

Cairn Capital Limited

Form ADV Part 2

31 March 2014

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This brochure provides information about the qualifications and business practices of Cairn Capital Limited. If you have any questions about the contents of this brochure, please contact us directly at +44 (0)20 7259 4800 or via email at ADVII@cairncapital.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Cairn Capital Limited is also available on the SEC's website at www.adviserinfo.sec.gov.

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

Summary of Material Changes
to Form ADV Part 2 dated 28 March 2013

Paragraph 1.E.: Assets under management and long-term advice have been updated to reflect the position as at 28 February 2014.

Paragraph 3.: A statement has been added disclosing that Cairn Capital will have an incentive to favour accounts for which it receives a performance based fee over accounts for which it receives a fixed fee or a fee calculated solely as a percentage of assets and that this conflict is addressed by the adoption by Cairn Capital of an allocation policy which requires Cairn Capital to allocate orders fairly independent of the fee structure.

Paragraph 5.: This paragraph has been extensively revised to better describe the methods of analysis and investment strategies of Cairn Capital.

Paragraph 7.A.: This paragraph has been amended to disclose that Cairn Capital's affiliate, Cairn Capital North America Inc., is preparing an application to register as a broker dealer.

Paragraph 7.B.: This has been amended to record that Cairn Capital is registered as a commodity pool operator and commodity trading advisor.

Paragraph 7.C.: This paragraph has been amended to disclose that Cairn Capital has trading relationships with The Royal Bank of Scotland PLC which indirectly owns more than 25% of the voting rights in Cairn Capital.

Paragraph 8.: Paragraph 8 has been amended to clarify that portfolio managers and research analysts are not permitted to invest in the same securities as are traded for clients.

Paragraph 9.A.: A reference to the trading relationships with The Royal Bank of Scotland PLC has been added to this paragraph.

Paragraph 10.B.: The number of credit researchers for the loans team has been amended from three to two.

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1. Advisory Business (Item 4)

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

Two independent shareholders in Cairn Capital Group Limited, STAR Capital Partners Investments LLP and R.B.S. Special Investments Limited, each own 25.50% of the voting rights in Cairn Capital Group Limited, but own less than 25% of the capital, each holding 17.73% of the capital. R.B.S. Special Investments Limited is a wholly-owned subsidiary of The Royal Bank of Scotland plc which, in turn, is a wholly-owned subsidiary of The Royal Bank of Scotland Group plc. The UK Government through HM Treasury is the ultimate controlling party of The Royal Bank of Scotland Group plc. The UK Government's shareholding is managed by UK Financial Investments Limited, a company wholly owned by the UK Government. STAR Capital Partners Investments LLP is a limited liability partnership the members of which are R.B.S. Special Investments Limited, Anthony Granville Mallin, Stephen John Michael Wright, Martina Lyons and STAR Capital (Cairn) Limited. According to the accounts of STAR Capital Partners Investments LLP, the ultimate controlling party of the partnership is considered to be Anthony Granville Mallin.

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

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

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

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

In portfolio management and advisory engagements, including both those with discretionary and non-discretionary investment authority, Cairn Capital will generally review portfolio assets on a regular basis and make decisions or recommendations, as applicable, for future portfolio actions with respect to individual securities (or the portfolio as a whole) based on an analysis of current market values and trends, fundamental

value, security specifics, technical flows and any other factors relevant to expected performance.

Cairn Capital also provides successor portfolio management services to closed end vehicles (for example, CDO) across the range of credit products, where Cairn Capital has been mandated to replace the original collateral manager. Within the parameters established by the original transaction structure and portfolio collateral, Cairn Capital aims to deliver, where possible, enhanced outcomes to investors and creditors.

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

- C. Cairn Capital's advisory services are tailored to the individual needs of clients. Advisory mandates are individually negotiated and as part of those negotiations the needs of the client will be addressed and the client will be able to impose any restrictions the client wishes to impose, including restrictions on investing in certain securities or types of securities.
- D. Cairn Capital does not participate in wrap fee programs.
- E. As at 28 February 2014, Cairn Capital managed assets on a discretionary basis of approximately U.S.\$3,073,673,000 and on a non-discretionary basis (which includes assets under long-term advisory mandates) of approximately U.S.\$13,175,353,000. In addition, as at that date, Cairn Capital managed certain legacy assets, comprised of CDO transactions, of approximately U.S.\$2,773,362,000,

2. Fees and Compensation (Item 5)

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

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

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

negotiate a success fee which is payable only upon successful completion of the mandate.

