



# **Cheyne Capital Management (UK) LLP**

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

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**Cheyne Capital Management (UK) LLP  
Stornoway House  
13 Cleveland Row  
London  
SW1A 1DH  
UNITED KINGDOM**

**Tel: (+44) 20 7968 7450  
Fax: (+44) 20 7968 7650**

**[www.cheynecapital.com](http://www.cheynecapital.com)**

**This brochure provides information about the qualifications and business practices of Cheyne Capital Management (UK) LLP. If you have any questions about the contents of this brochure, please contact us at (+44) 20 7968 7450.**

**The information in this brochure ("Brochure") has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Cheyne Capital Management (UK) LLP is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **ITEM 2 – Material Changes**

Not applicable.

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## **ITEM 4 – Advisory Business**

Cheyne Capital Management was founded in 2000 as a limited company and in 2007, the business was restructured into Cheyne Capital Management (UK) LLP (“CCM(UK)LLP”) a limited liability partnership. CCM(UK)LLP provides discretionary investment management and advisory services to a number of private investment funds (the “Cheyne Funds” or “Funds”) as well as other investment vehicles and managed accounts, primarily for institutional clients. This Brochure provides information about CCM(UK)LLP’s activities on behalf of the Cheyne Funds only.

The Cheyne Funds are typically established in jurisdictions outside of the United States (Cayman Islands and Ireland) and consist of single strategy as well as multi-strategy funds. The Cheyne Funds may also be formed as “funds of funds” which invest in other Cheyne investment vehicles.

The Cheyne Funds may issue separate classes, sub-classes or series of interests, (including without limitation each having different fee schedules, currency denominations or other characteristics).

The investments of each Cheyne Fund are managed in accordance with the Fund’s investment objectives and guidelines as set forth in the Fund’s private placement memorandum and any applicable supplement thereto (“PPM”), governing documents and application forms (together with the PPM, the Fund’s “Offering Documents”) and are not tailored to any particular investor in the Fund (an “Investor”). CCM(UK)LLP does not provide individual investment advice to Investors; therefore, Investors should consider whether a particular Cheyne Fund meets their investment requirements, including, without limitation, their investment objectives, risk tolerance and financial situation. The Cheyne Funds invest in a range of asset classes and market sectors, which are discussed in more detail in Item 8 of this Brochure and in each Fund’s PPM.

CCM(UK)LLP’s investment management services include determining appropriate asset allocation across the Cheyne Funds’ investment strategies, placing trades with third-party brokers for execution, and monitoring existing and prospective investments in light of each Cheyne Fund’s objectives and risk parameters.

### ***Principal Owners***

The following is an organisational chart depicting the principal owners of 25% or more of CCM(UK)LLP as described in Schedule A of Part 1A of its Form ADV:



The potential beneficiaries of the Galilee Trust are all members of the family of Jonathan Lourie, who is the Chief Executive Officer of CCM(UK)LLP.

#### ***Assets Under Management***

As of 31 March 2013, CCM(UK)LLP had approximately USD 13,001,700,000 in discretionary assets under management (computed as per SEC guidance on regulatory assets under management).

## **ITEM 5 – Fees and Compensation**

### **Fees**

U.S. Investors in the Cheyne Funds are ‘qualified purchasers’ as defined under the US Investment Company Act of 1940 (the “Investment Company Act”). As such, a detailed fee schedule is not included in this brochure. Fees for each Cheyne Fund are described in the Fund’s Offering Documents.

Generally, fees may include, *inter alia*, a “management fee” based upon the net asset value (“NAV”) of the relevant Cheyne Fund, before deduction of any performance fees. Management fees are generally accrued and paid monthly in arrears. In addition, fees may include a “performance” element, which is calculated based upon the performance of a portfolio, share or assets. Performance fees are generally accrued monthly and paid quarterly in arrears or back ended and paid on maturity.

Cheyne Funds’ current fee schedule is generally as follows:

- Management Fee: 1% - 2%, annually
- Performance Fee: 10% - 20%, annually

The above fees may be payable to CCM(UK)LLP or its affiliates.

### **Other Expenses**

Investment related expenses; including commissions, interest expense and other trading and custody expenses associated with a Cheyne Fund will be charged to such Fund. In addition, each Fund pays its own overhead and operating expenses including, without limitation, organizational costs, custody and fund administration expenses, accounting, tax preparation and audit expenses and legal fees. Please see Item 12 of this Brochure for a discussion of CCM(UK)LLP’s brokerage practices.

More detailed information about fees and expenses that investors may bear when investing in a Cheyne Fund is provided in the Fund’s PPM.

## **ITEM 6 – Performance Based Fees and Side-by-Side Management**

As described in Item 5, Cheyne Funds generally pay both a management fee, which is generally equal to between 1% and 2% of the net value of the assets (“NAV”) of the relevant Cheyne Fund and a performance fee, which is generally between 10% and 20% of the performance of a portfolio, share or assets in a Cheyne Fund.

Managing assets for different Cheyne Funds which may have different fee structures can create a conflict of interest for CCM(UK)LLP because such an arrangement may create an incentive to favour funds which have the ability to generate greater fees for CCM(UK)LLP. Such situations give rise to potential conflicts of interest which may include the allocation of investment opportunities among Cheyne Funds. As a result, CCM(UK)LLP is required by its regulators to employ policies and procedures governing the identification, management and monitoring of conflicts of interest, including asset allocation policies. In addition, CCM(UK)LLP’s Compliance team routinely conducts investment allocation reviews across all the Cheyne Funds as part of the conflict management process.

In addition, the prospect of receiving a performance fee may lead CCM(UK)LLP to advise on and/or make on behalf of a Cheyne Fund investments that are riskier than would otherwise be the case. Performance fees may be calculated on unrealised as well as realised gains and hence may arise although the relevant gains may not be realised.

## ITEM 7 – Types of Clients

CCM(UK)LLP currently provides investment services to Cheyne Funds and other clients established in jurisdictions outside of the United States. As a result, CCM(UK)LLP has no direct U.S. clients.

Investors in the Cheyne Funds are typically non-U.S. persons (as defined under Regulation S of the U.S. Securities Act of 1933 (the “Securities Act”)) and include, without limitation: high net worth individuals and institutions (such as pension funds, insurance companies, banks, private client stockbrokers, asset managers, corporations, portfolio managers), other private investment funds and various public and private trusts.

The Cheyne Funds and other investment vehicles advised by CCM(UK)LLP qualify for an exception from the definition of investment company under the U.S. Investment Company Act of 1940 (the “Investment Company Act”), and as such, the Cheyne Funds are not registered with the SEC. Interests in a Cheyne Fund are offered to Investors pursuant to exemptions found in Regulation D and/or Regulation S under the Securities Act. As a result, investors do not have the benefits of Investment Company Act or Securities Act registration. Investors that are U.S. persons must generally meet the requirements for “accredited investors” under the Securities Act and, if applicable, must also be “qualified purchasers” under the Investment Company Act.

Investors must also meet certain other eligibility and minimum investment requirements, as set forth in each Fund’s PPM. Investors are required to make various representations and warranties to a Fund, including representations regarding their eligibility to invest in the Fund, as a condition to the acceptance of their subscriptions.

Investors and other recipients of this Brochure should be aware that while the Brochure may include information about the Cheyne Funds, as necessary or appropriate, it should be not considered to represent a complete discussion of the features, risks or conflicts associated with any Cheyne Fund. More complete information about each Cheyne Fund is included in the Fund’s PPM, which may be provided to current and eligible prospective investors only by CCM(UK)LLP or another authorised party.

**In no event should this Brochure be considered to be an offer of interests in a Cheyne Fund or relied upon in determining to invest. It is also not an offer of, or agreement to provide, advisory services directly to any recipient.**

Rather, this Brochure is designed solely to provide information about CCM(UK)LLP, which may differ from the information provided in a PPM. To the extent that there is any conflict between discussions herein and similar or related discussions in any PPM, the PPM shall govern.

As an “offshore adviser,” with its principal office and place of business outside of the United States, CCM(UK)LLP is permitted, and has chosen, to rely on the regime under the Investment Advisers Act of 1940, (“Advisers Act”) commonly referred to as “Regulation Lite” with respect to its non-U.S. clients. In accordance with Regulation Lite, as set out in various SEC no-action letters, CCM(UK)LLP is not subject to many of the substantive provisions and restrictions of the Advisers Act with respect to its dealing with non-U.S. funds or clients.

## ITEM 8 – Methods of Analysis, Investment Strategies and Risk of Loss

Subject to the investment guidelines and restrictions, if any, of the relevant Cheyne Funds as disclosed in the applicable Offering Documents, the Cheyne Funds may invest, directly or indirectly, in a wide variety of investments and instruments, including, without limitation, equities, equity-related instruments, fixed income and fixed income-related instruments, securities issued by public and private issuers, futures, commodities, currencies and derivative instruments, including, without limitation, credit derivatives such as credit default swaps referencing single credits or portfolios of credits, swaps, repurchase and reverse repurchase agreements and forward contracts, interests in secured senior loans made to corporations or other business entities, unsecured loans, subordinated loans, corporate debt securities, loans made to, or debt securities issued by, corporations or other business entities, equity securities incidental to investment in loans, asset swaps, collateralised debt obligations, collateralised loan obligations, and contracts for differences. The Cheyne Funds and other clients may invest in the foregoing for speculative or hedging purposes in accordance with their respective investment objectives.

The Cheyne Funds may invest in other private and non-private investment funds, including other Cheyne Funds and non-private funds in receipt of investment services from CCM(UK)LLP and its affiliates. Fee arrangements with respect to such investments are set forth in the relevant Cheyne Fund Offering Documents.

