efficient functioning of such markets as well as previously successful investment strategies.

The United States government and non-US governments have taken significant and historic steps to intervene in the financial markets. Future government interventions may lead to a change in valuations of securities that is detrimental to a Fund's investments. Government intervention is subject to inherent uncertainties relating to prevailing economic conditions and political considerations.

AAM believes that it is possible that emergency intervention may take place again in the future. AAM also believes that the regulation of financial markets is likely to be increased in the future.

It is impossible to predict the impact of any such intervention and/or increased regulation on the performance of a Fund's portfolio or the fulfilment of its investment objectives.

#### Market Disruptions

A Fund may incur major losses in the event that disrupted markets and/or other extraordinary events affect markets in a way that is not consistent with historical pricing relationships. The risk of loss from the disconnection from historical prices during periods of market disruption is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving. The financing available to a Fund from its banks, dealers and other counterparties will typically be reduced in disrupted markets. Such a reduction may result in substantial losses to the Fund. In 1994, in 1998 and again in the financial crisis a sudden restriction of credit by the dealer community resulted in forced liquidations and major losses for a number of investment vehicles focused on credit-related investments. However, because market disruptions and losses in one sector can cause ripple effects in other sectors many investment vehicles suffered heavy losses even though they were not necessarily heavily invested in credit-related investments.

In addition, the global financial markets may undergo further fundamental disruptions in the future, which could result in renewed governmental interventions which may be materially detrimental to the performance of a Fund. Furthermore, market disruptions caused by unexpected political, military and terrorist events may from time to time cause dramatic losses for a Fund and such events can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk. A financial exchange may from time to time suspend or limit trading. Such a suspension could render it difficult or impossible for a Fund to liquidate affected positions and thereby expose it to losses. There is also no assurance that off-exchange markets will remain liquid enough for a Fund to close out positions.

#### OTC Transactions

There has been an international effort to increase the stability of the financial system in general, and the OTC derivatives market in particular, in response to the recent financial crisis. In September 2009, the leaders of the G20 agreed, and in June 2010 reaffirmed, that all standardised OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties by end 2012 at the latest, that OTC derivative contracts should be reported to trade repositories and non-centrally cleared contracts should be subject to higher capital requirements.

In the United States, the United States Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Reform Act"), which became law in July 2010, includes provisions that comprehensively regulate the OTC derivatives markets for the first time. Key provisions of the Reform Act require rulemaking by the SEC and the CFTC, not all of

which has been proposed or finalised as at the date of this Prospectus. As a result, investors should expect future changes in the regulatory environment in the United States.

The Reform Act will require that a substantial portion of OTC derivatives in the United States must be executed on regulated markets and submitted for clearing to regulated clearinghouses. OTC trades submitted for clearing will be subject to minimum initial and variation margin requirements set by the relevant clearinghouse, as well as possible SEC- or CFTC-mandated margin requirements. The regulators also have broad discretion to impose margin requirements on non-cleared OTC derivatives. Although the Reform Act includes limited exemptions from the clearing and margin requirements for so-called "end-users", the Funds do not expect to be able to rely on such exemptions. In addition, the OTC derivative dealers with which the Funds may execute the majority of their OTC derivatives will not be able to rely on the end-user exemptions under the Reform Act and therefore such dealers will be subject to clearing and margin requirements notwithstanding whether a Fund is subject to such requirements. OTC derivative dealers will also be required to post margin to the clearing houses through which they clear their customers' trades instead of using such margin in their operations, as they currently are allowed to do. This will further increase the dealers' costs, which costs are expected to be passed through to other market participants in the form of higher fees and less favourable dealer marks.

The SEC and the CFTC may also require a substantial portion of derivative transactions that are currently executed on a bilateral basis in the OTC markets to be executed through a regulated securities, futures, or swap exchange or execution facility. Such requirements may make it more difficult and costly for investment funds, including the Funds, to enter into highly tailored or customised transactions. They may also render certain strategies in which the Funds might otherwise engage impossible or so costly that they will no longer be economical to implement.

