

**ITEM 1**  
**COVER PAGE**

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**PART 2A OF FORM ADV: FIRM BROCHURE**  
**HIGHFIELDS CAPITAL MANAGEMENT LP**  
**FEBRUARY 14, 2012**

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*This brochure (the “Brochure”) provides information about the qualification and business practices of Highfields Capital Management LP. If you have any questions about the contents of this Brochure, please contact Investor Relations at (617) 850-7500 or [investorrelations@highfieldscapital.com](mailto:investorrelations@highfieldscapital.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.*

*Additional information about Highfields Capital Management LP also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).*

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

**ITEM 2**  
**MATERIAL CHANGES**

This Brochure is Highfields Capital Management LP's initial FORM ADV Part 2A submitted with its application for registration with the SEC and therefore there are no material changes to report.

**ITEM 3**  
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## ITEM 4

### ADVISORY BUSINESS

Highfields Capital Management LP, a Delaware limited partnership (“HCM”, or the “Management Company”), provides administrative and managerial services to private investment funds. HCM and Highfields Associates LLC (“Highfields Associates”), a Delaware limited liability company that serves as general partner of certain investment funds managed by HCM, were founded in 1998 with offices located in Boston, Massachusetts. Jonathon S. Jacobson is HCM’s principal owner, Chief Executive Officer and Chief Investment Officer and is responsible for establishing overall investment strategy, sizing of positions and risk management for the portfolios of its managed funds.

HCM provides investment management and administrative services to five private investment funds (each a “Fund” and collectively the “Highfields Funds” or the “Funds”), interests in which are privately offered to individuals and entities that are “accredited investors” and, in the case of certain Funds, “qualified purchasers” under the federal securities laws. HCM does not provide investment or management services to managed accounts, registered investment companies or directly to individuals.

The Highfields Funds include Delaware limited partnerships whose limited partners are, or are owned by, taxable individuals and entities, and a Delaware limited partnership whose limited partners are non-taxable United States entities (collectively, the “U.S. Funds”), a Cayman Islands exempted company whose shareholders are non-taxable U.S. entities and non-U.S. persons (the “Offshore Fund”) and a Cayman Islands exempted limited partnership that serves as a master fund through which certain of the Highfields Funds invest (the “Master Fund”). The offer and sale of interests in the Highfields Funds is only made to prospective investors through a Confidential Offering Memorandum that is prepared for each such Fund and which provides information about the Fund’s objectives, strategies, risks, structure, costs, withdrawal terms and other matters of importance to investors (in each case, an “Offering Memorandum”).

HCM manages all of the Highfields Funds with the same overall value-focused investment strategy, employing a variety of investment and trading strategies across a wide variety of instruments, industries and geographic markets. Accordingly, though the Funds typically invest primarily in marketable U.S. equity securities, a significant portion of each Fund’s investment portfolio is comprised of non-U.S. equity securities, as well as U.S. and non-U.S. fixed income securities, debt instruments, convertible securities, financial derivatives (e.g., options, futures, forward contracts and equity, credit default, interest rate and other swaps) and other public and non-public securities.

HCM is not restricted in the types of securities or other assets in which it may invest on behalf of the Funds. HCM also does not tailor advisory services to the individual needs of Fund investors, nor do Fund investors have the opportunity to choose which investments are allocated to their interests in the Funds, except that investors may elect not to participate in Special Investments (as defined in the Offering Memorandums) made by the Funds. Special Investments

generally are assets or securities acquired by the Funds in private transactions or otherwise which, on account of their terms, nature or expected life, are treated separately from the general investment portfolio of each Fund with the result that the capital allocated to them is subject to withdrawal restrictions until the Special Investment is liquidated or no longer deemed to be a Special Investment.

As of December 31, 2011, HCM managed approximately \$10,456,840,583 of assets, all of which is managed on a discretionary basis. HCM does not manage any assets on a non-discretionary basis.

Additional information about HCM's business, history, organization and other matters addressed in Item 4 can be found in the Offering Memorandum and constituent documents of the relevant Highfields Fund.

## ITEM 5

### FEES AND COMPENSATION

HCM primarily receives asset-based fees (“Management Fees”) from the Funds, and also may receive performance-based incentive compensation from the Offshore Fund. Highfields Associates receives a performance-based incentive allocation from the Funds other than the Offshore Fund. The terms and amounts of the Management Fee and incentive compensation are not negotiable by investors in the Funds.

The Management Fee paid by each Fund to HCM is calculated quarterly by reference to the “Account Value” of each investor’s capital in such Fund. Where an investor has made multiple capital contributions to a Fund, the investor will typically have multiple capital accounts (or “share accounts” in the case of shareholders of the Offshore Fund) and the calculation of the applicable Management Fee will be subject to a separate calculation for each such account. “Account Value” equals the total assets allocable to such investor’s capital account less the total liabilities attributable to such capital account. For a capital account that holds Special Investments, such Account Value will include the Special Investment Carrying Value (which generally equals the lower of the Special Investment’s net cost or current market value).