Cairn Capital may receive fees from its US affiliate, Cairn Capital North America Inc. ("CCNA"), for the performance of certain services in connection with mandates entered into by the affiliate with clients. Such fees will be determined by reference to a number of factors including Cairn Capital's relative role in participating in the execution of the mandate and will be established on an arm's length basis between the two business entities.

- B. For discretionary asset management mandates, Cairn Capital is generally paid out of the assets under management pursuant to the mandate although a client may elect to be billed directly for fees incurred. Where fees are paid out of the assets under management, Cairn Capital does not have authority simply to deduct such fees from the assets under management. Any such fees are required to be agreed and approved by the client or by a third party on the client's behalf such as, in the case of a private fund managed by Cairn Capital, the administrator appointed by the fund to provide administrative services in connection with the fund. Fees for advisory services are billed directly to the client.
- C. In connection with discretionary investment management services, clients may pay other fees and expenses, depending on the nature of the services, including custodian fees, prime brokerage fees, fees of the administrator and directors' fees. See paragraph 9 below for a discussion of Cairn Capital's brokerage practices.
- D. As noted in A. above, fees for advisory services where Cairn Capital does not have discretion to manage the assets of the client may be fixed and paid on a periodic basis (generally monthly) in advance. In such a case, Cairn Capital will refund the client a portion of the fee paid in advance should the advisory contract be terminated in accordance with its terms before the end of the billing period. The portion to be repaid will be calculated by reference to the portion of the billing period still to run after termination of the contract.
- E. Neither Cairn Capital, nor any of its officers or employees, accepts compensation for the sale of securities or other investment products.

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

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

Cairn Capital of an allocation policy which requires Cairn Capital to allocate orders fairly and not give unfair preference to any client, independent of the fee structure.

On occasion the appointment of Cairn Capital to provide investment advisory services may include a specific appointment to arrange sales of assets in an asset portfolio for which Cairn Capital may receive a fee from the client calculated by reference to the sale proceeds of the assets sold. In such cases the sales are arm's length transactions with individual bidders identified by Cairn Capital or the client or through an agreed auction process. In such circumstances Cairn Capital does not participate as a bidder on behalf of any other client.

If Cairn Capital acts for a client in circumstances where it has a material interest or conflict of interests Cairn Capital will take reasonable steps to ensure that the client is treated fairly. In order to identify circumstances in which Cairn Capital, an affiliate of it or a supervised person may have a material interest in a transaction with or for a client or where a conflict of interest may arise between the client's interests and those of other clients or counterparties or of Cairn Capital, the legal and compliance groups within Cairn Capital work to ensure that potential conflicts of interest and related issues are identified and dealt with swiftly and at an appropriate level within Cairn Capital. Any actual or potential conflict of interest is initially discussed by the Chief Legal Officer and/or Compliance Officer with the relevant personnel and, if the issue cannot be immediately resolved by such discussion, is referred to the Executive Management Committee ("EMC") of Cairn Capital. The EMC will determine what action should be taken in order to resolve or manage the conflict. Such action may include declining to act in the particular matter.

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

Under its conflicts policy, Cairn Capital is not under an obligation to disclose that it, an affiliate or a supervised person has or may have a material interest in a particular transaction with or for a client or that in a particular circumstance a conflict of interest or duty may exist, where Cairn Capital has managed such conflicts to ensure, with reasonable confidence, that the risk of damage to the client's interests will be prevented. Such steps may include relying on a policy of independence under which every relevant employee must disregard any material interest or conflict of interest when advising a customer or dealing for a customer in the exercise of

discretion. Cairn Capital is not under any obligation to account to a client for any profit, commission or remuneration made or received from or by reason of transactions or circumstances in which Cairn Capital, its affiliates or a supervised person has a material interest or where in particular circumstances a conflict of interest or duty may exist. It is Cairn Capital's policy to disclose generally the existence of potential conflicts of interest where practicable or appropriate. Where Cairn Capital is unable to manage a conflict to ensure, with reasonable confidence, that the risk of damage to the client's interests will be prevented it will disclose to its client the material interest or conflict of interest that it, its affiliate or a supervised person has, or may have, whether generally or in relation to a specific transaction, before it advises the client or before it deals on behalf of the client in the exercise of discretion in relation to the transaction. Cairn Capital will record this disclosure and record the steps taken to ensure that the customer does not object to that material interest or conflict of interest. From time to time, a client agreement entered into by Cairn Capital may require Cairn Capital to disclose all potential or actual conflicts of interest to the client whether or not Cairn Capital is able to manage such conflicts to ensure, with reasonable confidence, that the risk of damage to the client's interests will be prevented.

4. Types of Clients (Item 7)

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

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

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

- A. In managing or advising on specific assets or portfolios of assets (or derivatives relating to assets) Cairn Capital carries out extensive analysis relating to an individual position, groups of positions or the aggregate portfolio.

