

Cairn Capital Limited

Form ADV Part 2

28 March 2013

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This brochure provides information about the qualifications and business practices of Cairn Capital Limited. If you have any questions about the contents of this brochure, please contact us directly at +44 (0)20 7259 4800 or via email at ADVII@cairncapital.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 Cairn Capital Limited is also available on the SEC's website at www.adviserinfo.sec.gov.

Cairn Capital Limited is registered as an overseas investment adviser with the SEC. Please note that registration does not imply any certain level of skill or training.

Summary of Material Changes
to Form ADV Part 2 dated 30 March 2012

Paragraph 1.E.: Assets under management and long-term advice have been updated to reflect the position as at 28 February 2013.

Paragraph 2.A.: A paragraph has been added to outline certain circumstances in which Cairn may receive fees from an affiliate.

Paragraph 3.: Changes have been made in the fourth paragraph to describe circumstances in which Cairn may operate an information barrier between personnel located in separate office space and the personnel on the trading floor.

Paragraph 7.B.: This has been amended to disclose that Cairn has applied for registration as a commodity pool operator and commodity trading advisor.

Paragraph 8.: Amendments have been made as a consequence of changes to the regulatory regime in the United Kingdom taking effect on 1 April 2013.

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1. Advisory Business (Item 4)

- A. Cairn Capital Limited ("Cairn") is registered as an overseas investment adviser with the SEC (801-66019). Cairn was established in February 2004 in the United Kingdom and is a wholly-owned subsidiary of Cairn Capital Group Limited, which was also established in the United Kingdom in February 2004. Cairn delivers a broad range of credit market services to clients and investors including pension funds, insurance companies, central banks, banks, money managers, corporations and funds of funds.

Two independent shareholders in Cairn Capital Group Limited, STAR Capital Partners Investments LLP and R.B.S. Special Investments Limited, each own more than 25% of the voting rights in Cairn Capital Group Limited, but less than 25% of the capital. R.B.S. Special Investments Limited is a wholly-owned subsidiary of The Royal Bank of Scotland plc which, in turn, is a wholly-owned subsidiary of The Royal Bank of Scotland Group plc. The UK Government through HM Treasury is the ultimate controlling party of The Royal Bank of Scotland Group plc. The UK Government's shareholding is managed by UK Financial Investments Limited, a company wholly owned by the UK Government. STAR Capital Partners Investments LLP is a limited liability partnership the members of which are R.B.S. Special Investments Limited, Anthony Granville Mallin, Stephen John Michael Wright, Martina Lyons and STAR Capital (Cairn) Limited. According to the accounts of STAR Capital Partners Investments LLP, the ultimate controlling party of the partnership is considered to be Anthony Granville Mallin.

Cairn's principal office is located in London, United Kingdom.

- B. Cairn provides asset management, investment advisory and securities structuring advisory services to clients. Cairn's focus, based on its highly specialised credit markets capability, is in the sectors of investment grade and high yield credit, commercial real estate, asset backed securities ("ABS"), collateralised debt obligations ("CDO"), collateralised mortgage backed securities ("CMBS") and structured credit and finance more generally.

The asset management services provided by Cairn generally include the management of the asset portfolio and liabilities of the client, including the selection of assets to be acquired and assets to be disposed of, monitoring the assets in the portfolio and arranging any currency and interest rate hedging which Cairn considers to be necessary.

Cairn also provides structuring and advisory services relating to asset portfolios and credit derivatives under which Cairn does not have discretion to manage the assets of the client. The advisory services provided by Cairn may be of a short-term nature not involving investment supervisory services or monitoring of the assets or may be of a longer-term nature involving monitoring and advising on a portfolio of assets.

In portfolio management and advisory engagements, including both those with discretionary and non-discretionary investment authority, Cairn will generally review portfolio assets on a regular basis and make decisions or recommendations, as applicable, for future portfolio actions with respect to individual securities (or the portfolio as a whole) based on an analysis of current market values and trends compared with an assessment of assets' intrinsic or recovery value, taking into account a client's specific objectives.