The applicable rate of Management Fee charged to each investor’s interest in a Fund is based upon the date of the investor’s capital contribution and is calculated and paid at the beginning of each quarter out of each investor’s capital in the Fund. For capital contributed on or before January 1, 2004, a Management Fee of 0.25% (1.0% annualized) of each quarter’s opening Account Value is assessed. For capital contributed after such date, a Management Fee equal to 0.375% (1.5% annualized) of each quarter’s opening Account Value is assessed. Management Fees are payable in advance of each quarter. Since mid-quarter withdrawals from the Funds are not permitted, management fees generally are not refundable; provided, however, that if a Fund determines that an investor’s account should be mandatorily redeemed by the Fund during a quarter then the investor’s account would be refunded a pro rata portion of the Management Fee previously collected, based upon the portion of the quarter that had not elapsed.

Any incentive fee due to HCM from the Offshore Fund, or an incentive allocation due to Highfields Associates from the other Funds, is also calculated by reference to each investor’s capital account (or multiple capital accounts, where applicable) in a Fund. Except where an investor has made a mid-year withdrawal, incentive compensation and allocations are determined as of December 31 of each year. In the event of a mid-year withdrawal, incentive compensation and allocations are determined with respect to the portion of the investor’s capital that is withdrawn, and incentive compensation and allocations on the remaining capital balance are determined at year-end. Incentive compensation and incentive allocations are equal to 20% of each capital account’s annual net realized and unrealized profits subject to a “High Water Mark”

under which prior losses incurred by a capital account must be recovered before any new incentive compensation or allocation will be due. For capital accounts that hold Special Investments, the calculation of any incentive compensation or allocation will value Special Investments at the lower of net cost or current market value and therefore will not take into account unrealized appreciation in the value of a Special Investment above such Special Investment's net cost. Incentive compensation or allocation on capital invested in a Special Investment is only paid or allocated, as applicable, upon a realization event with respect to the Special Investment or at such time as HCM determines that the investment should no longer be maintained in a Special Investment account. The High Water Mark for interests in the Funds created prior to January 1, 2007, includes a priority return for each fiscal year that equals the lesser of the one-year Constant Maturity Treasury rate or 8%. Incentive compensation and allocation are deducted from investors' capital.

The Management Company and Highfields Associates do not charge Management Fees or incentive compensation or allocations to Fund capital accounts of HCM employees, affiliates, family members and similar parties, and they may reduce or waive these costs for other investors, or for particular investments, in their discretion.

The Funds bear their own investment and operating expenses. Investment expenses incurred by the Funds include, but are not limited to, brokerage commissions, clearing and settlement charges, interest expense, stock borrowing fees, proxy solicitation expenses, costs of third-party consulting and research services and investment banking and professional fees. The Funds' operating expenses include, but are not limited to, third-party accounting, legal, administrative or custodial services, audit and tax preparation expenses, SEC or other government regulatory and reporting expenses, and expenses relating to the offer of interests in the Funds. Expenses that benefit more than one Fund are generally allocated among such Funds on a pro rata basis in accordance with the relative amounts of investment capital of the respective Funds. Expenses arising from Special Investments are allocated according to the Funds' respective interests in the Special Investment. In some cases, the Management Company may pay or advance an expense of a Fund, subject to later reimbursement.

There are no other fees, custodian charges, finder's fees, brokerage fees or other compensation paid to HCM or Highfields Associates by the Funds or the investors in the Funds. In limited circumstances, the Management Company may be entitled to receive from third parties, or target investments, a transaction, structuring, management or other fee in connection with the making of an investment. Such fees may be credited or passed through to investors in the Funds, or may be retained by the Management Company, in its discretion.

Additional information about matters addressed in Item 5 can be found below in Item 12 ("Brokerage Practices") and in the Offering Memorandum and constituent documents of the relevant Highfields Fund.

## **ITEM 6**

### **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Item 5 above describes performance-based compensation or allocations that are charged by HCM or Highfields Associates to all of its clients. As a result, HCM and its affiliates do not face the conflicts of interest that may arise when an investment adviser receives performance-based compensation from some clients and not from others. Nevertheless, side-by-side management of the Funds may create conflicts of interest in that in certain circumstances HCM may be incented to favor one Fund versus another with regard to allocation of investment opportunities. For example, differences amongst the Funds with regard to High Water Marks used in the calculation of incentive compensation may create an incentive for HCM to favor one Fund over another. Similarly, because the assets of employees and affiliates of HCM are disproportionately invested in the Highfields Funds designed for taxable U.S. investors, HCM may be seen to have an incentive to favor these Funds. To mitigate such conflicts, Highfields has adopted investment allocation policies and procedures to provide for fair and equitable allocation of investments and trades among the Funds. Under such policies, new investments are generally allocated to each Fund in a manner to provide each Fund with equivalent exposure to such new investment, subject to modification on account of regulatory, tax and other considerations as determined by the Management Company.