### ***Investment Strategies***

The Cheyne Funds may participate in one or more of the following investment strategies:

- ***Corporate Credit:*** The Corporate Credit team specialises in Investment Grade and Crossover corporate credit on a global basis. Cheyne manages both long-only and long/short strategies investing in corporate credit through credit default swaps and bonds. The team determines relative value in credits using rigorous fundamental analysis in order to avoid defaults and generate trading gains.
- ***Event Driven:*** The Event Driven team invests in predominantly-European, liquid, event driven situations with defined short-term catalysts. The team has particular expertise in the mid cap space and invests in credit as well as equity.
- ***Equities:*** The Equity teams combine fundamental investing in research-driven opportunities and undervalued companies with a pro-active approach to trading. The teams manage strategies including global long/short, South East Asian long/short and European mid cap.
- ***Convertible Bonds:*** The Convertible Bond team aims to capitalise on the compelling combination of downside protection and upside participation inherent in convertible securities. The team manages global absolute return and long-only strategies.

- ***Real Estate Debt:*** The Real Estate Debt team capitalises on opportunities in securitised European real estate debt (CMBS and RMBS), direct mezzanine real estate lending and investments with equity characteristics. The investment approach combines a rigorous valuation of the underlying residential or commercial property and a detailed analysis of the debt structure in order to identify investments offering attractive yields and robust downside protection.
- ***Multi Strategy:*** The multi-strategy offering provides investors with diversified exposure to the Cheyne's investment strategies with active asset allocation and portfolio management.

### ***Investment Risks***

All investments involve the risk of loss of capital and you may not get back the money you invested in a Cheyne Fund. An investment in a Cheyne Fund is not a complete investment program, and Investors are responsible for appropriately diversifying their assets. **Investors in a Cheyne Fund could lose money as a result of their investment.**

A complete description of the risks associated with an investment in a particular Cheyne Fund is included in the PPM of the respective Cheyne Fund. The PPM, and in particular the risks involved in respect of the Cheyne Fund in question, should be carefully reviewed prior to investing.

The discussion below as to risks to which a Cheyne Fund may be subject is not intended to be exhaustive. A Cheyne Fund may invest in instruments other than those described below, including instruments not in existence or available in the market as of the date hereof. Investors should take into account the following factors when considering the risks associated with an investment in a Cheyne Fund and should review all risks in the Fund's PPM.

#### ***A. General Risks***

***Business Dependent Upon Key Individuals*** – The success of each Fund is significantly dependent upon the expertise of members of Cheyne's investment management team and any future unavailability of any of their services could have an adverse impact on the Fund's performance. The past investment performance of Cheyne, the Fund or any other Fund may not be construed as an indication of the future results of an investment in a Fund.

***Investment in Other Funds and Structures*** – A Fund may seek to achieve its investment objective and policy through investment in other open and/or closed-ended funds and structures. These may be or include unregulated funds and structures managed and/or advised by Cheyne and/or its affiliates. In such case, the Fund will be exposed to the liquidity and other risks to which investors in such funds are subject.

***Conflicts of Interest*** – Other clients of Cheyne may have similar or identical investment objectives, policies and/or strategies to those adopted and/or implemented in respect of a Fund, and may invest in the same markets or the same or similar instruments and securities.

*Fees and Expenses* – Each Fund pays fees, costs and expenses incurred in its operation, including, without limitation, taxes, expenses for legal, auditing, administration, custody, prime brokerage and consulting services, promotional activities, registration fees and other expenses due to supervisory authorities, insurance, interest, the fees of the Directors of its General partner and the cost of the publication of the net asset value. In addition, the General Partner on behalf of each Fund is authorised to incur all expenses on behalf of the Fund which it deems necessary or desirable (including in certain cases, without limitation, the direct cost of Cheyne’s in-house lawyers providing legal services in respect of the Cheyne Fund). The fees and expenses to which a Cheyne Fund will be subject could be substantial and will dilute the returns realised by investors.

*Restriction in Dealing in Investments* – In providing investment services in relation to a Fund or other clients, including underlying funds in which investment may be made by a Fund, Cheyne may recommend and/or advise on and/or give effect to activist and/or other strategies in relation to securities and/or issuers involving the acquisition on behalf of the Fund or in concert with other parties, of positions in companies and/or other issuers. In connection with such positions, in order to comply with laws and regulations relating to insider dealing, market abuse, concert parties, takeovers and market standards generally and also as a means of dealing with conflicts of interest, Cheyne may from time to time be prevented, or elect to restrict themselves, one or more Funds and, where applicable, underlying funds in which investment is made from time to time, from dealing in and/or advising on certain strategies, securities or instruments, either in particular circumstances or generally. As a result of this, Cheyne may be unable to realise a position in a particular security or instrument and/or advise as to, make or act on certain investment decisions which they would otherwise have made or implemented on behalf of their clients including one or more Funds. This may result in, inter alia, a Fund being unable to realise a position in order to meet redemption requests or margining or other financing obligations or take advantage of certain opportunities in the market to the detriment of the Fund and/or its investors.

*Auditors’ Limitation on Liability* – The Auditors of Funds, in common with current Cayman Islands practice, have limited their liability under the terms of their engagement which has limited the Fund’s rights of possible recourse against the Auditors.

*Funding Liquidity Risk* – Where investors redeem their investments in the Fund in an amount which exceeds the amount of cash or other liquid assets immediately available to fund such redemptions, the Fund may, subject to its discretion to restrict redemptions, seek to liquidate additional assets to fund the redemption costs incurred. This may limit or otherwise affect the ability of the Fund to operate or manage investment positions and strategies and restrict or materially affect investment performance and returns.

*Restrictions on Redemptions* – Investors in Cheyne Funds may be subject to restrictions relating to the redemptions of investments in the Fund. The ability of a Fund to meet redemption requests by investors will depend on numerous factors including the liquidity available to the Fund and the speed at which it may realise investments in securities, structures or underlying funds in which investment may be made. Such securities, structures and underlying funds, may offer liquidity at intervals and in circumstances which may not provide sufficient liquidity for a Fund to be able to fully meet redemption requests in certain circumstances. The directors of a Fund may limit the value of redemptions in circumstances where the directors believe that, owing to their perception of the liquidity of the underlying investments, such an action would be in the overall interests of investors. The Directors may

also suspend the calculation of the net asset value of a Fund, which will lead to a suspension of redemption rights for investors, in certain circumstances as set forth in each Fund's Private Placement Memorandum. The Directors may withhold payment to investors who have redeemed prior to such a suspension of valuation. Directors may also suspend redemptions during any period in which the settlement of redemptions would, in the opinion of the directors, result in a violation of law or violate any instrument or agreement governing any indebtedness incurred by the Fund.

*Compulsory Redemption* – The Directors may compulsorily redeem all or some of an investor's holding in a Fund as more specifically disclosed in each Fund's Private Placement Memorandum. Such circumstances include, but are not limited to, situations where: (i) the investor does not meet eligibility requirements; (ii) the holding of interests in the Fund by the investor gives rise to tax or regulatory disadvantage for the Fund or subjects the Fund to registration or filing requirements in any jurisdiction; or (iii) the level of the investor's holding drops below the minimum holding requirement.

*Valuation* – The net asset value of the Fund's assets, the price at which investors subscribe and redeem interests in the Fund and the value with reference to which management and other fees are calculated with reference to the net asset value of the Fund determined as per Cheyne's valuation policy and as more specifically disclosed in each Fund's Private Placement Memorandum. The Administrator for a Fund may, however, with the consent of the directors, follow some other prudent method of valuation if it considers that under the circumstances such other method should be adopted in order to reflect fairly the values of the relevant investments or liabilities of the Fund. In addition, special situations affecting the measurement of the net asset value of the assets of a Fund may arise from time to time. Investors should be aware that situations involving uncertainties as to the valuation of such assets could have an adverse effect on the net asset value of a Fund. The net asset value of a Fund may fluctuate over time according to the performance of the Fund's investments. An investor may not fully recover his initial investment when he chooses to redeem his investment or upon compulsory redemption, if the net asset value of the Fund is less than that at the time of investment. The value of an investment in a Fund, and the income (if any) derived there-from, can go down as well as up.

*Portfolio Turnover* – Turnover of a Fund's investments may be higher than the average for other more traditional portfolios and accordingly the level of commissions paid and other transaction costs is likely to be higher than average, which may adversely affect the returns realised by investors in a Fund.

*Cross-Class Liability* – Certain Funds may have multiple Classes, Series and Portfolios and further Classes, Series and/or Portfolios may be created in the future. Each separate Class or Series or Portfolio may be maintained with separate accounting records. However, the Fund may be treated as one entity; there may be no legal segregation of assets or liabilities between Classes, Series and Portfolios. The assets of one Portfolio may be available to meet or support liabilities or activities of another Portfolio. Thus all of the assets of a Fund may be available to meet all of the liabilities of the Fund, regardless of the Class, Series or Portfolio to which such assets or liabilities are attributable. In practice, cross-class liability will usually only arise where any Class or Series or Portfolio becomes insolvent or exhausts its assets and is unable to meet all of its liabilities. In this case, all of the assets of the Fund attributable to the other Classes, Series and/or Portfolios may be applied to cover the liabilities of the

insolvent Class or Series. Underlying funds in which investment may be made from time to time will be subject to similar risks.