Cairn also provides successor portfolio management services across the range of credit products, where Cairn has been mandated to replace the original management entity. Within the parameters established by the original transaction structure and portfolio collateral, Cairn aims to deliver, where possible, enhanced outcomes to investors.

Cairn also provides structuring advice to clients including transaction evaluation and securities restructuring, and new securities structuring and execution. Cairn's advisory capability is applied to structuring and restructuring efforts across the entire range of credit products and real estate where investors seek assistance to better safeguard their interests. In these advisory mandates Cairn applies its extensive credit product structuring knowledge, work-out experience and fundamental understanding of credit and the legal environment.

- C. Cairn's advisory services are tailored to the individual needs of clients. Advisory mandates are individually negotiated and as part of those negotiations the needs of the client will be addressed and the client will be able to impose any restrictions the client wishes to impose, including restrictions on investing in certain securities or types of securities.
- D. Cairn does not participate in wrap fee programs.
- E. As at 28 February 2013, Cairn managed assets on a discretionary basis of approximately U.S.\$3,039,050,000 and on a non-discretionary basis (which includes assets under long-term advisory mandates) of approximately U.S.\$9,414,886,000.

2. Fees and Compensation (Item 5)

- A. The fees charged by Cairn vary from client to client, are negotiable and are determined by reference to a number of factors including the degree of expertise and responsibility required of Cairn to meet its obligations, and market levels.

The fees for discretionary asset management are generally paid monthly or quarterly in arrears and generally include two elements, a base fee which is paid by reference to the value of the assets under management and a performance or incentive fee which represents a percentage of any excess returns achieved over prescribed target levels.

On certain occasions, Cairn may receive an upfront fee which is paid in recognition of services provided by Cairn in the structuring and arranging of the particular transaction. Such fees do not represent an advance payment or payment on account of fees for future investment advisory services.

Fees for advisory services where Cairn does not have discretion to manage the assets of the client vary depending upon a number of factors including the size of the asset portfolio or transaction concerned, the complexity of the portfolio or transaction and the degree of expertise and responsibility required. Fees for such services are generally either based upon a percentage of the assets contained within the portfolio for which Cairn is providing advisory services and may include a specified minimum fee or specified minimum term, or are fixed and payable on a periodic basis in arrears, a periodic basis in advance or only upon completion of the advisory mandate concerned. In certain cases, for example in a restructuring advisory engagement, Cairn may negotiate a success fee which is payable only upon successful completion of the mandate.

- Cairn may receive fees from its US affiliate, Cairn Capital North America Inc., for the performance of certain services in connection with mandates entered into by the affiliate with clients. Such fees will be determined by reference to a number of factors including Cairn's relative role in participating in the execution of the mandate and will be established on an arm's length basis between the two business entities.
- B. For discretionary asset management mandates, Cairn is generally paid out of the assets under management pursuant to the mandate although a client may elect to be billed directly for fees incurred. Where fees are paid out of the assets under management, Cairn does not have authority simply to deduct such fees from the assets under management. Any such fees are required to be agreed and approved by the client or by a third party on the client's behalf such as, in the case of a private fund managed by Cairn, the administrator appointed by the fund to provide administrative services in connection with the fund. Fees for advisory services are billed directly to the client.
 - C. In connection with discretionary investment management services, clients may pay other fees and expenses, depending on the nature of the services, including custodian fees, prime brokerage fees, fees of the administrator and directors' fees.
 - D. As noted in A. above, fees for advisory services where Cairn does not have discretion to manage the assets of the client may be fixed and paid on a periodic basis (generally monthly) in advance. In such a case, Cairn will refund the client a portion of the fee paid in advance should the advisory contract be terminated in accordance with its terms before the end of the billing period. The portion to be repaid will be calculated by reference to the portion of the billing period still to run after termination of the contract.
 - E. Neither Cairn, nor any of its officers or employees, accepts compensation for the sale of securities or other investment products.