**ITEM 7**  
**TYPES OF CLIENTS**

The Management Company's clients are the Highfields Funds to which it provides investment management and administrative services. Investors in the Funds primarily consist of charitable foundations, endowments, pension plans, governmental entities, funds of funds, private or family-owned investment entities, trusts and individuals. Investors in the Funds must meet certain qualification requirements under applicable federal securities and commodities laws as set forth in each Fund's Offering Memorandum and/or constituent documents. The Funds' stated minimum initial investment is \$5,000,000. These minimum investment amounts are waived by the Funds in certain circumstances and are not applied to investors who are HCM employees, affiliates, family members and similar parties.

Additional information about qualifications for investment in the Highfields Funds addressed in Item 7 can be found in the Offering Memorandum and constituent documents of the relevant Highfields Fund.

## ITEM 8

### METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

#### Methods of Analysis and Investment Strategies

HCM's investment analysis and decision making processes typically involve a fundamental "bottom up" analysis of an issuer, the issuer's industry and market segment, competitive factors, management, cash flow and capital allocation. This process is performed under the direction of Jonathon S. Jacobson, HCM's founder and Chief Investment Officer, who is responsible for establishing overall investment strategy, sizing of positions and risk management for the Funds' portfolios.

Investments are typically sourced, analyzed and executed on by one of five working groups that focus on issuers across various global sectors including but not limited to industrials, communications, financial services, healthcare, real estate, retail and consumer, gaming, technology, energy, metals and other resources. Each working group includes one or more managing directors of HCM and in-house investment analysts who perform analytical and due diligence tasks such as:

- interviews with, and research on, a company's management team;
- discussions with customers, suppliers and competitors;
- review of a company's products and services; and
- consultation with industry experts.

In addition, HCM performs financial analysis of issuers including their:

- historical financial information;
- return on capital;
- consistency of revenue and earnings growth ; and
- free cash-flow generation.

With this information, HCM develops a view on an issuer's likely multi-year earnings, cash flow per share and prospective growth rate. In the case of structured and asset-backed securities, HCM also performs analysis of the assets underlying the security, and considers estimates of value and cash flows and, where applicable, default rates.

HCM invests the Funds' capital primarily in marketable equity securities, as well as a variety of other instruments available in both the U.S. and non-U.S. markets, including debt

instruments, convertible securities, financial derivatives (such as listed and over-the-counter options, futures and forward contracts, commodity futures, as well as equity, credit default, interest rate and other swaps) and other public and non-public securities.

Investments generally fall into one of two broad categories: “absolute value” and “relative value.” Absolute value strategies include investments in “event-driven” or distressed special situations, such as recapitalizations, spin-offs, restructurings, turnarounds, management changes, consolidating industries and other catalyst-oriented situations. Relative value strategies may involve taking positions in multiple securities that are believed to have an economic or mathematical relationship to each other and where a distortion exists between either the historical price or the fair value of that relationship, or a position in a single security that is believed to be mispriced by the market.

The Funds have made, and may continue to make, debt and equity investments in specific real estate projects, as well as long/short investments in more liquid securities that are closely tied to the real estate markets, including, but not limited to, real estate investment trusts (“REITs”) and securities backed by residential or commercial mortgages (“RMBS” and “CMBS”). In addition, the Funds may invest in loans and revolving credit facilities typically purchased in the secondary market, which have outstanding borrowed amounts, and which may involve a range of issuers and industries. The Funds also make longer duration, less liquid investments directly or through special purpose entities, independently or together with one or more other investment entities.

The Funds engage in short sales of securities, buy securities on margin and arrange with banks, brokers and others to borrow money in order to employ leverage. In general, there are no restrictions on the Funds’ use of leverage or borrowing, other than those which may be imposed by applicable statutes and regulations, or by their credit counterparties.

HCM has wide discretion in selecting the types of investments made for the Funds. Accordingly, the types of investments held by the Funds may vary considerably over time as these conditions change. HCM does not anticipate that the net cost of any single investment will exceed 10% of the net assets of any Fund (determined at the time such investment is made). However, broad diversification of investments in number, or by industry or geography, is not a primary investment objective of the Fund.