OTC derivative dealers and major OTC derivatives market participants in the United States will be required to register with the SEC and/or the CFTC. The Funds and AAM may be required to register as major participants in the OTC derivatives markets. Whether or not such registration will be required will depend on future rulemaking by the SEC and the CFTC. Dealers and major participants will be subject to minimum capital and margin requirements. These requirements may apply irrespective of whether the OTC derivatives in question are exchange-traded or cleared. OTC derivatives dealers will also be subject to new business conduct standards, disclosure requirements, reporting and recordkeeping requirements, transparency requirements, position limits, limitations on conflicts of interest, and other regulatory burdens. These requirements may increase the overall costs for OTC derivative dealers, which are likely to be passed along, at least partially, to market participants in the form of higher fees or less advantageous dealer marks. The overall impact of the Reform Act on the Funds is highly uncertain and it is unclear how the OTC derivatives markets will adapt to this new regulatory regime.

Although the Reform Act will require many OTC derivative transactions in the United States previously entered into on a principal-to-principal basis to be submitted for clearing by a regulated clearinghouse, certain of the derivatives that may be traded by the Funds may remain principal-to-principal or OTC contracts between the Funds and third parties entered into privately. The risk of counterparty non-performance can be significant in the case of these OTC instruments, and "bid-ask" spreads may be unusually wide in these heretofore substantially unregulated markets. While the Reform Act is intended in part to reduce these risks, its success in this respect may not be evident for some time after the Reform Act is fully implemented, a process that may take several years. To the extent not mitigated by implementation of the Reform Act, if at all, the risks posed by such instruments and techniques, which can be extremely complex and may involve leveraging of a Fund's assets, include: (1) credit risks (the exposure to the possibility of loss resulting from a counterparty's failure to meet its financial obligations); (2) market risk (adverse movements in the price of a financial asset or commodity); (3) legal risks (the characterisation of a transaction or a party's legal capacity to enter into it could render the financial contract unenforceable, and the

insolvency or bankruptcy of a counterparty could pre-empt otherwise enforceable contract rights); (4) operational risk (inadequate controls, deficient procedures, human error, system failure or fraud); (5) documentation risk (exposure to losses resulting from inadequate documentation); (6) liquidity risk (exposure to losses created by inability to prematurely terminate the derivative); (7) system risk (the risk that financial difficulties in one institution or a major market disruption will cause uncontrollable financial harm to the financial system); (8) concentration risk (exposure to losses from the concentration of closely related risks such as exposure to a particular industry or exposure linked to a particular entity); and (9) settlement risk (the risk faced when one party to a transaction has performed its obligations under a contract but has not yet received value from its counterparty).

Steps are also underway to regulate OTC derivative transactions in Europe. On September 15, 2010, the European Commission published a Proposal for a Regulation on OTC derivatives, central counterparties and trade repositories (the "EMI Regulation") which, once approved by the European Council and the European Parliament, will take direct effect in the member states of the European Union ("EU"), currently expected to be no later than end 2012). If approved in the form of the Proposal, the EMI Regulation would introduce uniform requirements covering financial counterparties ("FCPs"), such as investment firms, credit institutions, insurance companies and managers of alternative investment funds such as the Funds and certain non-financial counterparties ("Non-FCPs") in respect of OTC derivative contracts. FCPs would be subject to a general obligation to clear all so-called "eligible" OTC derivative contracts through a duly authorised central counterparty (the "clearing obligation") and to report the details of all such contracts to a trade repository (the "reporting obligation"). A Non-FCP may also be subject to the clearing obligation and the reporting obligation, subject to its positions in OTC derivatives contracts exceeding certain thresholds. In addition, a FCP or a Non-FCP subject to the clearing obligation which enters into an OTC derivative contract which is not eligible for the clearing obligation would have to ensure that appropriate procedures and arrangements are in place to measure, monitor and mitigate operational and credit risk. The EMI Regulation may change considerably before it is approved. Furthermore, many provisions of the EMI Regulation require the adoption of delegated acts by the European Commission, before becoming fully effective. Accordingly, it is difficult to predict the precise impact of the EMI Regulation on the Funds. Prospective investors and shareholders in the Funds should be aware that the regulatory changes arising from the EMI Regulation may in due course adversely affect the ability of a Fund to adhere to the investment approach and achieve the investment objective.