3. Performance Based Fees and Side-By-Side Management (Item 6)

Cairn provides investment management and advisory services to a range of clients and, accordingly, circumstances may arise in which Cairn, an affiliate of it or a supervised person (as defined by the SEC) may have a material interest in a transaction with or for a client or where a conflict of interest may arise between the client's interests and those of other clients or counterparties or of Cairn. For example, under discretionary asset management transactions Cairn may receive fees based, in part, on a performance or incentive fee which represents a percentage of any excess returns achieved over prescribed target levels, while at the same time providing portfolio advisory services to other clients in which fees are fixed or calculated solely as a percentage of assets.

On occasion the appointment of Cairn to provide investment advisory services may include a specific appointment to arrange sales of assets in an asset portfolio for which Cairn may receive a fee from the client calculated by reference to the sale proceeds of the assets sold. In such cases the sales are arm's length transactions with individual bidders identified by Cairn or the client or through an agreed auction process.

If Cairn acts for a client in circumstances where it has a material interest or conflict of interests Cairn will take reasonable steps to ensure that the client is treated fairly. In order to identify circumstances in which Cairn, an affiliate of it or a supervised person may have a material interest in a transaction with or for a client or where a conflict of interest may arise between the client's interests and those of other clients or counterparties or of Cairn, the legal and compliance

groups within Cairn work to ensure that potential conflicts of interest and related issues are identified and dealt with swiftly and at an appropriate level within Cairn. Any actual or potential conflict of interest is initially discussed by the Chief Legal Officer and/or Compliance Officer with the relevant personnel and, if the issue cannot be immediately resolved by such discussion, is referred to the Executive Management Committee ("EMC") of Cairn. The EMC will determine what action should be taken in order to resolve or manage the conflict. Such action may include declining to act in the particular matter.

Cairn provides guidance and training in conflict matters in order to ensure that all relevant employees are kept aware of and up to date on applicable regulations and internal policies. With certain exceptions, because of the size of Cairn and the fact that the majority of employees are located on a single floor, Cairn does not seek to operate information barriers and policies designed to ensure that price sensitive and/or confidential information held by employees does not pass to other employees. In situations where Cairn receives information which is or may be price sensitive, Cairn will generally regard itself and all employees as restricted. For example, where Cairn elects to be private in respect of a loan which Cairn proposes to acquire for a fund or other entity to which it provides investment management services and receives private information as a result, Cairn will regard itself as restricted in respect of any publicly traded securities of the relevant entity and the entity will be placed on the restricted trading list maintained by Cairn. However, Cairn has separate office space on a different floor within its building which is physically separate from the rest of the office and is where Cairn's real estate advisory team is located. Where necessary (for example, if being restricted in certain credits or securities was considered to be detrimental to managed client accounts), Cairn operates an effective information barrier between personnel located in that separate space and the personnel located on the principal trading floor of Cairn. The physical separation of personnel is reinforced with an effective compliance oversight system to manage and restrict the flow of information.

Cairn is not under an obligation to disclose that it, an affiliate or a supervised person has or may have a material interest in a particular transaction with or for a client or that in a particular circumstance a conflict of interest or duty may exist, where Cairn has managed such conflicts to ensure, with reasonable confidence, that the risk of damage to the client's interests will be prevented. Such steps may include relying on a policy of independence under which every relevant employee must disregard any material interest or conflict of interest when advising a customer or dealing for a customer in the exercise of discretion. Cairn is not under any obligation to account to a client for any profit, commission or remuneration made or received from or by reason of transactions or circumstances in which Cairn, its affiliates or a supervised person has a material interest or where in particular circumstances a conflict of interest or duty may exist. It is Cairn's policy to disclose generally the existence of potential conflicts of interest where practicable or appropriate. Where Cairn is unable to manage a conflict to ensure, with reasonable confidence, that the risk of damage to the client's interests will be prevented it will disclose to its client the material interest or conflict of interest that it, its affiliate or a supervised person has, or may have, whether generally or in relation to a specific transaction, before it advises the client or before it deals on behalf of the client in the exercise of discretion in relation to the transaction. Cairn will record this disclosure and record the steps taken to ensure that the customer does not object to that material interest or conflict of interest.

