

## Theleme Partners LLP

30 March 2012

This Brochure provides information about the qualifications and business practices of Theleme Partners LLP (the "Adviser").

If you have any questions about the contents of this Brochure, please contact us at +44 020 7150 1400 or email [ThelemeCompliance@ThelemePartners.com](mailto:ThelemeCompliance@ThelemePartners.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 the Adviser is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) and on the Financial Services Authority's website at [www.fsa.gov.uk](http://www.fsa.gov.uk).

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**Item 2: Material Changes**

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This document is the annual update to the Brochure filed in June 2011. The Brochure will be updated on an annual basis and any material changes to it will be identified in this section.

There are no material changes to the initial Brochure.

**Item 3: Table of contents**

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Item 2: Material Changes .....	2
Item 4: Advisory Business .....	4
Item 5: Fees and Compensation .....	5
Item 6: Performance-Based Fees .....	7
Item 7: Types of Clients .....	8
Item 8: Methods of Analysis, Investment Strategies and Risk of Loss .....	9
Item 9: Disciplinary Information .....	13
Item 10: Other Financial Industry Activities and Affiliations .....	14
Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	15
Item 12: Brokerage Practices .....	17
Item 13: Review of Accounts .....	19
Item 14: Client Referrals and Other Compensation .....	20
Item 15: Custody .....	21
Item 16: Investment Discretion .....	22
Item 17: Voting Client Securities .....	23
Item 18: Financial Information .....	24

**Item 4: Advisory Business**

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Theleme Partners LLP ("The Adviser") is an investment adviser whose principal place of business is London, UK and is authorized and regulated by the Financial Services Authority ("FSA") in the United Kingdom. The Adviser commenced operations as an investment adviser in August 2009.

The corporate member of the Adviser is Theleme Services Limited, a wholly owned subsidiary of Theleme Capital Partners Limited (Cayman). Theleme Capital Partners Limited (Cayman) is wholly owned by Patrick Degorce.

The Adviser provides the advisory services on a discretionary basis to its clients, which are pooled investment vehicles intended for institutional and other sophisticated investors.

The Adviser provides advice to client accounts based on specific investment objectives and strategies. In the future, the Adviser may agree to tailor advisory services to the individual needs of clients.

As at 31 December 2011, the Adviser managed US\$1.174 billion, all of which is managed on a discretionary basis.

**Item 5: Fees and Compensation**

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The Adviser receives an investment management fee based on the value of the client's assets under management. Currently, the Adviser's clients are organized in a "master-feeder" structure, consisting of two private funds that are feeder funds into a master fund. The management fee is calculated based on the aggregate assets under management of such feeder funds attributable to fee paying investors (the "Aggregate AUM") at the end of each month in accordance with the following schedule::

<b>Level of Aggregate AUM (USD)</b>	<b>Management Fee</b>
0-1.5 bn	1.5%
1.5-3 bn	1.0%
3 bn+	0.5%

The investment management fee is paid to the Adviser as of the end of each month and is prorated for periods less than a full month.

The investment management fee declines with the overall growth in Aggregate AUM. Once Aggregate AUM reaches a size which results in a reduction of management fee, the fee charged to all investors reduces. The management fee is calculated as a money-weighted average and is attributed to each investor in proportion to their holding in the fund.

The investment management fees are not negotiable.

The Adviser may also be paid a performance-based fee or allocation, which is based on a share of capital gains on or capital appreciation of the assets of a client. This compensation may be paid or allocated to the Adviser (or to a related person of the Adviser) and ranges from 15% to 20%, subject to a loss carryforward provision. Under certain circumstances, the performance-based compensation is subject to a hurdle rate.

The performance-based fees and allocations are not negotiable.

The Adviser, its partners and related entities, and their respective partners, directors and employees may invest in the Adviser's clients without being subject to any investment management fees or performance-based compensation.

Each client's administrator calculates and arranges payment of the investment management fees and, if applicable, performance-based fees to the Adviser.

In addition, each client account will also pay its own expenses, including expenses and costs (i) of all transactions carried out by it or on its behalf and (ii) of the administration of the client account, including (a) all of the charges and expenses of any legal and professional advisers, independent auditors, administrators and custodians, (b) all brokers' commissions and any issue or transfer taxes or stamp duties chargeable in connection with its securities

transactions, (c) all expenses and costs relating to a specific investment or assets, (d) all taxes and corporate fees payable to governments or agencies, (e) all directors' fees (if any) and expenses, (f) all interest on borrowings, including borrowings from the prime brokers, (g) all communication expenses with respect to investor services and all expenses of meetings of investors and of preparing, printing and distributing financial and other reports, proxy forms, prospectuses and similar documents, (h) all of the costs of insurance in favour of any directors, (i) all litigation and indemnification expenses and extraordinary expenses not incurred in the ordinary course of business, and (j) all other organizational and operating expenses. Each feeder fund will also bear its pro rata share of the master fund's expenses.