*Business and Regulatory Risks Associated with Funds* – Legal, tax and regulatory changes as well as judicial decisions could occur that may adversely affect the Fund. The regulatory environment for funds pursuing alternative investment strategies is evolving and changes in the regulation of such funds may adversely affect the value of investments held by the Fund (and any underlying funds) and the ability of the Fund (and any underlying fund) to obtain leverage or to pursue its trading strategies. In addition, the securities and future markets are subject to comprehensive statutes, regulations and margin requirements. Regulators and self-regulatory organisations and exchanges are authorised to take extraordinary actions in the event of market emergencies. The regulation of derivatives transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by governmental and judicial action. Any future legal or regulatory change could substantially and adversely affect one or more Funds.

*Potential Liability of Limited Partners Under the Cayman Fund Law* – Under the Cayman Fund Law, limited partners (in a Fund formed as a Limited Fund in the Cayman Islands) may be liable for debts or obligations of the Fund to the extent provided under Cayman Islands law.

*Legal Risk* – Many of the laws that govern private and foreign investment, equity securities transactions and other contractual relationships in certain countries, particularly in developing countries, are new and largely untested. As a result a Fund may be subject to a number of unusual risks, including inadequate investor protection, contradictory legislation, incomplete, unclear and changing laws, ignorance or breaches of regulations on the part of other market participants, lack of established or effective avenues for legal redress, lack of standard practices and confidentiality customs, characteristic of developed markets, and lack of enforcement of existing regulations. Furthermore, it may be difficult to obtain and enforce a judgement in certain countries in which assets of the Fund are invested. There can be no assurance that this difficulty in protecting and enforcing rights will not have a material adverse effect on a Fund and its operations. In addition, the income and gains of a Fund may be subject to withholding taxes imposed by foreign governments for which investors may not receive a full or any foreign tax credit. Furthermore, it may be difficult to obtain and enforce a judgment in a court outside of the Cayman Islands.

Regulatory controls and corporate governance of companies in some developing countries may confer little protection on minority shareholders. Anti-fraud and anti-insider trading legislation is often rudimentary. The concept of fiduciary duty to shareholders by officers and directors is also limited when compared to such concepts in more developed markets. In certain instances management may take significant actions without the consent of investors and anti-dilution protection may also be limited.

*Dodd-Frank Wall Street Reform and Consumer Protection Act* – With the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”) in the United States, there has been and continues to be extensive rulemaking and regulatory changes that will affect private fund managers, the funds that they manage and the financial industry as a whole. Under Dodd-Frank, the SEC has mandated new reporting requirements and is expected to mandate new recordkeeping requirements for investment advisers, which are expected to add costs to the legal, operations and compliance obligations of Cheyne and

Funds and increase the amount of time that Cheyne spends on non-investment related activities. Until the SEC implements all of the new requirements of the Dodd-Frank, it is unknown how burdensome such requirements will be. Dodd-Frank will affect a broad range of market participants with whom Fund interact, including commercial banks, investment banks, other non-bank financial institutions, rating agencies, mortgage brokers, credit unions, insurance companies and broker-dealers. Regulatory changes that will affect other market participants are likely to change the way in which Cheyne conducts business with its counterparties. It may take several years to understand the impact of Dodd-Frank on the financial industry as a whole, and therefore, such continued uncertainty may make markets more volatile, and it may be more difficult for Cheyne to execute the investment strategy of Funds.

*EU AIFM Directive* – On 11 November 2010, the European Parliament adopted a proposal for a Directive on Alternative Investment Fund Managers (the “AIFM Directive”) which regulates “managers of alternative investment funds” or “AIFM” (as these terms are defined in the AIFM Directive). Member states of the E.U. will be required to implement the AIFM Directive into national legislation by 22 July 2013. Under the terms of the AIFM Directive, if Cheyne is designated as the “EU AIFM” (as that term is defined in the AIFM Directive) and Fund interests are marketed within the E.U., Cheyne will be required to procure that such Fund meets certain restrictions and/or conditions which may include, depending upon the structure adopted by the Fund and the marketing activities undertaken with respect to the Fund, restrictions and/or conditions as to its liquidity profile and redemption policy and use of leverage, transparency, the appointment of a depositary and disclosure obligations concerning the acquisition of major holdings and control of unlisted companies. Such restrictions and/or conditions may result in the restructuring of a Fund and/or its relationships with services providers and is likely to increase the on-going costs borne, directly or indirectly, by a Fund. In June 2013 the UK regulator issued further guidance on many of provisions of the AIFM Directive. Cheyne will not be required to be authorised as an EU AIFM until July 2014.

*Tax Considerations* – Applicable taxation laws, treaties, rules or regulations or the interpretation thereof may always change, possibly with retrospective effect. Accordingly, it is possible that a Fund could become subject to taxation (including by way of withholding tax) in respect of its investments and the income, profit and gains derived there from in a manner that is not currently anticipated. Any such change may have an adverse effect on the net asset value of a Fund. Although the directors and Cheyne each intend that, so far as it is within their respective control, the affairs of each Fund and Cheyne will be conducted so that the Fund does not become subject to U.K. corporation tax or income tax on its profits, there can be no guarantee that all of the requirements to ensure this will at all times be satisfied.

*Tax Reporting and Withholding* – Certain countries have adopted tax laws which require reporting and/or withholding in certain circumstances in connection with an investors acquisition, holding and/or disposal of an investment in a Fund. Depending on the nature of the requirements, these tax laws impose (or will impose in the future) reporting and/or withholding obligations. To the extent that a Fund determines to incur the costs of compliance with tax or other laws, the Fund’s directors may require that investors whose acquisition, holding or disposal triggers the compliance requirements to share pro rata the cost to the Fund of doing so with other such investors.

*Foreign Account Tax Compliance Act* – Beginning in 2013, the Fund will be required to comply with extensive new reporting and withholding requirements designed to inform the U.S. Department of the Treasury of U.S.-owned foreign investment accounts (“FATCA”). Non-U.S. investors (other than individuals) may be required to certify as to their own compliance with such requirements and all investors may be required to provide additional information to a Fund to enable the Fund to satisfy any reporting obligations. Failure to furnish requested certifications or other information may subject an investor to U.S. withholding taxes and information reporting and possible liquidation of such investor’s interest in the Fund. The U.S. Department of the Treasury is expected to issue further, detailed guidance as to the mechanics and scope of this new reporting and withholding regime. There can be no assurance as to the timing or impact of any such guidance on future operations of any Fund.

## ***B. Investment and Strategy Risks***

*Investment and Trading Risks in General* – All securities investments present a risk of loss of capital. The Fund’s investment policy (and the investment policy of any underlying funds) may utilise investment techniques such as option transactions, margin transactions, short sales and futures and forward contracts, which practices can maximise, in certain circumstances, any losses. There can be no assurance that a Fund or any underlying fund will achieve its investment objective.

*Counterparty Risk* – Some of the markets in which a Fund (and any underlying funds) may effect transactions are over-the-counter (“OTC”) or “interdealer” markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as members of “exchange-based” markets. This exposes the Fund (and any underlying funds) to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Fund (or, where applicable, the relevant underlying fund) to suffer a loss. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Fund (or, where applicable, the underlying fund) has concentrated its transactions with a single or small group of counterparties. The Fund is not (and underlying funds may not be) restricted from dealing with any particular counterparty or from concentrating any or all of its or their transactions with one counterparty.

*Leverage, Interest Rates and Margin* – A Fund may borrow funds from brokerage firms, banks and other financial institutions in order to increase the amount of capital available for investment. The level of interest rates at which the Fund can borrow will, directly or indirectly affect the operating results of the Fund. In addition, the Fund may, in effect, borrow funds through entry into repurchase agreements and “leverage” its investment return with such instruments as forwards, futures, options and other derivative contracts. The use by a Fund of borrowing and leverage results in certain additional risks.

While leverage presents opportunities for increasing the total return of a Fund, it has the effect of potentially increasing losses as well. Accordingly, any event which adversely affects the value of an investment held by a Fund would be magnified to the extent that the Fund is leveraged. The cumulative effect of the use of leverage by the Fund in a market that moves adversely to its investment could result in a substantial loss) which would be greater than if the Fund was not leveraged.

Should the securities pledged to brokers to secure the Fund's margin accounts decline in value, the Fund could be subject to a "margin call" and need to deposit additional funds with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden drop in the value of the Fund's assets, the Fund might not be able to liquidate assets quickly enough to pay off its margin debt.

In addition, leverage can increase the loss to investors. In the futures markets, margin deposits are typically low. Low margin deposits mean that a relatively small price movement in a futures contract may result in immediate and substantial losses. For example, if at the time of purchase 10 per cent. of the price of a futures contract is deposited as margin, a 10 per cent. decrease in the price of the futures contract would, if the contract is then closed out, result in a total loss of the margin deposit before any deduction for the brokerage commission.

Any limitation on the availability of leverage and/or borrowing facilities will have a detrimental effect on the ability of a Fund to maintain the intended level of leverage.

*Trading in Options* – A Fund may purchase and sell ("write") options on securities, currencies and commodities on a variety of commodities and securities exchanges and over-the-counter markets. The seller ("writer") of a put or call option which is uncovered (i.e. the writer has effectively a long or a short position in the underlying security, currency or commodity) assumes the risk (which theoretically may be unlimited) of a decrease or increase in the market price of the underlying security, currency or commodity below or above the sales or purchase price. Investing in futures and options is a highly specialised activity and, although it may increase total return, it may also entail significantly greater than ordinary investment risk.

*Exchange-Traded Futures Contracts and Options on Futures Contracts* – The use by a Fund of futures contracts and options on futures contracts will present the same types of volatility and leverage risks associated with transactions in derivative instruments generally (see below). In addition, such transactions present a number of risks which might not be associated with the purchase and sale of other types of investment products.