#### Physical Commodities

In the event that the Funds seek, in the future, to invest in physical soft commodities but it is not possible for a Fund to obtain the necessary tax approvals or tax clearances so as to minimise any liability of that Fund to tax on the profits from investments in physical commodities, then the Fund may not be able to make any direct investments in physical commodities and this may impact upon the performance of the Fund. Trading in physical soft commodities, bio-fuels and bio-fuels feedstocks is speculative and can be extremely volatile. Market prices of soft commodities, bio-fuels and bio-fuels feedstocks may fluctuate rapidly based on numerous factors, including: changes in supply and demand relationships (whether actual, perceived, anticipated, unanticipated, or unrealised); weather; fiscal, monetary and exchange control programs; domestic and foreign political and economic events and policies; technological developments; changes in interest rates, whether through governmental policies, action or inaction. The current or "spot" prices of physical commodities may also affect, in a volatile and inconsistent manner, the prices of futures contracts in respect of the relevant commodity.

The prices of physical commodities can fluctuate widely due to supply and demand disruptions in major producing or consuming regions. Because certain soft commodities and bio-fuels may be produced in a limited number of countries and may be controlled by a small number of producers, political, economic and supply related events in such countries could have a disproportionate impact on the prices of such commodities. The

price of physical commodities may diverge from the price of related futures contracts traded on recognised exchanges due the futures trading activities of speculative investors and or commodity index funds.

#### Profit Sharing

In addition to receiving an investment management fee, AAM may also receive a performance fee based on the appreciation in the net asset value of the Funds and accordingly the performance fee will increase with regard to unrealised appreciation, as well as realised gains. Accordingly, a performance fee may be paid on unrealised gains which may subsequently never be realised. AAM may share the performance fee with sub-investment managers and therefore the performance fee may create an incentive for AAM and/or such sub-investment managers to make investments for the Funds which are riskier than would be the case in the absence of a fee based on the performance of the Funds.

#### Short Selling

Short selling involves trading on margin and accordingly can involve greater risk than investments based on a long position. A short sale of a security involves the risk of a theoretically unlimited increase in the market price of the security, which could result in an inability to cover the short position and a theoretically unlimited loss. There can be no guarantee that securities necessary to cover a short position will be available for purchase.

Due to regulatory or legislative action taken by regulators around the world as a result of recent volatility in the global financial markets, taking short positions on certain securities has been restricted in a number of financial markets, and is continuing to evolve. The levels of restriction vary across different jurisdictions and are subject to change in the short to medium term. These restrictions have made it difficult and in some cases impossible for numerous market participants either to continue to implement their investment strategies or to control the risk of their open positions. Accordingly, AAM may not be in a position to fully express its negative views in relation to certain securities, companies or sectors and the ability of AAM to fulfil the investment objective of the Funds may be constrained. This position will be monitored regularly by AAM.

#### Speculative Position Limits

The CFTC and certain U.S. commodity exchanges have also established limits, referred to as "position limits," on the maximum net long or net short positions which any person may hold or control in particular commodity futures contracts. In addition, pursuant to the Reform Act the CFTC has adopted new Federal speculative position limits for certain enumerated futures contracts which aggregate positions based upon the same underlying commodity even if traded on a different exchange, as well as swap agreements which settle against the price of contracts listed for trading on a registered entity, contracts listed for trading on a foreign board of trade which allow direct access from within the United States, and swap contracts which perform a significant price discovery function. Some or all of these new Federal speculative position limits likely will become effective in 2012 although these regulations are the subject of a current lawsuit challenging their validity. AAM may have to modify its investment and trading decisions, and might have to liquidate positions, in order to avoid exceeding such limits. If this should occur, it could adversely affect the profitability of the Funds.

#### Transaction Costs

A Fund's investment approach may involve a high level of trading and turnover of the Fund's investments which may generate substantial transaction costs which will be borne by the Fund.

#### Undervalued/Overvalued Commodities

A Fund may identify and invest in undervalued and overvalued commodities ("misvalued commodities"). The identification of investment opportunities in misvalued commodities

is a difficult task, and there can be no assurance that such opportunities will be successfully recognised. These investments involve a high degree of financial risk and can result in substantial losses. Returns generated from a Fund's investments may not adequately compensate for the business and financial risks assumed.