**Item 6: Performance-Based Fees**

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The Adviser's clients are currently organized in a "master-feeder" structure and only one client (i.e., the master fund) makes portfolio investments. The Adviser (or a related person) is paid performance-based compensation. In addition, the Adviser's investment personnel are typically compensated on a basis that includes a performance-based component.

**Item 7: Types of Clients**

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The Adviser's clients consist of pooled investment vehicles. The initial and additional subscription minimums are disclosed in the offering documents for each pooled vehicle.



**Item 8: Methods of Analysis, Investment Strategies and Risk of Loss**

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**Investment approach**

The Adviser utilizes a variety of methods and strategies to make investment decisions and recommendations. The Investment Manager's core investment philosophy is to own "good" businesses at prices below intrinsic value and, conversely, sell short "bad" businesses at prices above intrinsic value. The Investment Manager focuses on assessing the quality of the business first, and valuation second, as it believes the greatest protection against permanent capital loss is owning "good" businesses. The investment approach generally employed by the Adviser is bottom up, fundamentally driven and research intensive. The Investment Manager believes that in the long term the valuation of securities is entirely determined by fundamental analysis. This allows the calculation of the future cashflows of a business, which in turn identifies the intrinsic value.

The Adviser may employ the following strategies:

- Equity. The Adviser purchases equity securities for its clients consistent with the investment approach outlined above.
- Short Selling. The Adviser engages in short selling strategies. In a short sale transaction, the Adviser sells a security it does not own in anticipation that the market price of that security will decline. The Adviser sells short those stocks that have been identified as potentially overvalued and where it is believed that a company has structural problems.
- Leverage. The Adviser's investment program utilizes limited leverage, which involves the borrowing of funds from brokerage firms, banks and other institutions in order to be able to increase the amount of capital available for investments.
- Derivatives. The Adviser may utilise both exchange-traded and over-the-counter derivatives generally based on listed equity securities, including, but not limited to, forwards, swaps, options and contracts for differences, as part of its investment approach.

These methods, strategies and investments involve risk of loss to clients, and clients must be prepared to bear the loss of their entire investments.

***Short Selling Risk***

The Adviser's investment program may include a significant amount of short selling. Short selling transactions expose its clients to the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly and without effective limit. There is the risk that the securities borrowed in connection with a short sale would need to be returned to the securities lender on short notice. If such request for return of securities occurs at a time when other short sellers of the subject security are receiving similar requests, a

"short squeeze" can occur, wherein the Adviser might be compelled, at the most disadvantageous time, to replace the borrowed securities previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier.

***Leverage***

The use of leverage may significantly increase a client account's investment risk. Whilst leverage creates an opportunity for greater yield and total return, at the same time, it will increase a client account's exposure to capital risk and interest costs. In addition the Adviser could be forced to liquidate the portfolio of a client account on short notice to meet financing obligations. The forced liquidation of all or a portion of such account at distressed prices could result in significant losses to such account.

***Equity Securities***

The value of equity securities fluctuates in response to issuer, political, market and economic developments. Fluctuations can be dramatic over the short as well as long term, and different parts of the market and different types of equity securities can react differently to these developments. For example, large cap stocks can react differently from small cap stocks, and "growth" stocks can react differently from "value" stocks. Issuer, political, or economic developments can affect a single issuer, issuers within an industry or economic sector or geographic region, or the market as a whole. Changes in the financial condition of a single issuer can impact the market as a whole. Terrorism and related geo-political risks have led, and may in the future lead, to increased short-term market volatility and may have adverse long-term effects on world economies and markets generally.

***Non-U.S. Securities.***

Foreign securities, foreign currencies and securities issued by U.S. entities with substantial foreign operations can involve additional risks relating to political, economic, or regulatory conditions in foreign countries. These risks include fluctuations in foreign currencies; withholding or other taxes; trading, settlement, custodial, and other operational risks; and the less stringent investor protection and disclosure standards of some foreign markets. All of these factors can make foreign investments, especially those in emerging markets, more volatile and potentially less liquid than U.S. investments. In addition, foreign markets can perform differently from the U.S. market.