A Fund may invest in futures and related options to the extent that all necessary CFTC registrations or exemptions have been obtained. Such registrations or exemptions would not include review or approval by the CFTC of any private placement memorandum or the trading strategies.

Prior to exercise or expiration, a futures or option position can be terminated only by entering into an offsetting transaction. This requires a liquid secondary market on the exchange on which the original position was established. There can be no assurance that such a market will exist for any particular contract at any point in time. In that event, it might not be possible to establish or liquidate a position.

The ability of the Fund to utilise futures or options on futures to hedge its exposure to certain positions or as a surrogate for investments in instruments or markets will depend on the degree of correlation between the value of the instrument or market being hedged, or to which exposure is sought and the value of the futures or option contract. Because the instrument underlying a futures contract or option traded will often be different from the

instrument or market being hedged or to which exposure is sought, the correlation risk could be significant and could result in substantial losses to the underlying funds and the Fund. The use of futures and options involves the risk that changes in the value of the underlying instrument will not be fully reflected in the value of the futures contract or option.

The liquidity of a secondary market in futures contracts and options on futures contracts is also subject to the risk of trading halts, suspensions, exchange or clearing house equipment failures, government intervention, insolvency of a brokerage firm, clearing house or exchange or other disruptions of normal trading activity.

*Currency* – Fund interests are issued and redeemed in different currencies. The underlying instruments held by a Fund may be denominated in those or other currencies. Accordingly, the value of an investment may be affected by fluctuations in exchange rates, notwithstanding any efforts made to hedge such fluctuations. In addition, prospective investors whose assets and liabilities are primarily denominated in currencies other than the currency of investment should take into account the potential risk of loss arising from fluctuations in the rate of exchange between the currency of investment and such other currency. A Fund may enter into back to back currency borrowing or utilise derivatives such as forwards, futures, options and other derivatives to hedge against currency fluctuations, but there can be no assurance that such hedging transactions will be undertaken or if undertaken will be effective or beneficial or that there will be a hedge in place of any given time.

*Short Sales* – The European Union has recently issued a variety of rules and regulations which substantially restrict short selling in many securities.

*No Established Rating Criteria* – A Fund may invest in low rated (considered to be those that are below “investment grade”) and unrated debt securities. Low rated and unrated debt securities are the equivalent of high yield, high risk bonds, commonly known as “junk bonds” and are generally considered to be speculative with respect to the issuer’s capacity to pay interest and repay principal in accordance with the terms of its obligations under such securities.

*Securities and Other Investments of the Fund May Be Illiquid* – Certain investment positions of a Fund may be illiquid. Futures positions may be illiquid because, for example, some exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as “daily price fluctuation limits” or “daily limits.” Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. Similar occurrences could prohibit a Fund from promptly liquidating unfavourable positions and subject the Fund, directly or indirectly, to substantial losses. In addition, a Fund may not be able to execute futures contract trades at favourable prices if little trading in the contracts involved is taking place. It is also possible that an exchange may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only. Further, the factors relating to illiquidity of investment positions may also be applicable to an investor whose assets are used in any in specie redemption or withdrawal.

*Hedging Transactions and Other Methods of Risk Management* – A Fund may utilise financial instruments such as derivatives for investment purposes and for risk management purposes, for example in order to: (i) protect against possible changes in the market value of the investment portfolio resulting from fluctuations in the securities markets and changes in interest rates; (ii) protect the unrealised gains in the value of the investment portfolio; (iii) facilitate the sale of any investment; (iv) enhance or preserve returns, spreads or gains on any investment in the portfolio; (v) hedge the interest rate or currency exchange rate on any liabilities or assets; (vi) protect against any increase in the price of any securities which Cheyne anticipates purchasing at a later date; or (vii) for any other reason that Cheyne deems appropriate. Such hedging transactions may not always achieve the intended effect and can also limit potential gains.

While a Fund may enter into such transactions to seek to reduce currency, exchange rate and interest rate risks, unanticipated changes in currency, interest rates and equity markets may result in a poorer overall performance by the Fund. For a variety of reasons, a Fund may not obtain a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent the intended hedge or expose the underlying funds and the Fund to risk of loss.

The success of the risk management strategies for a Fund will depend in part upon the ability of the Cheyne to assess correctly the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the portfolio investments being hedged. Since the characteristics of many securities change as markets change or time passes, the success of their hedging strategy will also be subject to their ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While a Fund may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Fund than if they had not engaged in such hedging transactions. For a variety of reasons Cheyne may not seek to establish a perfect correlation between the hedging instruments utilised and the portfolio holdings being hedged. Such an imperfect correlation may prevent a Fund from achieving the intended hedge or expose the Fund to risk of loss. Cheyne may not hedge against a particular risk because it does not regard the probability of the risk occurring to be sufficiently high as to justify the cost of the hedge, or because it does not foresee the occurrence of the risk. The successful utilisation of hedging and risk management transactions by a Fund requires skills complementary to those needed in the selection of the investment portfolios of the Fund.

*Convertible Securities* – Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula. A convertible security entitles the holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Convertible securities have unique investment characteristics in that they generally: (i) have higher yields than common stocks, but lower yields than comparable non-convertible securities; (ii) are less subject to fluctuation in value than the underlying common stock due to their fixed-income characteristics; and (iii) provide the potential for capital appreciation if the market price of the underlying common stock increases.

*Convertible Arbitrage Transactions* – Convertible arbitrage transactions are designed to be relatively market neutral, i.e. they hedge out the directional risks generally associated with unhedged investments in the underlying instruments. However, should the credit status of an issuer weaken, losses may result from decreases in the market conversion premium or a loss of liquidity with respect to the security. These losses will be limited by the short hedge on the underlying security, but may be substantial in relation to the net asset value of the underlying fund in which investment may be made from time to time. A Fund may also suffer losses if an issuer is acquired for cash or debt securities at a price that does not generate profits on the unhedged portion of a position sufficient to recover the premium paid to acquire the convertible security and any unpaid accrued interest that would be lost should conversion become necessary.

Losses may result when securities are called for redemption at prices below the current market prices. Frequently, these losses will include interest accrued but not paid upon conversion of the called securities. In addition, losses may occur if an issuer declares a special dividend or spin-off which causes a reduction in the conversion premium, or the underlying fund is forced to convert a security earlier than anticipated.

*Trading in Indices, Financial Instruments and Currencies* – A Fund may invest in indices, financial instruments and currencies. The effect of any governmental intervention may be particularly significant at certain times in currency and financial instrument futures and options markets. Such intervention (as well as other factors) may cause all of these markets to move rapidly in the same or varying directions which may result in sudden and significant losses.

*OTC Derivative Instrument Transactions* – A Fund may invest in investments which are not traded on organised exchanges and as such are not standardised. Such transactions are known as OTC transactions and may include credit default swaps, forward contracts or options. Whilst some OTC markets are highly liquid, transactions in OTC derivatives may involve greater risk than investing in exchange traded derivatives because 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 the position arising from an off-exchange transaction or to assess the exposure to risk. Bid and offer prices need not be quoted and, even where they are, they will be established by dealers in these instruments and, consequently, it may be difficult to establish what is a fair price. In respect of such trading, a Fund is subject to the risk of counterparty failure or the inability or refusal by a counterparty to perform with respect to such contracts. Market illiquidity or disruption could result, directly or indirectly, in major losses to a Fund. The instruments, indices and rates underlying derivative transactions expected to be entered into by the Fund may be extremely volatile in the sense that they are subject to sudden fluctuations of varying magnitude, and may be influenced by, among other things, government trade, fiscal, monetary and exchange control programmes and policies; national and international political and economic events; and changes in interest rates. The volatility of such instruments, indices or rates, which may render it difficult or impossible to predict or anticipate fluctuations in the value of instruments traded could result, directly or indirectly in losses to the Fund.

*Highly Volatile Instruments* – The price of derivative instruments, including options, are highly volatile. Price movements of forward contracts and other derivative contracts in which the assets of the Fund may be invested are influenced by, amongst other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary, and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, governments from time to time intervene, directly and by regulation, in certain markets, particularly those in currencies and financial instrument options. Such intervention often is intended directly to influence prices and may, together with other factors, cause many of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations. A Fund is also subject to the risk of the failure of any of the exchanges on which its positions trade or of their clearing houses.

*European Economic Risks* – EU Member States and European businesses and financial institutions and counterparties have recently been affected, some adversely, by severe political and economic difficulties and concerns, including in relation to Sovereign and non Sovereign funding and debt. European, IMF and bilateral emergency funding arrangements have been extended and/or are contemplated in respect of EU Member States and European based financial institutions.

These developments have had a negative effect in political terms and also in economic terms. Financial markets, investor sentiment and credit ratings of institutions and EU Member States have already been adversely affected and may continue to do so. In addition, investment activity has been affected, as has the willingness of financial institutions to extend credit and to obtain funding. Member States within the Eurozone, and certain other EU Member States, are in ongoing discussions with a view to agreeing stricter financial disciplines. However, it remains unclear whether agreement on these matters will be reached, and even if reached, whether adequate measures will be adopted in the short to medium term.

A sovereign default is likely to have adverse consequences for the economy of the Member State and that of Europe and the wider world economy. The affect on creditors of a sovereign default is likely to be adverse. The possibility of Member States that have adopted the Euro abandoning or being forced to withdraw from the Euro remains. It is difficult to predict the precise nature of the consequences of a Member State leaving the Euro as there has been no well-defined legal framework put in place in preparation for such an event. However, it is likely that any Euro-denominated assets or obligations that the Fund acquired that are converted into a new national currency would suffer a significant reduction in value if the new national currency falls in value against the Euro or other currencies.