HCM intends that most investments made by the Funds will consist of passive positions in securities. However, where appropriate, HCM may seek to enhance or protect the Funds’ investments by maintaining a dialogue with company management regarding capital structure, operations or other matters, or by attempting to influence management, owners and other constituents.

The Funds from time to time invest in investment funds managed by others, including affiliates, or may have certain investments directed by other investment managers, including

through sub-advisory agreements, where HCM determines that the Funds' portfolios will benefit from such other managers' special expertise or access to certain investments. In some cases the manager will be granted discretionary trading authority with respect to the assets allocated to that manager, provided that HCM's policy is that such allocations will not exceed in the aggregate 20% of the net assets of any Fund, determined at the time of investment. As discussed in Item 5 above, the Funds also from time to time invest in Special Investments, and the portion of an investor's capital account allocated to a Special Investment is not subject to withdrawal until the investment is no longer designated as a Special Investment on account of a liquidity event or other change in circumstance.

**The investment program that HCM follows for the Funds is speculative and entails substantial risks including the risk of loss by an investor of its entire investment amount. Since market risks are inherent in all securities investments there can be no assurance that the investment objectives of the Funds will be achieved. In fact, certain investment practices described above can, in some circumstances, potentially increase the adverse impact of market movements on the Funds' investment portfolios.**

*Material, Significant or Unusual Risks Relating to Investment Strategies*

HCM's investment strategy for the Funds entails substantial and material risks that are inherent in securities investing of all kinds, as well as risks specific to the investment assets, processes, strategies and portfolio composition that HCM may utilize at any given time. The most significant of these risks are briefly described below; however, any prospective investor in a Fund is directed to such Fund's Offering Memorandum for a more complete listing and explanation of such risks, the effects on the Fund's strategies and financial condition and on the investor's investment in the Fund. Investors in the Funds must be financially capable and willing to bear the risk of loss that arises from HCM's strategy and the Funds' investment approach.

- Long-Biased Investment Program: HCM's strategy has a long-exposure bias making it more likely that adverse changes in the overall market will result in a decline in the value of the Funds' assets. HCM's hedging strategies should not be viewed as insulating a Fund investor from risks attendant to investing in the market as a whole.
- Limited Diversification: Broad diversification of investments in number, industry or geography is not a primary investment objective of the Funds and typically HCM concentrates the Funds' portfolios in a limited number of issuers, industries, markets or types of investments. This concentration could expose the Funds to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in the selected investments.
- Special Situations: The Funds pursue investments in "event-driven" or distressed special situations, such as recapitalizations, spin-offs, and financial restructurings and other

catalyst-oriented situations which are complex in their analysis, may have limited liquidity and may be difficult or costly to establish or unwind.

- Price Volatility: The prices of the Funds' investments can be highly volatile and may have extreme reactions to changes in interest rates, governmental trade and fiscal policies, and political and economic events. Such changes may fundamentally change the trading or investment conditions underlying the HCM analysis on which the Funds relied when making an investment, and therefore result in losses. Price volatility also may result in a "margin call" on the Funds, requiring the Funds to post additional collateral to a broker or even result in the forced liquidation of an asset causing losses to the Fund.
- Counterparty Risk: The Funds have established relationships to obtain financing, derivatives and prime brokerage services and that permit the Funds to trade in a variety of markets or asset classes. There is no assurance that the Funds will be able to maintain such relationships and a failure to do so would limit the Funds' trading activities and could create losses. The Funds could also suffer losses if there were a default or insolvency by prime brokers, custodians, brokerage firms and other financial institutions with which the Funds do business. Some of the markets in which the Funds may invest are "over-the-counter" or "interdealer" markets, including many derivatives and debt markets, in which the terms of transactions are not standardized and are negotiated on an individual basis. This exposes the Funds to the risk that a counterparty will not settle a transaction because of a dispute over the terms of the contract or because of a credit or liquidity problem, thus causing the Funds to suffer a loss.
- Leverage and Financing Risk: HCM's investment strategy employs leverage by the Funds, including through borrowings of funds, use of margin accounts, repurchase agreements, options and similar derivatives, and such leverage may magnify the effect of events that have adverse effects on the Funds' portfolios and the losses that result.
- Liquidity of Investments: Many of the Funds' investments are not traded on major exchanges or may trade in limited volume, including debt instruments or other assets that are traded in the over-the-counter market, or only in privately negotiated transactions. There is no limit to the amount of capital which the Funds may invest in such assets or in assets that are subject to restrictions on transfer and the inability to timely or easily transact in such assets may result in losses to the Funds.
- Short Selling: Short selling (borrowing and selling a security with the intent of replacing it later at lower cost) creates the risk of a theoretically unlimited loss, since the potential increase in the replacement cost of the security is not limited. In addition, the timing of closing a short sale may not be in HCM's control as there can be no assurance that the

Funds will be able to borrow the securities for the planned duration of the trade, or that securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Closing out a short position in an illiquid market, or being forced to purchase replacement securities, can increase the Funds' risk of loss on a short sale.