***Issuer-Specific Changes.***

Changes in the financial condition of an issuer or counterparty, changes in specific economic or political conditions that affect a particular type of security or issuer, and changes in general economic or political conditions can increase the risk of default by an issuer or counterparty, which can affect a security's or instrument's value. The value of securities of smaller, less well-known issuers can be more volatile than that of larger issuers. Smaller issuers can have more limited product lines, markets, or financial resources.

***Derivatives***

The Adviser may utilise both exchange-traded and over-the-counter futures, forwards, swaps, options and contracts for differences, as part of its

investment approach. 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.

### ***Currency Exposure***

Some of the assets of client accounts may be invested in securities and other investments that are denominated in other currencies and in other financial instruments for which the prices are determined by reference to such other currencies. Accordingly, the value of such assets may be affected by fluctuations in currency rates. The Adviser may seek to hedge a client account's foreign currency exposure but such account will be subject to foreign exchange risks. To the extent unhedged, the value of the a client account's net assets will fluctuate with the US dollar exchange rate as well as with price changes of the client accounts investments in the various local markets and currencies.

### ***Emerging Markets***

The investment strategy of the Adviser may include investment in emerging market securities. Investing in these markets involves a greater degree of risk than an investment in securities of issuers based in developed countries. Among other things, emerging market securities investments may carry the risks of less publicly available information, more volatile markets, less strict securities market regulation, less favourable tax provisions, and a greater likelihood of severe inflation, unstable or not freely convertible currency, war and expropriation of personal property than investments in securities of issuers based in developed countries.

### ***Counterparty Insolvency***

The stability and liquidity of swap transactions, forward transactions and other over-the-counter derivative transactions depend in large part on the creditworthiness of the parties to the transactions. There is also a risk that counterparties could become insolvent. If this happens, there is a risk that the recovery of securities and other assets from the counterparty will be delayed or be of a value less than the value of the securities or assets originally entrusted to such counterparty.

Clients should assume that the insolvency of any counterparty would result in a loss, which could be material.

### ***Market Disruptions***

Major losses may be incurred in the event that disrupted markets and/or other extraordinary events affect markets in a way that is not consistent with historical pricing relationships. This risk of loss 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 the Adviser's clients from their banks, dealers and other counterparties is typically reduced in disrupted markets.

**Item 9: Disciplinary Information**

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This Item is not applicable.

**Item 10: Other Financial Industry Activities and Affiliations**

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The Adviser is authorised and regulated by the FSA in the UK as a BIPRU €50k limited licence firm. The Adviser's FSA Firm Reference Number is 504902. The authorisation that it holds means that the Adviser is permitted to provide discretionary management and advisory services to professional clients but is not permitted to deal with retail clients.

Theleme Partners LP, a California based investment adviser has been appointed by Theleme Capital Partners Limited (Cayman) to provide investment advice to the Adviser and to assist with marketing activities. While Theleme Partners LP will not be an additional investment manager with its own allocation of a portion of client assets, Theleme Partners LP will also provide back-up coverage for the Adviser in the rare instance that Patrick Degorce, the portfolio manager, is temporarily unavailable due to, for example, overseas travel or illness, etc. This coverage function would mean that Theleme Partners LP, would be responsible for managing and investing client accounts while Patrick Degorce is unavailable rather than the Adviser, although any orders would continue to be executed by the Adviser.

The private funds for which the Adviser provides discretionary investment management services have and/or may in the future enter into agreements, or "side letters," with certain prospective or existing investors whereby such investors may be subject to terms and conditions that are more advantageous than those set forth in the offering memorandum for the private fund. For example, such terms and conditions may provide for rights to redeem on shorter notice in specified circumstances, rights to receive notification of specified events and/or rights to receive portfolio and/or NAV information. The modifications are solely at the discretion of the private fund.

**Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

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The Adviser recognizes and believes that (i) high ethical standards are essential for its success and to maintain the confidence of its clients; (ii) its long-term business interests are best served by adherence to the principle that the interests of clients come first; and (iii) it has a fiduciary duty to its clients to act solely for their benefit. The Adviser has adopted a Code of Ethics (the "Code") that obligates the Adviser and its personnel to put the interests of the Adviser's clients before their own personal interests and to act honestly and fairly in all respects in dealings with clients. All personnel of the Adviser must also comply with all federal securities laws.