These economic developments and their consequences both in Europe and the wider world economy, have significantly increased the risk of market disruption and governmental intervention in markets. Such disruption and intervention may result in unfavourable currency exchange rate fluctuations, restrictions on foreign investment, imposition of exchange control regulation by governments, trade balances and imbalances and social, economic or political instability. Adverse developments of this nature may significantly affect the value of a Fund's investments, notwithstanding the Fund's objective to seek to achieve risk adjusted total rates of return independent of market movements. They may also affect the ability of the Fund to transact business including with financial counterparties, to manage investment risk and to hedge currency and other risks. Fluctuations in the exchange rate between the Euro and the

U.S. dollar or other currencies could have a negative effect upon the performance of investments.

*Emerging and Developing Markets* – A Fund may invest in emerging markets and/or developing markets. Investment in such markets involves risk factors and special considerations which may not be typically associated with investing in more developed markets. Such risks include, trade balances and imbalances and related economic policies, unfavourable currency exchange rate fluctuations, restrictions on foreign investment, imposition of exchange control regulation by governments, withholding taxes, limitations on the removal of funds or other assets, policies of governments with respect to possible nationalisation of their industries, political difficulties, including expropriation of assets, confiscatory taxation and social, economic or political instability in foreign nations.

These factors may affect the level and volatility of securities prices and the liquidity of the investments of the underlying funds. Unexpected volatility or illiquidity could impair the profitability of a Fund or result in losses. Political or economic change and instability may be more likely to occur in emerging and developing markets and have a greater effect on the economies and markets of emerging and developing countries. By comparison with more developed securities markets, most emerging countries' securities markets are comparatively small, less liquid and more volatile. In addition settlement, clearing and registration procedures may be underdeveloped enhancing the risks of error, fraud or default. Furthermore, the legal infrastructure and accounting, auditing and reporting standards in emerging and developing markets may not provide the same degree of investor information or protection as would generally apply to major markets.

*Certain Securities Markets* – Stock markets in certain countries may have a relatively low volume of trading. Securities of companies in such markets may also be less liquid and more volatile than securities of comparable companies elsewhere. There may be low levels of government regulation of stock exchanges, brokers and listed companies in certain countries. In addition settlements of trades in some markets are slow and subject to failure.

*Highly Volatile Markets* – A Fund may hold financial instruments, the prices of which may be highly volatile. Price movements of forward and other derivative contracts in which the assets of the underlying funds may be invested will be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. A Fund is subject to the risk of failure of any of the exchanges on which its positions trade or of its clearing houses.

*Fixed Income Securities* – A Fund may invest in bonds or other fixed income securities, including without limitation, commercial paper and “higher yielding” (including non-investment grade and, therefore, higher risk) debt securities. The Fund will, therefore, be subject to credit, liquidity and interest rate risks. Higher-yielding debt securities are generally unsecured and may be subordinated to certain other outstanding securities and obligations of the issuer, which may be secured on substantially all of the issuer's assets. The lower rating of debt obligations in the higher-yielding sectors reflects a greater probability that adverse changes in the financial condition of the issuer or in general economic conditions or both may impair the ability of the issuer to make payments of principal and interest. Non-investment grade debt securities may not be protected by financial covenants or limitation on additional indebtedness. In addition, evaluation of credit risk for debt securities involves

uncertainty because credit rating agencies throughout the world have different standards, making comparison across countries difficult. Also, the market for credit spreads is often inefficient and illiquid, making it difficult to accurately calculate discounting spreads for valuing financial instruments. It is likely that a major economic event, such as a recession or reduction of liquidity in the market could severely disrupt the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such an economic event could adversely affect the ability of issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities.

*Investments in Unlisted Securities* – Because of the absence of any trading market for these investments, it may take longer, or may not be possible, to liquidate these positions, than would be the case with publicly traded securities. Accordingly, the ability of the Fund to respond to market movements may be impaired and the underlying funds may experience adverse price movements upon liquidation of their investments. Although these securities may be resold in privately negotiated transactions, prices realised on these sales could be less than those originally paid by the underlying fund. Settlement of transactions may be subject to delay and administrative uncertainties. Further, companies whose securities are not publicly traded will generally not be subject to public disclosure and other investor protection requirements applicable to publicly traded securities. The lack of publicly available information an actively traded market in unlisted securities will also give rise to uncertainty in valuing such securities.

*Collateralised Debt Obligations* – A Fund may invest in collateralised debt obligations (including without limitation collateralised loan obligations (“CLO”) and collateralised bond obligations (“CBO”), collectively, “CDOs”). CDOs may be fixed pools or may be “market value” or managed pools of collateral which entitle the holders thereof to receive payments that depend primarily on the cash flow from the pool of assets, which may include commercial loans, high yield and investment grade debt, Structured Securities (as defined below) and derivative instruments relating to debt. Holders of CDOs bear various risks, including credit risk, liquidity risk, interest rate risk, market risk, operations risk, structural risk and legal risk. The pools of assets of CDOs are typically separated into tranches representing different degrees of credit quality, with lower rated tranches being subordinate to senior tranches. The senior tranches of CDOs, which represent the highest credit quality in the pool, have the greatest collateralisation and pay the lowest spreads over LIBOR. Lower rated CDO tranches represent lower degrees of credit quality and pay higher spreads over LIBOR to compensate for the attendant risks. The bottom tranches specifically receive the residual interest payments (i.e. money that is left over after the higher tiers have been paid) rather than a fixed interest rate. The returns on the junior tranches of CDOs are especially sensitive to the rate of default in the collateral pool. In addition, the exercise of redemption rights, if any, by more senior CDO tranches and certain other events could result in an elimination, deferral or reduction in the funds available to make interest or principal payments to the junior tranches. A Fund may acquire mezzanine or equity tranches of CDOs which are the most susceptible to these risks.

*Structured Securities Generally* – A Fund may invest in interests in securitisation vehicles organised and operated solely for the purpose of restructuring the investment characteristics of other debt securities, MBSs, CDOs etc. (collectively, “Structured Securities”). This type of restructuring generally involves the deposit with or purchase by an entity, such as a corporation or trust, of specified instruments and the issuance by that entity of one or more

classes of securities backed by, or representing interests in, the underlying instruments. The cash flow on the underlying instruments may be apportioned among the newly issued security to create securities with different investment characteristics such as varying maturities, payment priorities and interest rate provisions and the extent of the payments made with respect to such securities is dependent on the extent of the cash flow on the underlying instruments. Certain classes of such securities may be subordinated to the right of payment of another class. Subordinated structured investments typically have higher yields and present greater risks than unsubordinated structured investments.

Many Structured Securities are highly complex instruments and may be sensitive to changes in interest rates, prepayment rates or both. There is no guarantee that a liquid market will exist for any Structured Security.

Structured Securities generally are limited or non-recourse obligations payable solely from underlying assets or collateral securities or the proceeds thereof. Consequently, holders of Structured Securities must rely solely on distributions on the underlying assets or collateral securities or proceeds thereof for payment in respect of the Structured Securities. The underlying assets are subject to, among other things, credit risks, liquidity risks, interest rate risks, market risks, operations risks, structural risks and legal risks and may fluctuate with the financial conditions of the underlying issuers and obligors. In the event that issuers of the underlying collateral securities or obligors on the underlying assets default on their obligations, or distributions on the underlying assets or collateral securities are insufficient to make payments in respect of the Structured Securities, no other assets will be available for the payment of the deficiency. There is no guarantee that liquidation of underlying assets and collateral securities will be sufficient to repay investors for their investment in such Structured Securities.

In addition, Structured Securities may involve risks different from those of the assets or securities underlying or backing such Structured Securities. The failure by a servicer, sponsor or manager of a Structured Security to perform adequate credit review of underlying assets or collateral securities or to otherwise fulfil its obligations with respect to a Structured Security may lead to the liquidation of, or default on, such Structured Security. Such failures and defaults may have a negative impact on the return of the Structured Security and the performance of the relevant underlying fund.

*Synthetic Securities* – A Fund may invest in synthetic securities. Synthetic securities are securities in which the value is determined by reference to changes in the value of specific currencies, interest rates, credits, bonds (or credit or bond portfolios), commodities, indices, or other financial indicators (a “Reference”) or the relative change in two or more References. The interest rate or the principal amounts payable upon maturity or redemption may be increased or decreased depending upon changes in the applicable Reference. Synthetic securities may be positively or negatively indexed, so that appreciation of the Reference may produce an increase or decrease in the interest rate or value of the security at maturity. In addition, changes in the interest rates or the value of the security at maturity may be a multiple of changes in the value of the Reference. Consequently, synthetic securities may present a greater degree of market risk than other types of securities and may be more volatile, less liquid and more difficult to value accurately than less complex securities.

*Swap Agreements* – A Fund may enter into swap agreements. Swap agreements can be individually negotiated and structured so as to include exposure to a variety of different types of investments or market factors. Depending on their structure, swap agreements may increase or decrease the exposure of the underlying funds to long-term or short-term interest rates, currency values, corporate borrowing rates, or other factors such as security prices, baskets of equity securities or inflation rates. Swap agreements can take many different forms and are known by a variety of names. The underlying funds may not be limited to any particular form of swap agreement if consistent with their investment objective and policy.