- Options, Swaps and Other Derivatives: The Funds purchase and sell options on securities, currencies and commodities on national and international exchanges and in over-the-counter markets. The Funds also may enter into swaps or functionally equivalent instruments where the value of the instrument is determined by reference to the value of one or more underlying securities, assets or indexes. Options, swaps and similar derivative instruments represent leveraged investments and may result in greater volatility in the Funds' portfolios, particularly where they are used for investment rather than as a hedge on a related investment position.
- Futures: HCM uses futures contracts as part of the Funds' investment and hedging strategies, the value of which depends upon the price of the security, commodity, index or other asset underlying the contract. The prices of futures contracts are highly volatile and price movements can be influenced by, among other things, interest rates, market risk of the underlying asset, government fiscal or monetary policies and political and economic events. In addition, any such futures position is also subject to the risk of illiquidity as a result of exchange and/or regulatory changes or the failure of any of the exchanges on which such futures position trades or of its clearinghouses or counterparties.
- Distressed Securities: The Funds invest in securities of, or claims against, entities experiencing significant financial or business difficulties, including notes, loans, commercial paper, partnership interests and similar financial instruments or in securities backed by distressed assets. In addition to the inherent risk of investing in a troubled business, these investments pose additional risks attendant to their structural complexity, limited information, claims of competing creditors and stakeholders and illiquid markets. These factors contribute to typically higher-than-average price volatility for such assets and may result in losses for the Funds.
- Risk of Certain Debt Investments and Interest Rate Fluctuations: The Funds may invest in bonds or other fixed income securities, including "higher yielding" (and, therefore, higher risk) debt securities that are often below "investment grade." Issuers of such debt may face ongoing uncertainties and ultimately default on interest and principal payments. Changes in economic conditions, prevailing interest rates or competitive and other

industry factors may all result in the default of the issuer or a significant reduction in the securities' value on account of a perceived risk of default.

- Investing in Real Estate and Loans Secured by Real Estate: The Funds' investments in real estate and related loans or interests entail many of the risks incident to the direct ownership and operation of commercial or other real estate as well as the risks attendant to investing in less liquid assets. Operating or ownership risks include disruptions of cash flow, changes in supply of, or demand for, competing properties, degradation in the financial condition of tenants or buyers, changes in tax, environmental and zoning laws, or changes in the availability and cost of financing. In addition, typically HCM and the Funds are dependent on the ability of third parties to successfully operate the underlying real estate assets, including their ability to foresee, manage and react to the development of the conditions described above.
- Residential and Commercial MBS: Mortgage-backed securities ("MBS") generally refer to investments that are backed by security interests in real estate, real estate projects, loans secured by real estate and other real estate interests, whether residential or commercial. MBS are often available in senior, mezzanine and junior tranches, each of which has rights that differ regarding priority on distributions and repayment. Investing in MBS presents many of the same risks of loss as direct investment in real estate, as the value of the MBS will rise and fall with the value, or perceived value, of the underlying properties and the creditworthiness of the owners of such underlying properties. Losses resulting from changes in property values, defaults by borrowers or other events are likely to be greater where the Funds invest in a subordinated or junior tranche of an MBS structure.
- Asset-Backed Securities: The Funds from time to time invest in asset-backed securities ("ABS") backed by credit card receivables, vehicle installment sales contracts, commercial and industrial bank loans, student loans, debt securities and various types of accounts receivable. Unlike MBS, the obligations and receivables underlying an ABS often are not secured, may be personal in nature and the debtors may be entitled to the protection of a number of state and federal consumer loan laws. As a result, the value of such securities is particularly susceptible to economic trends, and broad economic or market disruption will increase the risk of loss to the Funds.
- Non-U.S. Securities: Investments in securities of non-U.S. issuers (including non-U.S. governments) and securities priced in non-U.S. currencies pose currency exchange risks (including blockage, devaluation and non-exchangeability) as well as risks attendant to the imposition of withholding or other local taxes and political or social instability. In addition, less information is typically available to HCM regarding securities of non-U.S.

issuers and such issuers may not be subject to financial reporting standards comparable to those of U.S. issuers. Investments in developing countries present the further risks of securities markets that are smaller and more volatile than the securities markets of the U.S., Canada and Western Europe.

Additional information about HCM's investment strategy, methods of analysis and the risks of investing in the Funds, and other matters addressed in Item 8 can be found in the Offering Memorandum and constituent documents of the relevant Highfields Fund.