At an individual position level Cairn Capital will carry out fundamental credit research as to the quality or strength of the cash flows of the creditor to which the position relates. In the case of a corporate asset this will include the prospects of the company, a view of the sector in which the company operates, the sensitivity of the earnings of the company to external factors and any other factors that may affect the company's ability to service its debts on a timely basis. In the case of structured credit or asset backed securities the underlying exposure will be to a pool of collateral (for example credit card receivables or mortgages) and the fundamental research will relate to the performance of that collateral pool under certain base case and stressed assumptions. The fundamental research is carried out by the credit research team.

Cairn Capital will also analyse the structure of the issuing entity to which exposure is being taken to determine the ranking of the position relative to other creditors.

Cairn Capital will analyse the technical flows in the overall market as well as a particular security or position to determine whether market positioning has the potential to affect the price of a security from technical flows.

Cairn Capital will analyse the liquidity of a position based on trading volumes and factor that into judging the appropriate size of a position for a particular mandate.

At a sectoral level Cairn Capital will judge whether exposures taken to a regional or industrial sector are appropriate and what factors may affect performance of borrowers in that sector including regulatory or governmental activity.

At a portfolio level Cairn will analyse correlations between assets to determine overall risk positioning and may use index based transactions to adjust portfolio beta.

In certain advisory mandates analysing the recovery value of a particular asset and comparing it to currently realisable value may be paramount as the nature of the advice is whether a client should dispose of or hold the position.

- B. Cairn Capital manages strategies on an active basis and does not follow benchmarks. Strategies are tailored to a particular client's aims and can be long only, long biased (where index and single name shorts can be used to manage overall beta but the client's portfolio cannot be short on an overall basis) or long/short where the client's portfolio can be short on an overall basis.

In all cases the investment strategy will be agreed with the client and suitable limits, loss tolerances and return targets agreed.

Securities and derivatives trading are speculative and involve substantial risk of loss. However, in Cairn's opinion, its strategies for evaluating credit risk and for developing appropriate models and assumptions to measure actual and expected security performance do not involve any significant or unusual risks to clients. Cairn Capital's primary strategies do not involve frequent trading of securities.

- C. Cairn Capital's advisory recommendations for clients are based on an evaluation of the client's needs, risk tolerance, regulatory requirements and other factors specific to that client, and therefore differ substantially from one client to another. Portfolio advisory engagements will generally be focused on a specific asset class or group of asset classes, but even within a general asset class category Cairn Capital will not primarily recommend any particular type of security except in the unlikely event that a client specifically requests such a focus and Cairn Capital agrees to accept the mandate under those conditions. In any investment advisory or investment management mandate there is a risk of loss which Cairn Capital seeks to quantify and ensure that the returns for taking on that risk are adequate. This will depend upon the analysis described above as well as the returns available.

6. Disciplinary Information (Item 9)

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

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

- A. Save as noted in the next sentence, neither Cairn Capital, nor any of its officers or employees, is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer. Cairn Capital's affiliate, CCNA, is

- preparing an application to register as a broker dealer. David Littlewood, the Chief Executive Officer of CCNA, is also a director of Cairn Capital and if CCNA's application to register as a broker dealer proceeds, will apply to be a registered representative of CCNA.
- B. Cairn Capital is registered as a commodity pool operator and commodity trading adviser with the US Commodity Futures Trading Commission and is a member of the US National Futures Association.
 - C. From time to time, Cairn Capital may enter into an arrangement with its US affiliate, CCNA, under which, in connection with its affiliates' asset management and portfolio advisory engagements, Cairn Capital will be engaged through a sub-advisory arrangement to provide some of the services its affiliate undertakes to provide under those agreements. Conversely, Cairn Capital may from time to time enter into agreements directly with clients under which it engages its US affiliate to provide certain sub-advisory services, such as restructuring advice. Its affiliate may also from time to time source US business for Cairn Capital and may receive an origination fee for such efforts. In all of these arrangements, Cairn Capital does not believe that its relationship with CCNA will create any conflict of interest with clients. All arrangements between Cairn Capital and CCNA will be arm's length agreements subject to market terms, and Cairn Capital has policies in place to identify and resolve any potential conflicts of interest with clients however they might arise. As noted in paragraph 1.A above, The Royal Bank of Scotland PLC owns indirectly more than 25% of the voting rights in Cairn Capital. Cairn Capital has trading relationships with The Royal Bank of Scotland PLC and from time to time executes transactions with it on behalf of the funds and accounts managed by Cairn Capital. Such trading relationships between Cairn Capital and The Royal Bank of Scotland PLC are arm's length agreements subject to market terms and are not considered to create any material conflicts of interest with clients. Save as mentioned in this paragraph, neither Cairn Capital, nor any of its officers or employees, has any relationship or arrangement that is material to Cairn Capital's advisory business or to its clients with any related person.
 - D. Cairn Capital does not recommend or select other investment advisers for its clients and receive compensation directly or indirectly from those advisers or have other business relationships with those advisers that create a material conflict of interest.