Swap agreements tend to shift the investment exposure of the fund from one type of investment to another. For example, if a Fund agrees to exchange payments in dollars for payments in euro, the swap agreement would tend to decrease the exposure of the Fund to dollar interest rates and increase its exposure to the euro and its interest rates. Depending on how they are used, swap agreements may increase or decrease the overall volatility of the portfolios of a Fund. The most significant factor in the performance of swap agreements is the change in the specific interest rate, currency, individual equity value or other factors that determine the amounts of payments due to and from the relevant underlying fund. If a swap agreement calls for payments by a Fund, that Fund must be prepared to make such payments when due. In addition, if a counterparty's credit worthiness declines, the value of swap agreements with such counterparty can be expected to decline, potentially resulting in losses by the relevant Fund.

*Credit Default Swaps* – Funds may enter into credit default swap agreements. The “buyer” in a credit default contract is obligated to pay the “seller” a periodic stream of payments over the term of the contract provided that no event of default on an underlying reference obligation has occurred. If an event of default occurs, the seller must pay the buyer the full notional value, or “par value,” of the reference obligation in exchange for the reference obligation. The Fund may be either the buyer or seller in a credit default swap transaction. If the Fund is a buyer and no event of default occurs, the Fund will lose its investment and recover nothing. However, if an event of default occurs, the Fund (if the buyer) will receive the full notional value of the reference obligation that may have little or no value. As a seller, the Fund receives a fixed rate of income throughout the term of the contract, which typically is between six months and three years, provided that there is no default event. If an event of default occurs, the seller must pay the buyer the full notional value of the reference obligation. Credit default swap transactions involve greater risks than if the Fund had invested in the reference obligation directly.

*Loan of Portfolio Securities* – Funds may lend their portfolio securities. By doing so, the Fund attempts to increase income through the receipt of interests on the loan. In the event of bankruptcy of the counterparty to such a securities loan, the Fund could experience delays in recovering the loaned securities. To the extent that the value of the securities lent by the Fund has increased, the Fund could experience a loss if such securities are not recovered.

*Concentration of Investments/Lack of Asset Diversification* – Funds are subject to limited diversification requirements and may invest a significant portion of their assets in the securities of a small number of underlying funds or, directly or indirectly similar in assets. As a result, the Fund may be more susceptible to risks associated with a single economic, political or regulatory occurrence than would be the case with a more diversified portfolio and the Fund may be subject to significant losses in the event that it holds a large position in

a particular investment that declines in value or is otherwise adversely affected, including by default of the issuer.

*High Risk Investments* – Funds may acquire assets secured by real property interests, including distressed residential mortgages, liens on high-risk collateral, or notes or pledges made by high-risk borrowers, including sub-prime and non-performing loans. Such assets generally carry below-investment grade credit ratings, or lack credit ratings altogether. These assets and/or the loans underlying these types of assets may be in default or may have a greater than normal risk of future defaults, delinquencies, bankruptcies or fraud losses. There can be no assurance that the assets will perform, the borrowers will pay as expected or, if subject to default, that the underlying assets will be able to be foreclosed upon and liquidated in a cost effective manner. In addition to the risks of borrower default, the underlying fund will be subject to a variety of risks in connection with such debt instruments, including risks arising from mismanagement or a decline in the value of collateral, contested foreclosures, bankruptcy of the debtor, claims for lender liability, violations of usury laws and the imposition of common law or statutory restrictions on the exercise of contractual remedies by the underlying fund for defaults on such investments.

*Credit Risk* – Funds are also subject to credit risk, i.e. the risk that an issuer of securities will be unable to pay principal and interest when due, or that the value of the security will suffer because investors believe the issuer is less able to pay. This is broadly gauged by the credit ratings of the securities in which the Funds invest. However, ratings are only the opinions of the agencies issuing them, may change less quickly than the relevant circumstances and are not absolute guarantees of the quality of the securities. Furthermore, the investments of Funds may not be rated by any rating agency or may be below investment grade. A default, downgrade or credit impairment of any of its investments could result in a significant or even total loss of the investment.

*Subordination Risk* – Certain debt investments acquired will be subject to certain additional risks. Such investments may be unsecured and structurally or contractually subordinated to substantial amounts of senior indebtedness, all or significant portion of which may be secured. Moreover, such investments may not be protected by financial covenants or limitations upon additional indebtedness.

*Interest Rate Risk* – Funds are subject to several risks associated with changes in interest rates on their financings and investments which may affect profitability.

*Interest Rate Adjustments* – Funds may rely on short-term financings to acquire investments with long-term maturities. Similarly, the Funds may acquire investments with short term maturities which are secured by long dated assets. Certain of the investments may be adjustable rate instruments in which interest rates vary over time, based upon changes in an objective index (e.g., LIBOR) which generally reflect short-term interest rates. The interest rates on the financings similarly vary with changes in an objective index but may adjust more frequently than the interest rates of the investments.

*Repurchase Agreements* – Funds may enter into repurchase and reverse repurchase agreements. When a Fund enters into a repurchase agreement, it “sells” securities to a broker-dealer or financial institution and agrees to repurchase such securities on a mutually agreed date for the price paid by the broker-dealer or financial institution, plus interest at a negotiated rate. In reverse repurchase transactions, a Fund “buys” securities from a broker-

dealer or financial institution subject to the obligation of the broker-dealer or financial institution to repurchase such securities at the price paid by that underlying fund, plus interest at a negotiated rate. The use of repurchase and reverse repurchase agreements by a Fund involves certain risks. For example, if the seller of securities under a reverse repurchase agreement defaults on its obligation to repurchase the underlying securities as a result of its bankruptcy or otherwise, the Fund will seek to dispose of such securities, which action could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganisation under applicable bankruptcy or other laws, the ability of a Fund to dispose of the underlying securities may be restricted. It is possible in a bankruptcy or liquidation scenario that the Fund may not be able to substantiate its interest in the underlying securities. In addition, if a seller defaults on its obligation to repurchase securities under a reverse repurchase agreement, a Fund may suffer a loss to the extent that it is forced to liquidate its position in the market and proceeds from the sale of the underlying securities are less than the repurchase prices agreed by the defaulting seller.

*Liquidity of Small and Mid Cap Securities* – Small and mid cap issuers generally have lower daily trading volume than issuers with larger capitalisation. This lower trading volume may affect the ability of the Fund to build or reduce the size of a position in a short time frame. In addition, it may sometimes be difficult to obtain price quotes in significant size for stocks of such small and mid cap issuers. Investments in small and mid cap issuers typically involve a higher degree of business and financial risk and can result in substantial losses due to special risk factors. For example, such issuers are typically subject to a greater degree of change in earnings and business prospects than are issuers with larger market capitalisations.

*Residential Mortgage-Backed Securities (“RMBS”)* – A Fund may invest in or be exposed to RMBS. An RMBS is a form of asset-backed security and is a general obligation of the issuer, which is typically secured by residential mortgages or residential mortgage-backed collateral. Mortgage-backed securities may be issued or guaranteed by U.S. government agencies or instrumentalities or by private entities such as banks, savings and loans, mortgage bankers and other nongovernmental issuers. The risks associated with investment in RMBS include:

*Commercial Mortgage-Backed Securities (“CMBS”)* – A CMBS is a form of mortgage-backed security which is typically secured by commercial mortgages or commercial mortgage-backed collateral. Commercial mortgage loans underlying commercial mortgage-backed securities are generally secured by income producing property, such as offices, malls, stores, industrial properties, multi-family housing or other commercial property, and may entail risks of delinquency and foreclosure. In general, incremental risks of delinquency, foreclosure and loss with respect to an underlying commercial mortgage loan pool may be greater than those associated with residential mortgage loan pools. In part, this is caused by lack of diversity. CMBS are often backed by an underlying mortgage pool of only a few mortgage loans. A failure in performance of any one commercial mortgage loan in the underlying mortgage pool will have a much greater impact on the performance of the related CMBS. Credit risk relating to commercial mortgage-backed transactions is, as a result, property-specific. In this respect, commercial mortgage backed transactions resemble traditional non-recourse secured loans.

Rates of defaults and losses on commercial mortgage loans, and the value of any commercial property, may be adversely affected by risks generally incident to interests in real property, including various events which the related borrower and/or manager of the commercial

property, may be unable to predict or control, such as: changes in general or local economic conditions and/or specific industry segments; declines in real estate values; declines in rental or occupancy rates; increases in interest rates, real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies, including environmental legislation; acts of God; environmental hazards; and social unrest and civil disturbances. If a commercial mortgage loan is in default, foreclosure of such commercial mortgage loan may be a lengthy and difficult process and may involve significant expenses and potential liabilities.

Prepayments on the underlying commercial mortgage loans in an issue of CMBS will be influenced by the prepayment provisions of the related mortgage notes and may also be affected by a variety of economic, geographic and other factors, including the difference between the interest rates on the underlying mortgage loans (giving consideration to the cost of refinancing) and prevailing mortgage rates and the availability of refinancing. In general, if prevailing interest rates fall significantly below the interest rates on the related mortgage loans, the rate of prepayment on the underlying mortgage loans would be expected to increase. Conversely, if prevailing interest rates rise to a level significantly above the interest rates on the related mortgages, the rate of prepayment would be expected to decrease. Prepayments could reduce the yield received on the related CMBS issue.

Concentrations of CMBS of a particular type, as well as concentrations of CMBS issued or guaranteed by affiliated obligors, serviced by the same servicer or backed by underlying collateral located in a specific geographic region, may subject the CMBS to additional risk. CMBS issues may be subordinate in right of payment and rank junior to other securities that are secured by or represent an ownership interest in the same pool of assets. In general, subordinate classes are more sensitive to risk of loss and writedowns than senior classes of such securities.