A Fund may make certain speculative investments in commodities which AAM believes to be misvalued; however, there can be no assurance that the commodities purchased and sold will in fact be misvalued. In addition, the Fund may be required to maintain positions in such commodities for a substantial period of time before realising their anticipated value. During this period, a portion of the Fund's capital may be committed to the commodities, thus possibly preventing the Fund from investing in other opportunities. In addition, the Fund may finance any such purchases with borrowed funds and thus will have to pay interest on such funds during such waiting period.

## **6. Disciplinary Information**

Neither AAM nor any management person has been involved in any criminal or civil actions in a domestic, foreign or military court.

Neither AAM nor any management person has been subject to an administrative proceeding before the Securities and Exchange Commission, any other federal regulatory agency, any state regulatory agency or any foreign financial regulatory authority.

Neither AAM nor any management person has been subject to a proceeding before any self-regulatory organization.

## **7. Other Financial Industry Activities and Affiliations**

### *CFTC*

AAM is exempt as a commodity pool operator under CFTC Regulation 4.13(a)(4) and related rules. If the CFTC adopts its proposal to rescind that exemption, AAM will be required to register with the CFTC as a commodity pool operator. AAM is currently exempt from registration with the CFTC as a commodity trading advisor.

### *Acting as investment manager to non-U.S. investment vehicles*

AAM acts as investment manager to a number of non-U.S. pooled investment vehicles (the "Funds"), in which investors' investments may be made. Where an investor invests in a Fund managed by AAM, its investments are subject to the Fund's annual management charge, which is payable to AAM. All charges incurred by investors in the Funds are fully disclosed in the applicable Fund Prospectus.

### *ATL*

Armajaro Trading Limited ("ATL") is the wholly-owned subsidiary of Armajaro Holdings Limited ("AHL"). AAM is also a wholly owned subsidiary of AHL.

Members of AAM and ATL exchange views on various trading issues and opportunities in soft commodities and therefore the portfolio manager of one Fund may become aware of the trading strategy of another Fund.

ATL and other subsidiaries of AHL continue to trade on their own behalf and a private investment company owned and controlled by John Tilney does trade on its own behalf and in the course of such activities may have physical soft commodity positions which are aligned with or against the interest of the Funds. They may also trade futures and options on futures contracts on the same futures and options exchanges, may buy or sell such contracts on the same day and/or at the same or different prices, and may hold similar or opposite positions as the Funds. Further, they may execute such contracts

with or through, and may obtain credit lines from, the same futures and options brokers as used by the Funds.

Further, a third party entity manages AAM's proprietary assets and may trade futures and options on futures contracts on the same futures and options exchanges, may buy or sell such contracts on the same day and/or at the same or different prices and may hold similar or opposite positions to the Funds.

There are no Chinese Walls between the different portfolio managers and the employees of AAM who trade for Funds which have similar strategies.

There is also no written Chinese Wall policy in place between AAM, ATL and their affiliates, although AAM and ATL and their affiliates operate from separate buildings, utilise different personnel, do not share I.T. systems and are not subject to shared trading policies.

To mitigate these potential conflicts, ATL and the other subsidiaries of AHL including the third party entity adhere to maximum position limits in the soft commodities they trade at a level where it believes that they are unlikely to have an undue influence on the price of those soft commodities.

The Funds may purchase physical soft commodities from, and sell physical soft commodities to, counterparties who also trade with and are counterparties of ATL and/or which are subsidiaries or affiliates of AHL. The Funds may also purchase physical soft commodities from, and sell physical soft commodities to, ATL acting as a principal.

ATL sells soft commodities related research (including crop data) and weather related research to AAM. ATL may make trading decisions and buy and sell physical soft commodities and futures and options contracts based on such research before or after its finalisation and/or its sale to AAM or sharing with other customers or suppliers. Further, ATL may from time to time publish such research on its website or make it available to the media. Any of the foregoing could have an adverse impact on the prices at which AAM buy or sell physical soft commodities or futures and options contracts.