The Code also sets out the procedures in place governing personal trading by its personnel. Among other requirements, the Code of Ethics requires personnel who have access to client portfolio information or the Adviser's non-public securities recommendations to report their personal securities transactions and holdings to the Adviser, and the Adviser is required to review such reports. Clients or prospective clients may obtain a copy of the Code of Ethics by contacting Mr. Patrick Degorce by email at [thelemecompliance@thelemepartners.com](mailto:thelemecompliance@thelemepartners.com) or telephone at +44 207 150 1400.

The Adviser, in the course of its investment management and other activities, may come into possession of confidential or material non-public information about issuers, including issuers in which the Adviser or its related persons have invested or seek to invest on behalf of clients. The Adviser is prohibited from improperly disclosing or using such information for its own benefit or for the benefit of any other person, regardless of whether such other person is a client. The Adviser maintains and enforces written policies and procedures that prohibit the communication of such information to persons who do not have a legitimate need to know such information and to assure that the Adviser is meeting its obligations to clients and remains in compliance with applicable law. In certain circumstances, the Adviser may possess certain confidential or material, non-public information that, if disclosed, might be material to a decision to buy, sell or hold a security, but the Adviser will be prohibited from communicating such information to the client or using such information for the client's benefit. In such circumstances, the Adviser will have no responsibility or liability to the client for not disclosing such information to the client (or the fact that the Adviser possesses such information), or not using such information for the client's benefit, as a result of following the Adviser's policies and procedures designed to provide reasonable assurances that it is complying with applicable law.

The Adviser or its related persons may invest in the same securities (or related securities, e.g., warrants, options or futures) that the Adviser or a related person recommends to clients. Such practices present a conflict where, because of the information the Adviser has, the Adviser or its related person are in a position to trade in a manner that could adversely affect clients (e.g.,

place their own trades before or after client trades are executed in order to benefit from any price movements due to the clients' trades). In addition to affecting the Adviser's or its related person's objectivity, these practices by the Adviser or its related persons may also harm clients by adversely affecting the price at which the clients' trades are executed.

The Adviser requires its related persons to pre-clear all transactions in their personal accounts with the Chief Compliance Officer, who may deny permission to execute the transaction if such transaction will have any adverse economic impact on one of its clients.

All of the Adviser's related persons are required to disclose their securities transactions and holdings on a quarterly basis. All of the Adviser's related persons are also required to provide broker confirmations of each transaction in which they engage and a quarterly certification of such transactions. Trading in employee accounts will be reviewed by the Chief Compliance Officer and compared with the pre-clearance records.



**Item 12: Brokerage Practices**

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**General arrangements**

Except for the general investment guidelines set forth in the offering memorandum of each private fund, there are no limitations on the authority of the Adviser with respect to brokerage practices. In selecting brokers or dealers to execute transactions, the Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. It is not the practice of the Adviser to negotiate "execution only" commission rates, thus client accounts may be deemed to be paying for research services provided or paid for by the broker which are included in the commission rate.

Services provided or paid for by brokers will be of a type, and will be received pursuant to arrangements permitted under the rules of the FSA. Such services may take the form of trade execution on behalf of the Adviser's clients and/or the provision of research to the Adviser. The benefits provided under such agreements assist the Adviser in the provision of investment management services to its clients and to other third parties. Specifically, the Adviser may agree that a broker shall be paid a commission in excess of the amount another broker would have charged for effecting such transaction so long as, in the good faith judgment of the Adviser, the amount of the commission is reasonable in relation to the value of the brokerage and other services provided or paid for by such broker. The Adviser will limit the use of "soft dollars" to obtain research and advisory services to services that constitute research and advice. These may include, but are not limited to; research reports (including market research); corporate governance research and rating services; discussions with independent research analysts; and consultants' advice on portfolio strategy. The services obtained by the Adviser are expected to be of a type that would qualify as brokerage or research services under Section 28(e) of the Securities Exchange Act of 1934, as amended. Nevertheless, the arrangements through which the Adviser receives the services are not expected to satisfy the requirements of Section 28(e).

In selecting brokers and negotiating commission rates, the Adviser will take into account the financial stability and reputation of brokerage firms, the brokerage, research and other services provided by such brokers, and referrals of investors (consistent with best execution), although the Adviser's clients may not, in any particular instance, be the direct or indirect beneficiary of the research or other services provided. The Adviser maintains a list of brokers with whom it may deal and this list is reviewed at least on an annual basis.