## **ITEM 9**

### **DISCIPLINARY INFORMATION**

There are no legal or disciplinary events that are material to a client's or a prospective client's evaluation of HCM's advisory business or the integrity of its management.

## ITEM 10

### OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

HCM has been registered with the U.S. Commodity Futures Trading Commission (the “CFTC”) since 1998 as a Commodity Pool Operator and a Commodity Trading Advisor and is a member of the National Futures Association (“NFA”). Jonathon S. Jacobson, founder and Chief Investment Officer, and Peter Mulderry, Head of Client Services, are registered with the NFA as associated persons and principals of HCM, and Joseph F. Mazzella, General Counsel, Jennifer L. Stier, Chief Operating Officer, and Kristin J. Marcus, Chief Financial Officer, are also registered with the NFA as principals of HCM. In addition, Highfields Associates is registered with the CFTC as a commodity pool operator and is a member of the NFA. HCM is also registered with the Securities and Exchange Board of India as a foreign institutional investor.

HCM evaluates any material conflicts of interest presented by any proposed relationship or arrangement it may contemplate with a service provider, broker or similar party that has a material business relationship with the Funds to ensure that the transaction or arrangement is fair and equitable to the investors in the Funds, and on terms that are consistent with arm’s length dealings, and HCM reviews any such arrangement on an ongoing basis thereafter to ensure continued benefit to the Funds and their investors. Except as described in the paragraph immediately below, neither HCM nor any of its management persons currently has any such relationship.

Each of the Highfields Funds has made investments in private investment funds (the “PNMAC Special Investment”) and one Fund holds shares in a publicly-traded REIT managed by PNMAC Capital Management LLC (“PNMAC”), an SEC-registered investment advisor. Managing Directors of HCM own minority interests in Private National Mortgage Acceptance Company, LLC, the parent entity of PNMAC. As a result of such ownership, HCM may have an incentive to recommend such investments to the Funds and thereby increase PNMAC revenues in which HCM principals may share. This conflict is evaluated on an ongoing basis by HCM’s management and is addressed, in part, by HCM’s decision that it will not charge the Highfields Funds an HCM Management Fee on assets invested in the PNMAC Special Investment, and neither HCM nor Highfields Associates will charge any incentive compensation or allocation with respect to the profits derived from such investment.

Employees of HCM may have family and other relationships with investors in, or service providers to, the Highfields Funds or with employees of issuers in which the Funds invest. HCM reviews such relationships to identify and address any conflicts.

Additional information about HCM's affiliate relationships and other matters addressed in Item 10 can be found in the Offering Memorandum and constituent documents of the relevant Highfields Fund.

## ITEM 11

### CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

#### Code of Ethics

HCM has adopted a Code of Ethics (the “Code”) consistent with the requirements of Rule 204A-1, which, among other things, (i) sets forth the standards of professional conduct for HCM employees; (ii) governs the personal securities transactions of HCM’s employees, (iii) governs the treatment and forbids the misuse of material nonpublic information by HCM employees, and (iii) requires all supervised persons to report any violations of the Code to HCM’s Chief Compliance Officer or General Counsel. HCM will make a copy of the Code available to any investor or potential investor upon request.

#### Participation or Interest in Client Transactions

HCM and its affiliates (including for this purpose, Highfields Associates, Jonathon S. Jacobson, and officers and employees of HCM, and accounts controlled by them) have invested substantial capital in the Highfields Funds and collectively represent the largest investor in the aggregate capital of the Highfields Funds. The personal investments of such affiliates are concentrated in the Highfields Funds that are organized as Delaware partnerships for U.S. investors. Such persons are not charged a Management Fee or incentive compensation or incentive allocation and are subject to differing policies on minimum subscription amounts and withdrawals than are generally applicable to investors in the Funds.

Such Fund ownership may present conflicts of interest in that HCM and its affiliates have a larger interest in certain Funds than in others. This potential conflict is evaluated on an ongoing basis by HCM’s management and is addressed, in part, through HCM’s allocation policies which provide for allocation of trades and investments generally according to an allocation formula that is intended to allocate new investments in a manner to achieve, as nearly as practical, reasonably comparable economic exposure to the investment, subject to modification on account of tax, regulatory or other reasons that may make it impracticable or undesirable for one or more Funds to participate in an investment to the same extent, or in the same manner, as the other Funds. Allocations, and conformance to allocation policies, are reviewed on an ongoing basis.

In addition, substantially all of the interests in the Funds held by HCM and affiliated persons have elected to participate in Special Investments, while a minority of unaffiliated investors has done so. As a result, the determination to designate a position as a Special Investment will result in HCM affiliated persons receiving a larger proportionate interest in the

gain or loss from such position than if it were held in the Funds' general pool of investments. The designation of an investment as a Special Investment is done by HCM, taking into account various factors described in each Fund's Offering Memorandum, and reviewed at least quarterly by HCM's Policy and Practices Committee.