**The foregoing list of risk factors is not complete. Prospective investors in any Cheyne Fund should review the Fund's PPM and consult with their own advisors before deciding to subscribe.**

## **ITEM 9 – Disciplinary Information**

CCM(UK)LLP does not believe that there are any legal or disciplinary events that are material to its advisory business or the integrity of its management.

## **ITEM 10 – Other Financial Industry Activities and Affiliations**

While CCM(UK)LLP's principal business activity is providing investment advisory services to Cheyne Funds and other clients, CCM(UK)LLP also provides certain marketing services for the Cheyne Funds.

CCM(UK)LLP is registered as a Commodity Pool Operator ("CPO") with the Commodity Futures Trading Commission ("CFTC") and is a member of the National Futures Association ("NFA").

CCM(UK)LLP is affiliated with Cheyne Capital International L.P. ("CCILP"). CCILP provides investment advice and worldwide marketing services to a number of the Cheyne Funds pursuant to marketing and advisory agreements with those funds. CCILP is also registered as a CPO with the CFTC and is a member of the NFA.

CCM(UK)LLP provides investment advice to a number of Cheyne Funds that are organized as master/feeders excepted from U.S. registration as investment companies. The general partners of these funds, which receive compensation for acting as the general partners of the limited partnership master funds, are affiliated with CCM(UK)LLP. Certain Cheyne Funds managed or advised by CCM(UK)LLP and/or its affiliates will invest in other funds managed or advised by CCM(UK)LLP and/or its affiliates.

Because the general partners and CCM(UK)LLP are affiliated, there exists a potential disincentive for CCM(UK)LLP to be replaced, even if such an action is in the best interests of a Cheyne Fund. Moreover, the fees paid by a general partner to CCM(UK)LLP and/or its affiliates are paid pursuant to agreements negotiated between affiliated parties and therefore have not been established in an arm's length transaction.

## **ITEM 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

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

Advisory persons are, to the extent applicable, subject to the provisions of CCM(UK)LLP's Code of Ethics (the "Cheyne Code"). You may obtain a copy of the Cheyne Code upon request. Our contact information appears on the cover page of this Brochure. The Cheyne Code is designed to comply with Advisers Act Rule 204A-1. Additionally, the Cheyne Code contains provisions that assist CCM(UK)LLP with its recordkeeping obligations under the Advisers Act.

Through implementation of the Cheyne Code, CCM(UK)LLP seeks to ensure that personal trading activities of "Access Persons" (as defined in the Advisers Act) do not conflict with the interests of CCM(UK)LLP clients. Consequently, CCM(UK)LLP has adopted policies and procedures designed to ensure that such trading (i) complies with CCM(UK)LLP's legal and fiduciary obligations; (ii) is properly recorded in CCM(UK)LLP's books and records and (iii) is subject to the review and oversight of CCM(UK)LLP's Chief Compliance Officer (the "CCO"). The Cheyne Code contains various provisions with respect to the reporting of personal holdings, transactions and/or brokerage statements and confirmations of all Access Persons.

In addition to these personal securities transaction reporting obligations, policies covering the following are also included in the Cheyne Code: (i) pre-clearance of initial public offerings and limited offerings; (ii) the receipt or giving of gifts; (iii) conflicts of interest; (iv) fair treatment of clients; (v) outside activities of Access Persons; (vi) disclosure of brokerage accounts and trading; (vii) reporting violations of the Cheyne Code; (viii) waivers or modifications of a provision of the Cheyne Code; (ix) self-clearance or review prohibitions; (x) notifications and certifications; (xi) violations and sanctions; (xii) review of code reports and potential violations; (xiii) recordkeeping and (xiv) quarterly self certifications of compliance with the code.

### ***Principal Trades***

Neither CCM(UK)LLP nor its related persons trade on a proprietary or personal basis for their own accounts with the Cheyne Funds as a counterparty.

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

CCM(UK)LLP provides investment management and/or other investment services to the Cheyne Funds and other clients. CCM(UK)LLP may give advice and take action with respect to any Cheyne Fund or client to which it provides discretionary management services, which may differ from action taken by CCM(UK)LLP on behalf of other Cheyne Funds or clients. CCM(UK)LLP is not obligated to recommend, buy or sell, or to refrain from recommending, buying or selling any security that CCM(UK)LLP may buy or sell for the accounts of any other Cheyne Fund or other client.

### ***Cross Trades***

Where an investment management agreement permits, CCM(UK)LLP may from time to time undertake a Cross Trade between one Cheyne Fund or other client and another Cheyne Fund or other client. Cross Trades will be undertaken when CCM(UK)LLP deems that it is in the best interests of both participating Cheyne Funds or other clients and is generally undertaken for rebalancing and to reduce transaction costs. Generally, these trades are undertaken in the market with the assistance of a broker-dealer. Prior authorisation from CCM(UK)LLP's Chief Compliance Officer is required before a Cross Trade is undertaken. Such Cross Trades will not be undertaken for certain Cheyne Funds.

### ***Personal Account Trading***

From time to time, CCM(UK)LLP personnel may have interests in securities owned by or recommended to Cheyne Funds or clients. As these situations may represent a potential conflict of interest, CCM(UK)LLP has adopted a Personal Account Trading Policy and related procedures that aim to prevent conflicts of interest occurring.

All CCM(UK)LLP personnel are required to comply with the Personal Account Trading Policy. All personnel are required to obtain prior approval from a member of the Compliance team to undertake a personal account transaction. Before giving approval, the Compliance team will first ensure that the transaction in question does not cause any conflict with a Cheyne Fund or other client. In order to mitigate potential conflicts, investment personnel are prohibited from investing in securities held by Cheyne Funds that they are involved in managing, or which are being considered for purchase. In addition, a 30-day holding period is applied to all personal account transactions. CCM(UK)LLP personnel are required to provide account trading confirmations and statements promptly to the Compliance team to ensure compliance of the transaction.

## **ITEM 12 – Brokerage Practices**

### ***Selection Criteria for Brokers and Dealers***

CCM(UK)LLP's objective in selecting brokers and dealers and in effecting transactions on behalf of Cheyne Funds and other clients is to seek to obtain the best combination of execution price and transaction costs. The best net price, after taking account of brokerage commissions, spreads and other costs, is normally an important factor in this decision, but a number of other factors are also considered as they are deemed relevant.

The factors include, but are not limited to: CCM(UK)LLP's knowledge of negotiated commission rates and spreads currently available; the nature of the security being traded; the size and type of the transaction; the nature and character of the markets for the security to be purchased or sold; the desired timing of the trade; the activity existing and expected in the market for the particular security; confidentiality; the execution, clearance and settlement capabilities as well as the reputation and perceived soundness of the broker-dealer selected (or not selected); CCM(UK)LLP's knowledge of actual or apparent operational issues of any broker-dealer; the broker-dealer's execution services rendered on a continuing basis and in other transactions; and the reasonableness of spreads or commissions.

CCM(UK)LLP has full discretion in selecting which brokers and dealers to trade with for the Cheyne Funds, and does not permit clients to direct brokerage.

### ***Commission Rates***

CCM(UK)LLP endeavours to be aware of current charges of eligible brokers and dealers and to minimise the expense incurred for effecting transactions to the extent consistent with the interests of the Cheyne Funds and other clients. However, CCM(UK)LLP will not select broker-dealers solely on the basis of commission rates nor always seek in advance competitive bidding for the most favourable commission rate applicable to any particular transaction. Although CCM(UK)LLP generally seeks competitive commission rates, it will not necessarily pay the lowest commission or commission equivalent. Transactions may involve specialist services on the part of the broker-dealer involved resulting in higher commissions or their equivalents than would be the case with transactions requiring more routine services.

The reasonableness of commissions is based on the broker-dealer's ability to provide professional services, competitive commission rates, research, and other services that will help CCM(UK)LLP in providing investment management services to its clients.

CCM(UK)LLP monitors commissions paid, rates and quality of execution to ensure Cheyne's Funds and other clients are being treated fairly.

## ***Research and Execution Policy***

When appropriate under its discretionary authority and consistent with any duty to obtain best execution, CCM(UK)LLP will use brokerage commissions to acquire research.

Broker-dealers typically bundle research and execution services with the execution of transactions. The research provided can be either proprietary (created and provided by the broker-dealer, including tangible research products as well as access to analysts and traders) or third-party (created by a third party but provided by broker-dealer).

CCM(UK)LLP is a UK firm and is authorised and regulated by the FCA. Under the FCA rules, research is the only bundled service which CCM(UK)LLP is entitled to receive.

SEC regulations provide a “safe harbour” which allows an investment adviser to pay for research and brokerage services with the commission dollars generated by client account transactions. In determining whether a service or product qualifies as research, CCM(UK)LLP evaluates whether the service or product provides lawful and appropriate assistance to CCM(UK)LLP in carrying out its investment decision-making responsibilities.

The receipt of research in exchange for brokerage business benefits the Cheyne Funds and other clients by allowing CCM(UK)LLP, at no cost to it, to supplement its own research and analysis activities, to receive the views and information of individuals and research staffs of other securities firms, and to gain access to persons having special expertise on certain companies, industries, areas of economy and market factors. Research services acquired may include reports on the economy, industries, sectors and individual companies or issuers; statistical analyses; accounting and tax law interpretations; political analyses; reports on legal developments affecting portfolio securities; credit analyses; risk measurement; and analyses of corporate responsibility issues. The use of any research services acquired may not be restricted to the Cheyne Fund or other account that paid the commission generating such services.