4. Types of Clients (Item 7)

Cairn generally provides investment advice to banking institutions, pension funds, insurance companies, pooled investment vehicles (e.g., hedge funds), corporations, money managers, state or municipal government entities and other government authorities.

Cairn has no established minimum client or account size for Cairn to build or pursue a relationship.

5. Methods of Analysis, Investment Strategies and Risk of Loss (Item 8)

- A. Cairn's philosophy is to employ a combination of credit research, market pricing/trading feedback and structural understanding to each advisory assignment so that each individual credit is analysed from both a fundamental and technical perspective. Emphasis is placed on the fundamental importance of credit, and analysts have access to proprietary analytical screening, cash flow and modeling, and credit fundamentals monitoring tools, as well as extensive in-house fundamental credit analyses.

Credit research efforts are complemented by a portfolio management philosophy that is pro-active, seeking to anticipate market trends and react appropriately in advance. Cairn's access to market intelligence through frequent conversations with third-party institutions provides real-time information that is incorporated into asset and sector analyses and risk metric updates. Cairn's portfolio management team is required to maintain a core competency across all cash and synthetic asset classes in the credit markets.

Cairn's technology infrastructure provides the supporting platform to produce stress loss analyses and asset valuations as well as tailored risk management reporting for clients. Systems utilised vary by asset class, and generally include a cash flow modeling system (either third party or proprietary) and a separate compliance and reporting system.

With these analytical tools Cairn can estimate hold-to-maturity recovery value of performing as well as distressed assets relating to a wide range of collateral types. Portfolio managers and research analysts collaborate to determine appropriate stress assumptions to apply to each asset class, while Cairn's structuring and legal staff will model complex securities and analyse the implications of transaction-specific features such as triggers that affect the distribution of cash to different parties depending on security performance.

In evaluating an individual asset, Cairn conducts a fundamental analysis of the security's expected future performance into which it incorporates trading data and other information from markets in which Cairn participates. As part of the valuation process Cairn runs several stressed scenarios which are specific to the individual security being analysed and takes into account the seniority of the position and other relevant structural factors. This fundamental analysis includes a calculation of the present value of asset cash flows based on Cairn's modeling of the performance of the asset over time. Input assumptions used in these proprietary models are updated from time to time as necessary to reflect portfolio managers' responses to changes in market conditions or future expectations.

Market valuations are likewise a multidisciplinary effort at Cairn, with fundamental analysis providing an essential complement to market data inputs. The pricing methodology used at Cairn is based on the general principle that the economic or

- fundamental value of an asset is an essential component to determining an appropriate market valuation. In particular, for purposes of determining market values in distressed and illiquid markets where actual trade data in some asset classes may be infrequent, understanding the intrinsic recovery value of securities provides an essential complement to market data inputs in the valuation process by setting a soft floor on expected trading levels.
- B. In providing securities advice to clients, including making specific investment purchase or sale recommendations, Cairn is relying on its own analysis of the expected future performance of that security and of the broader markets, as described above in A. If Cairn's expectations turn out to be incorrect, a client may suffer a worse outcome by taking Cairn's advice than if it had not acted. However, in Cairn's opinion, its strategies for evaluating credit risk and for developing appropriate models and assumptions to measure actual and expected security performance do not involve any significant or unusual risks to clients. Cairn does not employ frequent trading of securities in any of its engagements.
 - C. Cairn's advisory recommendations for clients are based on an evaluation of the client's needs, risk tolerance, regulatory requirements and other factors specific to that client, and therefore differ substantially from one client to another. Portfolio advisory engagements will generally be focused on a specific asset class or group of asset classes, but even within a general asset class category Cairn will not primarily recommend any particular type of security except in the unlikely event that a client specifically requests such a focus and Cairn agrees to accept the mandate under those conditions.