### Personal Trading

The Code generally prohibits employees from transacting in publicly traded securities of most issuers, except for (a) open-ended mutual funds, approved ETFs or closed-end mutual funds, money market funds and government securities, (b) pre-approved sale transactions in securities held at the time the employee joined HCM and (c) transactions in an approved managed account in which a third party manager directs transactions pursuant to a formula or approach applicable to all similar managed accounts. In addition, the Code generally requires employees to (1) disclose all personal securities holdings upon commencement of employment and annually thereafter; and (2) report all personal securities transactions at least quarterly. Pursuant to the Code, employees may not participate in initial public offerings and must obtain permission from HCM before acquiring securities in private transactions.

Except as described in Item 10, HCM does not cause the Funds to buy or sell securities in which HCM or its principals have a material financial interest. HCM typically does not initiate cross-transactions between one or more Funds to achieve comparable exposure among the Funds to certain investments. On account of the ownership of HCM affiliates in certain Funds, certain such cross-transactions, if they occurred, may be viewed as principal transactions. If HCM were to initiate a cross-transaction, HCM would comply with the relevant provisions of the Investment Advisers Act of 1940, as amended (the "Advisers Act"), including, where appropriate, requiring the appointment of an independent third-party to review and approve the terms of such transaction.

Additional information about HCM's matters addressed in Item 11 can be found in the Offering Memorandum and constituent documents of the relevant Highfields Fund.

## **ITEM 12**

### **BROKERAGE PRACTICES**

HCM has discretion in deciding which brokers and dealers the Funds will use and in negotiating the rates of compensation the Funds are willing to pay. Portfolio transactions for the Funds are allocated to brokers and dealers pursuant to HCM's obligation to seek "best execution," taking into account one or more factors such as: the broker's execution capability, reliability and financial condition, securities pricing and transaction expenses, confidentiality, capital commitment and transaction responsiveness. HCM also considers a broker's effectiveness in providing market or industry information, arranging for access to knowledgeable industry sources or issuer management and the provision or payment of the costs of brokerage or research products or services that benefit the Funds and assist HCM in the performance of its responsibilities. HCM need not solicit competitive bids and does not always select the lowest available commission cost, including where, as described below, it directs trading activity to brokers who provide soft dollar credits. Accordingly, if HCM determines in good faith that the commissions charged by a broker are reasonable in relation to the value of the brokerage and research products or services provided by such broker, HCM may direct brokerage transactions to such broker and/or pay a commission rate that is greater than the amount another broker might charge.

A portion of the Funds' trading is directed to brokers that provide "soft dollar" credits which HCM uses to acquire research and research related items that benefit the Funds and assist HCM in the management of the Funds' investment portfolios. In most cases, research services provided by the broker-dealer are generated by third parties. HCM's use of commissions or "soft dollars" to pay for brokerage and research products or services is undertaken within the safe harbor created by Section 28(e) of the Securities Exchange Act of 1934, as amended. Research acquired through this process includes research services that the Funds would otherwise purchase for their own accounts directly from a third-party, including consulting, advisory or other specialty research products or services, but may also include research that HCM would otherwise develop or acquire at its own expense. Where HCM receives such benefit, it may have an incentive to select a broker-dealer based on HCM's interest in receiving research products or services.

From time to time, HCM may direct transactions through soft dollar arrangements whereby the soft dollar broker that provides execution may "step out" a portion of the commission in favor of a broker that provides brokerage or research services. To the extent that HCM uses full service brokers that provide research and other services to HCM and the commission associated with such services is greater than would otherwise be obtained using available electronic trading platforms, such commission may be deemed to comprise soft dollar

arrangements. The research services obtained are used in managing the investment portfolios of each of the Funds.

All Highfields Funds generally receive the benefit of research obtained with soft dollar credits and HCM does not apportion such benefit according to the actual credits generated by trading of one Fund as compared to the others. HCM believes soft dollar benefits generally accrue proportionately to the Fund that generated the soft dollar credit given that the Funds follow the same investment strategy and, therefore, commissions and soft dollar credits are incurred and generated generally according to the relative capital of the Funds.

Subject to the considerations described above, the selection of a broker (including a prime broker) also may be influenced by, among other things, the provision by the broker of consulting with respect to technology, operations and equipment, capital introduction, marketing assistance, commitment of capital and access to deal flow. HCM does not separately compensate any broker for any of these other services. Provision of services, including research services that HCM might otherwise pay for, capital introduction and other matters, may provide HCM with an incentive to select the respective broker-dealer for client transactions without regard to best execution.