From time to time the Adviser may participate in capital introduction programs arranged by broker-dealers, including firms that serve as prime brokers to clients managed by the Adviser or recommend these clients as an investment. The Adviser may place client portfolio transactions with firms who have made such recommendations or provided capital introduction

opportunities, if the Adviser determines that it is otherwise consistent with seeking best execution. In no event will the Adviser select a broker-dealer as a means of remuneration for recommending the Adviser or any other product managed by the Adviser (or an affiliate) or affording the Adviser with the opportunity to participate in capital introduction programs.

Currently, the Adviser's clients are organized in a "master-feeder" structure and only one client (i.e., the master fund) makes portfolio investments. Accordingly, the Adviser does not aggregate purchases or sales of securities among its clients.

**Item 13: Review of Accounts**

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The Chief Investment Officer of the Adviser typically reviews the most significant holdings of each client's account on a daily basis. These holdings are monitored in the light of trading activity, significant corporate developments and other activities which may dictate a change in portfolio positions. If a decision is made to purchase or sell with respect to a specific security holding, client accounts will be reviewed in full prior to selling or purchasing such security. In addition, client accounts will be reviewed periodically from the standpoint of their respective specific investment objectives and as particular situations may dictate.

A client's investors receive reports from the client pursuant to the terms of each client's offering memoranda or as otherwise described in the offering document of the client.

**Item 14: Client Referrals and Other Compensation**

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The Adviser may receive research services used in the investment management process through "soft dollar" arrangements with brokers. Please see Item 12 for further information on the Adviser's "soft-dollar" practices.

**Item 15: Custody**

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This Item is not applicable.

**Item 16: Investment Discretion**

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The Adviser provides investment management services on a discretionary basis to its clients. Please see Item 4 for more information.

Prior to assuming any discretion in managing a client's assets, the Adviser enters into an investment management agreement or other agreement that sets forth the scope of the Adviser's discretion (an "Investment Management Agreement").

Unless otherwise instructed or directed by a discretionary client, the Adviser has the authority to determine (i) the securities to be purchased and sold for the client account (subject to restrictions on its activities set forth in the applicable investment management agreement and any written investment guidelines) (ii) the amount of securities to be purchased or sold for the client account.

Trading errors (i.e., when an order is not executed according to the portfolio manager's instructions due to a mistake of fact, processing error or other similar reason) and order errors (i.e., when an order is not suitable and appropriate for the client because of investment restrictions or regulatory limitations, changed circumstances, inadvertent duplication or other similar reason) that are attributable to the Adviser shall be corrected in accordance with the following principles: If trading errors and/or order errors do occur, they will be for the account of the applicable client account(s), unless they are the result of conduct inconsistent with the standard of care set forth in the applicable investment management agreement. In the event that a client account incurs a trade error as a result of the Adviser's negligence, fraud or wilful default, trade errors will be corrected by the Adviser as soon as practicable, in a manner such that the client incurs no loss. Trade errors that result other than by breach of the standard of care above shall be for the account of the client account on the basis that profits arising from such errors will also be for the account of the client account. The Adviser will not be responsible for the errors of other persons, including the client account's prime brokers and custodians. In the event of a trading error or an order error, it shall be a matter of the Adviser's discretion as a free-standing investment judgment whether or not to retain the relevant position.

**Item 17: Voting Client Securities**

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To the extent that the Adviser has been delegated proxy voting authority on behalf of its clients, the Adviser complies with its Proxy Voting Policy and Procedures (the "Procedures") that are designed to ensure that the Adviser will make a best efforts attempt to vote proxies with respect to client securities in the best interests of its clients. The Procedures also require that the Adviser identify and address conflicts of interest between its related persons and its clients. If a material conflict of interest exists, the Adviser will determine whether voting in accordance with the guidelines set forth in the Procedures is in the best interests of the client or whether taking some other action may be more appropriate.

The Adviser generally votes in favor of routine corporate housekeeping proposals, including election of directors (where no corporate governance issues are implicated). Generally, the Adviser will vote against proposals that make it more difficult to replace members of a board of directors. For all other proposals, the Adviser will make a best efforts attempt to determine whether a proposal is in the best interests of its clients and may take into account the following factors, among others:

- (i) whether the proposal was recommended by management and the Adviser's opinion of management;
- (ii) whether the proposal acts to entrench existing management; and
- (iii) whether the proposal fairly compensates management for past and future performance.

Clients may obtain a copy of the Adviser's proxy voting policies and procedures and information about how the Adviser voted a client's proxies by Mr. Patrick Degorce by email at [thelemecompliance@thelemepartners.com](mailto:thelemecompliance@thelemepartners.com) or telephone at +44 207 150 1400.

**Item 18: Financial Information**

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This Item is not applicable.

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