CCM(UK)LLP has a conflict of interest when it uses commission payments for research and brokerage services and products. If such arrangements were not utilised, CCM(UK)LLP itself would have to pay for such services and products. Given this, CCM(UK)LLP may have an incentive to use brokers and dealers that provide such services over brokers and dealers that do not.

CCM(UK)LLP will not enter into any agreement or understanding with any broker-dealer which would obligate CCM(UK)LLP to direct a specific amount of brokerage transactions or commissions in return for such services.

The determination and evaluation of the reasonableness of the brokerage commissions paid in connection with portfolio transactions are based primarily on the professional opinions of the persons responsible for the placement and review of such transactions. These opinions are formed on the basis of, among other things, the experience of these individuals in the securities industry and information available to them concerning the level of commissions being paid by other investors of comparable size and type. CCM(UK)LLP may select broker-dealers based on its assessment of their ability to provide quality executions for the Cheyne Funds and other clients. Further details of CCM(UK)LLP’s broker-dealer selection criteria is provided in the section above.

### ***Prime Brokerage Services***

When required, a Cheyne Fund will have a relationship with one or more prime brokers that provide prime brokerage services to the Funds. These services include, but are not limited to clearing, financing, securities lending, reporting, and other client services. When choosing prime brokers for the Funds, CCM(UK)LLP considers a number of factors, including the broker's ability to locate borrows, fees, ability to finance the diverse assets that comprise the Funds' portfolio, the cost of financing, margin requirements and creditworthiness, among other factors. In addition to the services described above, a prime broker may also provide additional services (such as capital introductions, advanced research and analytics and technology services) to the Funds and/or the Firm.

CCM(UK)LLP may take advantage of some or all of these additional services provided by the prime brokers. CCM(UK)LLP's use of a prime broker with respect to the Funds may yield increased administrative ease and, therefore, reduce expenses incurred by CCM(UK)LLP, and CCM(UK)LLP may therefore be incentivized to do business with prime brokers who provide these services. However, CCM(UK)LLP directs the Funds' business to a variety of prime brokers and does not believe that the Funds incur above-market cost for prime brokerage as a result of the prime brokers' providing these additional services.

Certain prime brokers may sponsor events, meetings or other communications between potential investors and CCM(UK)LLP or its affiliates. These capital introduction services are incidental to prime brokerage services. CCM(UK)LLP is not compelled to engage prime brokers or other broker-dealers that sponsor these capital introduction programs in order to be included at these events. However, these capital introduction events are typically sponsored by prime brokers that provide services to the Funds and they may create the appearance that CCM(UK)LLP is using these prime brokers in order to be invited to their capital introduction programs. CCM(UK)LLP does not pay to participate in these programs and believes that the Funds are not subject to higher transaction costs as a result of CCM(UK)LLP's participation in such programs or services.

### ***Aggregated Orders***

It is CCM(UK)LLP's policy that when a decision is made to aggregate transactions on behalf of more than one Cheyne Fund or other client, such transactions will be allocated in a fair and equitable manner over time. Consistent with each participating client's investment mandate, CCM(UK)LLP may aggregate orders for more than one Cheyne Fund or other client to facilitate best execution, including negotiating more favourable prices, obtaining more timely or equitable execution or reducing overall commission charges. CCM(UK)LLP will also consider the following when considering aggregating transactions and allocating trades:

- cash flow changes (including available cash, redemptions, exchanges, capital additions and capital withdrawals) may provide a basis to deviate from a pre-established allocation as long as it does not result in an unfair advantage to specific accounts or types of accounts over time;
- accounts with specialized investment objectives or restrictions emphasising investment in a specific category of securities may be given priority over other accounts in allocating such securities; and
- for certain asset classes like bonds and other debt related securities, street convention and good delivery may dictate the minimum size and par amounts.

CCM(UK)LLP may in its discretion choose not to aggregate orders to the extent permitted by regulation and law.

A *pro rata* allocation will typically be used when aggregating orders. While CCM(UK)LLP will usually attempt to allocate *pro rata* in the first instance, CCM(UK)LLP may invest in limited availability or thinly traded securities in which it may be unable to acquire substantial positions. Because block orders for such securities are rarely completed in a single trade, and because allocating small blocks of such securities may increase settlement and transaction costs, CCM(UK)LLP may use a different allocation to fill the total amount for one Cheyne Fund or other client before selecting the next. On its own, this alternative allocation method may result in a fill only for that Cheyne Fund or other client selected. CCM(UK)LLP will then place that Cheyne Fund or other client at the back of the group of funds eligible for a fill on the next trading day. This allocation process should ensure that all eligible Cheyne Funds and other clients have an opportunity to participate in such transactions over time.

CCM(UK)LLP's Compliance department reviews aggregated transactions and allocated trades as part of the Compliance Monitoring oversight.

### **ITEM 13 – Review of Accounts**

The investments of each Cheyne Fund are managed in accordance with the investment objectives and guidelines applicable to such Cheyne Fund as set out in that Fund's PPM.

Members of CCM(UK)LLP monitor the Cheyne Funds' investments each business day to aim to ensure that each portfolio is managed in accordance with the investment objective set out in the applicable PPM. The individuals primarily responsible are the investment personnel and members of the Risk department. This ongoing process will use various data and methods, including computer-based exception reporting. CCM(UK)LLP's Chief Compliance Officer reviews investment activities periodically to aim to ensure these activities are in accordance with applicable regulations. The Chief Compliance Officer reports findings to CCM(UK)LLP's Executive Committee and to the Board of the Cheyne Funds.

The activities of individual portfolio managers are overseen by CCM(UK)LLP's Chief Investment Officer.

#### ***Content and Frequency of Account Reports***

CCM(UK)LLP prepares periodic reports, fact sheets and investor letters and communications to all investors in the Cheyne Funds. Generally, fact sheets and investor communications are provided on a monthly basis. An annual audited financial report is also provided to investors in relation to the Cheyne Fund in question. Generally Cheyne Funds are subject to financial audit by independent public auditors. Audited financial statements are delivered to investors within six months of the end of the fiscal year.

Please see the relevant Offering Documents for additional information related to the types of reporting and the frequency of reports provided to investors in the Cheyne Funds.

#### **ITEM 14 – Client Referrals and Other Compensation**

Not applicable.

## **ITEM 15 – Custody**

CCM(UK)LLP does not take custody of the assets belonging to Cheyne Funds. However, because an affiliate of CCM(UK)LLP serves as general partner of those Cheyne Funds that are organized as limited partnerships, CCM(UK)LLP is deemed to have “custody” over such Funds within the meaning of Rule 206(4)-2 under the Advisers Act (the “Custody Rule”). To comply with the Custody Rule, Fund assets are held at one or more qualified custodians; these qualified custodians include prime brokers, banks and other broker-dealers.

In addition, CCM(UK)LLP provides each U.S. Investor in a Cheyne Fund with audited financial statements, reconciled in accordance with U.S. generally accepted accounting principles, as soon as practicable following such Fund’s fiscal year end, but in all events, within 120 days of the end of such year.

## **ITEM 16 – Investment Discretion**

Generally, CCM(UK)LLP is retained on a discretionary basis and is authorised to make the following determinations in accordance with the Cheyne Funds' specified investment objectives without consultation or consent before a transaction is effected:

- which securities to buy or sell;
- the total amount of securities to buy or sell;
- whether derivative or synthetic transactions are entered into or closed out;
- the broker-dealer through whom securities are bought or sold;
- the counterparty with whom a derivative or synthetic position is entered into;
- the commission rates at which securities transactions for client accounts are effected, and;
- the prices at which securities are to be bought or sold, which may include dealer spreads or mark-ups and transaction costs.

Investors in a Cheyne Fund will have no authority to make decisions or participate in the management of or exercise business discretion with respect to a Cheyne Fund. Accordingly, no person should invest in a Cheyne Fund unless he or she is willing to entrust all aspects of the management of the Cheyne Fund to CCM(UK)LLP.

## **ITEM 17 – Voting Client Securities**

CCM(UK)LLP has the authority to vote the securities owned by Cheyne's Funds on their behalf and has adopted proxy voting policies (the "Proxy Policies") in connection with exercising this authority. Under the Proxy Policies, CCM(UK)LLP votes proxy proposals, amendments, consents or resolutions relating to securities owned by the Cheyne Funds (collectively, "Proxies") in a manner that serves the best interests of the Cheyne Funds and the underlying investors, as determined by CCM(UK)LLP in its discretion.

In order to facilitate the proxy voting process, CCM(UK)LLP has engaged the services of independent proxy voting services (the "Proxy Service" or "Proxy Services"), which provide information and make recommendations as to how to vote on a matter. Such services may also assist with the submissions of votes and the retention of records related to proxy voting.

Using a Proxy Service, CCM(UK)LLP will generally vote Proxies in accordance with the recommendations of management. However, portfolio managers may, in their discretion, determine to vote Proxies other than in accordance with, or contrary to, the recommendations of management. In these cases, portfolio managers will base their decision on factors, including, but not limited to (i) their assessment of the impact of the vote on the value of the securities; (ii) their assessment of the impact of the vote on the investment strategy of the Cheyne Fund; and (iii) an overall analysis of the costs and benefits associated with the proposal for the Cheyne Fund in question.

CCM(UK)LLP aims to limit the occurrence of conflicts of interest in connection with voting Proxies by utilising independent third-party Proxy Services and by operating in line with its Proxy Policies. In the unlikely event that a conflict of interest does occur, CCM(UK)LLP's General Counsel and Chief Compliance Officer would be involved with a view to mitigating any such conflict.

## **ITEM 18 – Financial Information**

Not applicable.