6. Disciplinary Information (Item 9)

Neither Cairn, nor any of its officers or employees, has any disciplinary history or disciplinary actions pending.

7. Other Financial Industry Activities and Affiliations (Item 10)

- A. Neither Cairn, nor any of its officers or employees, is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Cairn has an application pending to register as a commodity pool operator and a commodity trading advisor. The application was submitted in December 2012.
- C. Neither Cairn, nor any of its officers or employees, has any relationship or arrangement that is material to Cairn's advisory business or to its clients with any related person. From time to time, Cairn may enter into an arrangement with its US affiliate, Cairn Capital North America Inc., under which, in connection with its affiliates' asset management and portfolio advisory engagements, Cairn will be engaged through a sub-advisory arrangement to provide some of the services its affiliate undertakes to provide under those agreements. Conversely, Cairn may from time to time enter into agreements directly with clients under which it engages its US affiliate to provide certain sub-advisory services, such as restructuring advice. Its affiliate may also from time to time source US business for Cairn and may receive an origination fee for such efforts. In all of these arrangements, Cairn does not believe that its relationship with Cairn Capital North

America Inc. will create any conflict of interest with clients. All arrangements between Cairn and Cairn Capital North America Inc. will be arm's length agreements subject to market terms, and Cairn has policies in place to identify and resolve any potential conflicts of interest with clients however they might arise.

- D. Cairn does not recommend or select other investment advisers for its clients and receive compensation directly or indirectly from those advisers or have other business relationships with those advisers that create a material conflict of interest.

8. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading (Item 11)

Cairn, as a matter of policy and practice, and consistent with industry best practices and SEC requirements (SEC Rule 204A-1 under the Investment Advisers Act of 1940), has adopted a written Code of Ethics covering all supervised persons. Cairn's Code of Ethics requires high standards of business conduct, compliance with federal securities laws, reporting and recordkeeping of personal securities transactions and holdings and quarterly reviews of employee personal trading activity. Further, employees are not permitted to participate in or have a financial interest in client transactions. Employees are subject to disciplinary actions and/or possible sanctions for a failure to comply with Cairn's Code of Ethics.

At the date of this brochure, Cairn is authorised and regulated by the Financial Services Authority ("FSA") in the United Kingdom. With effect from 1 April 2013 the FSA will cease to operate and from that date Cairn will be authorised and regulated by the Financial Conduct Authority ("FCA"). As a result of this regulation, the Company is subject to certain principles for business and those of its employees who are required to be approved by the FSA (or from 1 April 2013 the FCA) for the performance of controlled functions (which include the giving of investment advice and the provision of investment management services) are subject to certain statements of principles. These provide, among other things, that:

- (i) Cairn must conduct its business with integrity, due skill, care and diligence, maintain adequate financial resources, observe proper standards of market conduct, manage conflicts of interest fairly, take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgement and arrange adequate protection for clients' assets when it is responsible for them;
- (ii) an approved person must act with integrity, due skill, care and diligence when carrying out his controlled function, observe proper standards of market conduct and deal with the regulator and other regulators in an open and cooperative way; and
- (iii) an approved person performing what is referred to as a "significant influence function" must take reasonable steps to ensure that the business of Cairn for which he is responsible in his controlled function is organised so that it can be controlled effectively, exercise due skill, care and diligence in managing the business of Cairn for which he is responsible in his controlled function and take reasonable steps to ensure that the business of Cairn for which he is responsible in his controlled function complies with the relevant requirements and standards of the regulatory system.

9. Brokerage Practices (Item 12)

- A. Cairn does not have client assets in its possession (or under its control). In the case of discretionary portfolio mandates, Cairn relies on third-party broker-dealers, custodians and other counterparties who are aware that Cairn is authorised to effect transactions on behalf of the client.