The Funds and ATL may both enter into over-the-counter derivatives contracts with the same market counterparties. Further, where AAM believes it is in the best interests of the Fund, the Fund may enter into structured derivatives transactions with companies which are subsidiaries or affiliates of AHL. Such structured derivative transactions are conducted on arm's length commercial terms (i.e. the transactions are entered into on the same or similar terms as with other counterparties) and are subject to the Fund's annual external audit process. One of the Funds (CC+ Fund) has entered into an over-the-counter derivative instrument (a total return swap) with respect to cocoa with ATL. The investment is externally audited and the terms received by the Fund are at least as favourable as normal commercial terms. ATL also provide logistical and administrative support to one of the Funds, in respect of physical soft commodities and the re-grading thereof and may have similar inventory in the location and may obtain more favourable treatment for such inventory. Further, ATL may from time to time compete with the Funds for physical soft commodity trading opportunities and/or available logistics support services. ATL is also likely to obtain insurance of physical soft commodities with the same broker and/or underwriter as the Funds and any claim by ATL could affect the level of premiums paid by such Funds.

The Funds and ATL may both take delivery of physical soft commodities from a futures exchange or deliver physical soft commodities onto a futures exchange against the same delivery month or could make delivery to an exchange on which the other party takes delivery. Any such delivery may affect the price of such commodities for that delivery month.



### *Individuals*

Anthony Ward, a director and the controlling shareholder of AHL, is a portfolio manager responsible for the trading of one or more of the Funds. He is also a director and the non-executive chairman of ATL, a member of AAM and a director of one of the Funds managed by AAM. Mr Ward does not have day-to-day involvement in the commodity trading of ATL, however, he may exchange views on various trading issues and opportunities in soft commodities. John Tilney is a portfolio manager for the trading of one or more of the Funds and a director of the sub-investment manager of one of the Funds. He also controls a private investment company, the activities of which are described above.

Richard Gower

### *Affiliates*

AAM has also appointed two affiliates, Armajaro Asset Management Singapore Pte. Limited and Armajaro (USA) Inc., to provide investment advice and act as sub-investment managers to certain of its Funds.

### *Other material relationships*

AAM is an affiliate of the Armajaro Securities Limited (ASL), a company incorporated in England and Wales, and registered and authorised by the UK Financial Services Authority. ASL and its subsidiary promote and provide bespoke financial instruments and brokerage to a range of UK, European and Asian institutional clients. None of AAM's Funds use the services of ASL or its subsidiary to trade but ASL may solicit investors for such Funds (as set forth in more detail under item 11 below).

The affiliations between AAM and ASL do not create a material conflict of interest with clients as ASL is dedicated to separate sectors. There is no trading between AAM or the Funds managed by AAM and any affiliated company.

Other than as described above, we do not have any arrangements with the following types of related persons that create a material conflict of interest:

- a broker-dealer, municipal securities dealer, or government securities dealer or broker;
- a futures commissions merchant, commodity pool operator, or commodity trading adviser;
- a banking or thrift institution;
- an accountant or accounting firm;
- a lawyer or law firm;
- an insurance company or agency;
- a pension consultant; or
- a real estate broker or dealer.

There are no other material conflicts of interest, other than those described above.

## **8. Code of Ethics, Participation or Interest in *Client* Transactions and Personal Trading**

AAM has specific policies and procedures addressing gifts and entertainment, personal dealing, market abuse and other areas where there is a possibility for a conflict of interest. Our employees must avoid activities, interests and relationships that run contrary to the best interests of our clients. These policies and procedures are designed to foster compliance with the applicable federal statutes and regulatory requirements, prevent circumstances that may lead to or give the appearance of conflicts of interest with clients, insider trading or unethical business conduct as well as promote a culture of high ethical standards.

Our policies mandate that our employees will at all times:

- place our clients' interests ahead of the interests of the firm;
- only engage in personal investing that is in full compliance with our compliance policies, including the personal account dealings policy;
- abide by our insider trading policies; and
- avoid taking advantage of the employee's position of employment by accepting investment opportunities, gifts or other gratuities from individuals seeking to conduct business with our firm, other than in accordance with our gift and entertainment policy.

Due to the nature of the types of instruments AAM invests in, the personal account dealing policy of AAM restricts its personnel's ownership of commodity futures and options on futures contracts. The AAM personal account dealing policy also requires its employees to conduct personal trading activities in a manner that does not interfere with a client's portfolio transactions or take improper advantage of a relationship with any client.