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

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

Cairn Capital is authorised and regulated by the Financial Conduct Authority (“FCA”) in the United Kingdom. As a result of this regulation, the Company is subject to certain principles for business and those of its employees who are required to be approved by the FCA for the performance of controlled functions (which include the giving of investment advice and the provision of investment management services) are subject to certain statements of principles. These provide, among other things, that:

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

9. Brokerage Practices (Item 12)

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

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

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

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

As a company authorised and regulated by the FCA, Cairn Capital is required, when providing the service of investment, portfolio or collateral management, to comply with the obligation to act in accordance with the best interests of its clients when placing

orders with third parties for execution that result from decisions by Cairn Capital to enter into transactions in financial instruments on behalf of its clients. This is reflected in Cairn Capital's Execution Policy, which is made available to clients of Cairn Capital.

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

As noted in paragraph 7.C above, Cairn Capital has trading relationships with The Royal Bank of Scotland PLC and from time to time executes transactions with it on behalf of the funds and accounts managed by Cairn Capital. Such trading relationships between Cairn Capital and The Royal Bank of Scotland PLC are arm's length agreements subject to market terms and Cairn Capital's decision to select The Royal Bank of Scotland PLC as a broker or counterparty on any particular transaction is not influenced by any factors related to the shareholding relationship between Cairn Capital and The Royal Bank of Scotland PLC. Such trading relationships are not considered to create any material conflicts of interest with clients. .

- B. Cairn Capital may carry out a client order in aggregation with another client order only if the following conditions are met:
- (i) it is unlikely that the aggregation of orders and transactions will work overall to the disadvantage of any client whose order is to be aggregated; and
 - (ii) it has disclosed either orally or in writing to each client whose order is to be aggregated, either specifically or in the client agreement, that the effect of aggregation may work to its disadvantage in relation to a particular order.

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

10. Review of Accounts (Item 13)

- A. Given the nature of its business, Cairn Capital does not have standard formal rules dictating the frequency of reviews of client accounts and client agreements.
- B. Instead, the accounts of Cairn Capital are monitored and reviewed on an ongoing basis so that any action which Cairn Capital considers to be necessary or advisable can be determined and implemented on a timely basis. For individual positions in certain accounts stop loss triggers may be agreed at the time that the position is entered into. A strong risk management discipline is observed and risk profiles and limits are actively monitored and reviewed. The accounts and positions of the funds and other clients whose accounts consist of or include corporate positions are monitored and reviewed by

the alternatives and corporate portfolio management teams (which include four credit researchers and five portfolio managers). The accounts and positions of clients whose accounts consist of or include asset backed securities are monitored and reviewed by the ABS team (which includes four analysts and three portfolio managers). All transactions in such accounts, other than transactions meeting certain pre-approved criteria, require the approval of the investment committee of Cairn Capital. The accounts and positions of clients whose accounts consist of or include loans are monitored and reviewed by the loans team (which includes three portfolio managers and two credit researchers in London, assisted by a dedicated team of researchers based in Mumbai, India). All transactions in such accounts require the approval of the investment committee of the Company. In addition, Cairn Capital maintains a transaction compliance group of three employees who are responsible for checking that any transactions in a client's account comply with any investment restrictions and limitations applicable to the account (such as limitations imposed by the transaction documents on the nature of the assets that may be acquired, including limitations on asset types, minimum credit ratings, the volume of trading, industry types and geographical concentrations).

- C. The documentation entered into by Cairn Capital with its clients provides for the provision of detailed reports to Cairn Capital's clients. Such documentation is individually negotiated and as such the nature and frequency of the reports to be provided varies. The reports are generally required to be provided quarterly or monthly and provide details of the assets included in the client's portfolio, the performance of the portfolio and other relevant information required by the documentation entered into by Cairn Capital. In addition, in the case of a number of Cairn Capital's clients, the Company provides "informal" (in the sense that they are not mandated by the legal documentation) regular reports to investors.

11. Client Referrals and Other Compensation (Item 14)

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

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

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

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

12. Custody (Item 15)

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

13. Investment Discretion (Item 16)

Cairn Capital accepts discretionary authority to manage portfolios of assets on behalf of clients.

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

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

14. Voting Client Securities (Item 17)

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

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

15. Financial Information (Item 18)

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

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