The factors considered by Cairn in selecting brokers and counterparties and determining the reasonableness of their commissions and charges include the following:

- (i) the credit rating and credit standing of the broker/countryparty;
- (ii) the ability of the broker/countryparty to offer speedy and efficient execution in a broad range of securities and products;
- (iii) transparency in pricing and whether the pricing offered is competitive by reference to other market participants; and
- (iv) the credit lines, collateral and other transaction terms offered by the broker/countryparty.

The value of any products, research and services given to Cairn or a related person is not a factor considered by Cairn in selecting brokers and counterparties and determining the reasonableness of their commissions and charges.

As a company authorised and regulated by the FSA (or from 1 April 2013 the FCA), Cairn is required, when providing the service of investment, portfolio or collateral management, to comply with the obligation to act in accordance with the best interests of its clients when placing orders with third parties for execution that result from decisions by Cairn to enter into transactions in financial instruments on behalf of its clients. This is reflected in Cairn's Execution Policy, which is made available to clients of Cairn.

Cairn does not routinely recommend, request or require that a client direct Cairn to execute transactions through a specified broker-dealer. In certain engagements, at the client's request Cairn may accept a client's instructions for directing the client's brokerage transactions to a particular broker-dealer. In such cases Cairn will require the client to acknowledge that if the client gives Cairn a specific instruction in relation to the execution of an order through a particular broker-dealer, this may prevent Cairn from being able to obtain the best possible result for the execution of the order.

- B. Cairn may carry out a client order in aggregation with another client order only if the following conditions are met:

- (i) it is unlikely that the aggregation of orders and transactions will work overall to the disadvantage of any client whose order is to be aggregated; and
- (ii) it has disclosed either orally or in writing to each client whose order is to be aggregated, either specifically or in the client agreement, that the effect of aggregation may work to its disadvantage in relation to a particular order.

Cairn's policy is to aggregate orders when Cairn has the opportunity to do so and the above conditions are met. If Cairn does not aggregate orders when it has the opportunity to do so it is possible that the costs to a client whose order was not aggregated may be greater than if the order had been aggregated because, for example, aggregation would have resulted in a larger transaction size and lower transaction costs as a result.

10. Review of Accounts (Item 13)

- A. Given the nature of its business, Cairn does not have standard formal rules dictating the frequency of reviews of client accounts and client agreements.
- B. Instead, the accounts of Cairn are monitored and reviewed on an ongoing basis so that any action which Cairn considers to be necessary or advisable can be determined and implemented on a timely basis. For individual positions in certain accounts stop loss triggers may be agreed at the time that the position is entered into. A strong risk management discipline is observed and risk profiles and limits are actively monitored and reviewed. The accounts and positions of the funds and other clients whose accounts consist of or include corporate positions are monitored and reviewed by the alternatives and corporate portfolio management teams (which include five credit researchers and five portfolio managers). The accounts and positions of clients whose accounts consist of or include asset backed securities are monitored and reviewed by the ABS team (which includes four analysts and three portfolio managers). All transactions in such accounts, other than transactions meeting certain pre-approved criteria, require the approval of the investment committee of Cairn. The accounts and positions of clients whose accounts consist of or include loans are monitored and reviewed by the loans team (which includes three credit researchers in London, assisted by a dedicated team of researchers based in Mumbai, India, and three portfolio managers). All transactions in such accounts require the approval of the investment committee of the Company. In addition, Cairn maintains a transaction compliance group of three employees who are responsible for checking that any transactions in a client's account comply with any investment restrictions and limitations applicable to the account (such as limitations imposed by the transaction documents on the nature of the assets that may be acquired, including limitations on asset types, minimum credit ratings, the volume of trading, industry types and geographical concentrations).
- C. The documentation entered into by Cairn with its clients provides for the provision of detailed reports to Cairn's clients. Such documentation is individually negotiated and as such the nature and frequency of the reports to be provided varies. The reports are generally required to be provided quarterly or monthly and provide details of the assets included in the client's portfolio, the performance of the portfolio and other relevant information required by the documentation entered into by Cairn. In addition, in the case of a number of Cairn's clients, the Company provides "informal" (in the sense that they are not mandated by the legal documentation) regular reports to investors.