AAM forbids employees from trading, either personally or on behalf of others (including client accounts managed by AAM), on material non-public information or communicating material non-public information ("inside information") to others in violation of the U.S. Federal securities laws.

AAM has adopted a Code of Ethics (the "Code"), which provides guidance and instruction to AAM and its personnel on their ethical obligations in fulfilling their duties of loyalty, fairness and good faith towards the clients.

Should anyone violate our policies, our compliance policies provide for a range of sanctions deemed appropriate by our senior management. These sanctions include, but are not limited to, warnings, fines, disgorgements, suspensions, or terminations of employment.

The paragraphs above only represent a summary of key provisions in the Code. A copy of our firm's code of ethics is available to a client or a prospective client on request.

The Code also provides for AAM's execution of supervisory policies and procedures, and the review and enforcement processes of such policies and procedures. AAM has designated a Chief Compliance Officer responsible for maintaining, reviewing and enforcing AAM's Code of Ethics and corresponding policies and procedures.

AAM will provide a copy of the Code of Ethics to any client or prospective client upon request.

#### *Participation or Interest in Client Transactions*

From time to time, AAM personnel and principal owners may invest in the firm's clients, both to align the interest of firm and personnel and firm clients and as an expression of confidence in our services. This may include investments made in the Funds and in securities or other assets in which the Funds or other clients invest subject to applicable law and the firm's Code of Ethics. AAM may, subject to applicable law, deal as principal or agent with the Funds, provided such dealings are carried out as if effected on normal commercial terms negotiated on an arm's length basis.

AAM, its related persons and employees may also have financial interests in one or more of the Funds either as holding shares directly themselves or indirectly through intermediaries holding shares in the Funds.

All investments in the Funds by staff are made on exactly the same dealing terms as external clients, the only difference being the management fees charged are lower than for external clients. There are no special dealing or liquidity terms for staff or principals. Except for one exception, no staff or principal is permitted, in their personal account dealing, to invest in commodities traded by the Funds. Very detailed monitoring of this exception is undertaken by the compliance team.

## **9. Brokerage Practices**

AAM executes transactions on behalf of clients with a number of selected brokers.

AAM has not entered into any commission-sharing / soft dollar arrangements whereby the broker agrees to set aside a proportion of the commission earned on transactions and to use this to discharge the cost of the provision of investment research.

Subject to any specific Client instruction, AAM will exercise discretion, based on market experience, knowledge, commercial judgement, the relevant security and the type of order for the Client (a "Client Order") to obtain the best possible result with regards to the execution of a Client Order.

AAM will specifically consider one or more of the following elements, in no particular order of importance, when executing a Client Order:

- Price
- Order size
- Costs
- Likelihood of execution
- Speed of settlement
- Likelihood of settlement
- Speed of execution
- Type of Client Order
- Any other factor impacting the Client Order execution process

Price may be the dominant element when obtaining the best possible execution result for a Client. However, transaction types, markets and instruments vary greatly in terms of liquidity, depth, transparency, certainty, ease and speed of execution and so on. AAM shall therefore take into consideration other criteria that may alter the relative importance of execution elements. As a result, execution elements other than price may assume equal or greater importance. Such criteria may include, but are not limited to:

- Characteristics of the Client
- Characteristics and size of the Client Order
- Characteristics of the financial instruments that are subject of the Client Order
- Characteristics of the execution venues to which that Client Order can be directed
- Characteristics of the prevailing market conditions at the time of the Client Order

Brokers are not selected on the basis of AAM receiving client referrals.

AAM does not:

- direct brokerage;
- request clients to direct brokerage; or
- accept client instructions to direct brokerage.

Subject to rules of the UK Financial Services Authority, AAM may trade together transactions in respect of a client's account with those of our other clients. AAM

aggregates an order only if we believe that the aggregation of the order will likely work overall to our clients' advantage.

## **10. Review of Accounts**

All client accounts are reviewed at least monthly in an effort to ensure that they remain aligned with the client's investment plan and are positioned appropriately given current market conditions as part of AAM's general investment process. This is undertaken by the Risk Committee of AAM, which receives a risk report from the AAM Operations Team, detailing the portfolio investments, returns and risk measures.