HCM uses a broker vote system whereby it obtains information from investment professionals as to the execution, research and other services provided by brokers, that assists HCM in determining the appropriate allocation of transactions and commissions to brokers. HCM's Head Trader reviews best execution information, analysis and reports prepared by a third party to evaluate HCM's trading and execution performance. Allocation of trades, best execution and soft dollar credits and use are all reviewed by HCM's Trading Practices Committee at least quarterly.

Consistent with its approach of pursuing the same investment strategy for each of the Highfields Funds, brokerage orders for securities are typically aggregated and the cost of execution is shared by the Funds according to the allocable portion of the transaction assigned to each Fund.

Additional information about HCM's brokerage practices, execution of transactions and other matters addressed in Item 12 can be found in the Offering Memorandum of the relevant Highfields Fund and in its constituent documents.

## **ITEM 13**

### **REVIEW OF ACCOUNTS**

The Funds' investment portfolios are reviewed and monitored by HCM's Chief Investment Officer and Managing Directors on an ongoing basis. Information provided for this review examines the Funds' exposures by sector, instrument and geographic region, as well as information regarding the Funds' leverage, credit exposures and performance.

HCM makes the written reports and information described below available to all continuing investors in the Funds. Investors that have withdrawn all capital except capital invested in Special Investments receive information relevant to such Special Investment holdings.

- Monthly performance estimates;
- Monthly exposure estimates;
- Quarterly unaudited account statements;
- Quarterly letters from the Chief Investment Officer, with accompanying statistical information;
- Schedule K-1 (where applicable) as soon as practicable after the fiscal year-end; and
- Fund financial statements audited by Ernst & Young LLP, within 90 days after fiscal year-end.

Additional information about matters addressed in Item 13 can be found in the Offering Memorandum and constituent documents of the relevant Highfields Fund.



## **ITEM 14**

### **CLIENT REFERRALS AND OTHER COMPENSATION**

Neither HCM nor any of its related persons compensates any person who is not a supervised person of HCM for client referrals to HCM. However, as discussed above, HCM may consider capital introduction opportunities in its selection of brokers, subject always to HCM's obligation to seek best execution for transactions of the Funds.

Neither HCM nor any of its related persons receives an economic benefit from any other person for providing investment advice or any other advisory services to HCM's clients.

**ITEM 15**  
**CUSTODY**

HCM is subject to Rule 206(4)-2 (often referred to as the “Custody Rule”) under the Advisers Act. Accordingly, HCM has engaged a PCAOB-registered independent accounting firm to perform an annual audit of each Fund and distributes audited financial statements prepared in accordance with GAAP to all investors within 120 days of each Fund’s fiscal year end. In addition, HCM has engaged several “qualified custodians” (as defined in the Custody Rule) to hold all assets of the Funds that must be held with a qualified custodian pursuant to the Custody Rule. These qualified custodians do not send statements to investors in the Funds.

## **ITEM 16**

### **INVESTMENT DISCRETION**

Pursuant to applicable agreements, HCM has discretionary authority over the assets of the Funds. The Funds typically place no restrictions on HCM's authority; however the Funds' investment strategy is subject to certain guidelines, such as an intention that the net cost of any single investment will not exceed 10% of the net assets of a Fund at the time of investment and that a new Special Investment will not be undertaken if it would cause the aggregate fair market value of all existing Special Investments held by eligible investor accounts in a Fund to exceed 20% of the aggregate net asset value of such accounts.

## **ITEM 17**

### **VOTING CLIENT SECURITIES**

HCM has discretion over the Funds' exercise of voting rights with respect to securities they hold. HCM reviews each proxy solicitation to determine if the Funds have an interest in the outcome of the vote in question and how a vote may be in furtherance of such interest. Though outside advisors or other service providers may be retained to act as voting agent, to provide analysis of issuer and shareholder proposals, or to provide voting guidelines for reference, HCM generally does not delegate the proxy voting decision to, or defer to the recommendation of, outside advisors or other service providers. In certain cases, an abstention or non-vote may be determined to be appropriate or in the best interest of the Funds, such as when the Funds are no longer shareholders on the date of a vote. Not all of such matters are relevant or equally influential on all voting event decisions.

From time to time, conflicts of interest may arise in connection with the voting of proxies. HCM policy requires that personnel who become aware of such a conflict notify senior management personnel, and that the conflict be addressed and resolved by the Policy and Practices Committee.

Information concerning how HCM exercised voting rights as well as a copy of HCM's proxy voting policies and procedures may be obtained by submitting a written request to HCM.

Additional information about voting of proxies on behalf of the Funds and other matters addressed in Item 17 can be found in the Offering Memorandum and constituent documents of the relevant Highfields Fund.

**ITEM 18**  
**FINANCIAL CONDITION**

Not Applicable