11. Client Referrals and Other Compensation (Item 14)

Cairn, as a matter of policy and practice, may compensate persons, i.e., individuals or entities, for the referral of advisory clients to Cairn provided appropriate disclosures and regulatory requirements are met. Such referral and compensation arrangements will generally be specific to a particular situation.

Under the SEC cash solicitation Rule (Rule 206(4)-3) and comparable rules adopted by most states, investment advisers may compensate persons who solicit advisory clients for a firm if appropriate agreements exist, specific disclosures are made, and other conditions are met under the rules.

Cairn has adopted various procedures to monitor and ensure Cairn's policy is observed, implemented and updated, which include the following:

- (i) Cairn's Compliance Officer and Chief Legal Officer will review and approve the relevant person's background, compensation matters and related matters.
- (ii) Cairn will restrict and monitor political contributions made by Cairn and covered associates to government officials and/or candidates.
- (iii) If a potential conflict of interest is discovered during the initial and on-going due diligence of the relevant person, the agreement may be terminated to avoid any further potential conflicts of interest.

12. Custody (Item 15)

As a matter of policy and practice, Cairn does not maintain custody of client assets, nor do its employees. It is Cairn's policy that all funds, securities, and other assets of each of its clients be maintained in the name of the respective client and held for safekeeping by a bank, broker/dealer or other custodian handling each client's respective account. Cairn will not intentionally take custody of funds and/or securities.

13. Investment Discretion (Item 16)

Cairn may from time to time accept discretionary authority to manage portfolios of assets on behalf of clients.

In some discretionary mandates Cairn may be engaged to try to improve total recoveries for an existing static portfolio. In these cases, Cairn will not have authority to buy new assets but will have authority to sell assets that Cairn believes, based on its credit research and market knowledge, will generate higher net proceeds at current market prices than if held to maturity. Cairn will generally agree with the client certain parameters that impose some constraints on Cairn's ability to execute sales unilaterally, such as provisions that allow Cairn to sell at any time only assets that have experienced credit impairment or assets that can be sold at par value.

In other discretionary mandates, Cairn may be engaged to manage a portfolio on behalf of a client with the goal of providing a positive investment return over time relative to a specified benchmark while meeting the client's objectives with respect to asset class, risk profile and other parameters. In these cases, Cairn will generally have full investment authority to buy and sell assets, enter into appropriate interest rate or currency hedges as required, and make other decisions in connection with managing the portfolio. In such engagements, Cairn's policy and practice is to enter into an agreement with the client which details the investment objectives and parameters and then on an ongoing basis provide disclosure to the client of Cairn's views, decisions and actions with respect to portfolio assets.

14. Voting Client Securities (Item 17)

Cairn, as a matter of policy and practice, has no authority to vote proxies on behalf of clients in the case of non-discretionary advisory mandates. Cairn may offer assistance as to proxy matters upon a client's request, and in certain portfolio advisory mandates will be explicitly engaged to provide such advice, but the client in non-discretionary mandates always retains the proxy voting responsibility. Cairn's policy of not having proxy voting responsibility in non-discretionary mandates is disclosed to clients.

In the case of discretionary advisory mandates and asset management engagements, Cairn will exercise, or refrain from the exercise of, any voting or other rights attaching to the investments comprised in a portfolio as Cairn in its absolute discretion thinks fit. This policy will be explicitly disclosed to clients in the agreement between Cairn and the client.

15. Financial Information (Item18)

Cairn does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.

Cairn may in some cases have discretionary authority to manage portfolios on behalf of clients but will not have custody of client assets.