## **11. Client Referrals and Other Compensation**

AAM has not entered into any commission-sharing / soft dollar arrangements whereby the broker agrees to set aside a proportion of the commission earned on transactions and to use this to discharge the cost of the provision of investment research.

AAM does not have any arrangements with third party introducers for the referral of clients.

ASL promotes structured products to its clients and potential clients; such products may be linked to the performance of the Funds managed by AAM. ASL may from time to time introduce such clients or potential clients to the Funds. In the event that a client or potential client invests in a Fund managed by AAM, the individual employed by ASL responsible for the investment may receive a bonus from ASL, however, any such bonus is paid at the discretion of ASL and the Funds do not pay any placement or solicitation fees to ASL.

## **12. Custody**

Other than potentially through related directors, AAM does not have custody of client funds or securities. Each client is required to establish their own custody arrangements. AAM does not provide any custody account statements to clients. The adviser provides audited financial statement on annual basis to its clients.

## **13. Investment Discretion**

By entering into a discretionary agreement with AAM, a client grants AAM discretionary authority to manage securities accounts on the client's behalf.

A client grants to AAM complete discretion over the portfolio and, without limiting discretion, grants AAM authority without prior reference to the client to:

- buy, sell, retain, exchange or otherwise deal in investments and other assets;
- make deposits;
- subscribe to issues and offers for sale and accept placings, underwritings and sub-underwritings of any investments (including any issues, offers, placings, underwritings and sub-underwritings where our firm is acting as underwriter, sub-underwriter, broker or adviser to the issuing company or other entity concerned);
- advise on and execute transactions on any markets;
- negotiate and execute counterparty and account opening documentation; and
- otherwise act as our firm thinks appropriate regarding the management of the client's account.

Subject to any restrictions set out by a client, AAM may invest any amount we deem appropriate in a single investment and is not restricted in the proportion of the portfolio represented by a single security or issuer.

#### **14. Voting Client Securities**

AAM has adopted policies and procedures to ensure compliance with Rule 206(4)-6 under the Advisers Act and other applicable fiduciary obligations under rules and regulations of the SEC and interpretations of its staff with respect to proxies for voting securities held by client portfolios. Armajaro may provide proxy voting services to their non-US based clients in accordance with the jurisdiction in which the client is located.

AAM's voting policies and procedures (the 'Policies') are designed and implemented in a way that it is reasonably expected that proxies are voted in the best interests of clients. Proxies are voted with the aim of furthering the best economic interests of clients, promoting high levels of corporate governance and adequate disclosure of company policies, activities and returns, including fair and equal treatment of stockholders.

Each vote is ultimately cast on a case-by-case basis, taking into consideration the contractual obligations under the advisory agreement or comparable document, and all other relevant facts and circumstances at the time of the vote. AAM may cast proxy votes in favour of management proposals or seek to change the views of management, considering specific issues as they arise on their merits. AAM may also join with other investment managers in seeking to submit a shareholder proposal to a company or to oppose a proposal submitted by the company.

AAM's Policies are tailored to suit AAM's advisory business and the types of securities portfolios AAM manage. To the extent that clients have adopted their own procedures, AAM may vote the same securities differently depending upon client's directions.

Material conflicts are resolved in the best interest of clients. All AAM personnel have an obligation to disclose any personal conflicts such as officer or director positions held by them, their spouses or close relatives in the portfolio company or attempts by the portfolio company to exert influence over such person with respect to their vote.

Where a material conflict of interest arises, AAM may choose among the following options to eliminate such conflict: 1) vote in accordance with express client instructions, 2) if possible, erect information barriers around the person or persons making voting decisions sufficient to insulate the decision from the conflict, or 3) if practical, notify affected clients of the conflict of interest and seek a waiver of the conflict.

AAM may abstain from voting a client proxy if it determines that the effect on shareholder's economic interests or the value of the portfolio holding is indeterminable or insignificant. A client may obtain information on how its proxies were voted by requesting such information from AAM. AAM do not generally disclose client proxy votes to third parties, unless specifically requested, in writing, by the client.