

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

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This Part 2A of Form ADV (the “**Brochure**”) provides information about the qualifications and business practices of Finisterre Malta Limited (the “**Firm**”), an investment adviser registered with the United States Securities and Exchange Commission (the “**SEC**”). If you have any questions about this brochure please contact us at T: +44 (0)203 206 6910 or E-mail: [enquiriesfml@finisterrecapital.com](mailto:enquiriesfml@finisterrecapital.com).

The information in this brochure has not been approved or verified by the SEC or any state securities authorities. Registration does not imply a certain level of skill or training. Additional information about Finisterre is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## ITEM 2 MATERIAL CHANGES

There are no material changes to report as this Finisterre ADV Part 2 (the “**Brochure**”) is the first Brochure filed by the Firm.

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## ITEM 4 ADVISORY BUSINESS

### Background

Finisterre Malta Limited (the “**Firm**”) is a limited liability company and manager founded in 2003 in the Cayman Islands, which redomiciled to Malta on 7 December 2009 as a limited liability company in terms of Regulation 4 of the Continuation of Companies Regulations, 2002 of Malta. On the date of the redomiciliation, the Firm was issued with an investment services licence by the Malta Financial Services Authority (the “**MFSA**”) in terms of the Investment Services Act, 1994 of Malta on the basis of which the Firm is licensed and authorised to provide fund management services in or from within Malta. Accordingly, the Firm is regulated in the conduct of its investment business in Malta by the MFSA. The Firm has also applied to be registered as an investment advisor with the SEC.

The Firm is a wholly owned subsidiary of Finisterre Holdings Limited (“**Finisterre Holdings**”), which in turn is majority owned by Principal Global Investors, LLC (“**PGI**”), whose ultimate controlling party is Principal Financial Group, Inc., a New York Stock Exchange-listed company. The remaining shares in Finisterre Holdings are owned by individual members of Finisterre Capital LLP. The Firm, as manager to its clients, provides management, advisory, marketing and administrative services, co-ordinates the sale and distribution of shares and oversees the appointment of investment managers, who currently consist of Finisterre Capital LLP and Finisterre Hong Kong Limited (together the “**Investment Managers**”). In the case of investment management services, the Firm delegates through investment management agreements, the core day to day portfolio management to the Investment Managers and retains the risk management function. The Firm has delegated oversight of the portfolio management to an Investment Committee (“**IC**”).

The Firm provides investment management services to clients which include foreign investment companies, private investment partnerships and other commingled pooled accounts (“**Private Funds**” or “**Private Fund Clients**”) that are exempt from registration under the Investment Company Act of 1940, as amended (the “**1940 Act**”) and the Securities Act of 1933, as amended (the “**Securities Act**”) and may include institutional separate accounts (“**Separate Accounts**” or “**Separate Account Clients**”); as well as to Finisterre EM Debt Fund (the “**UCITS Fund**”) which is a fund of an open ended umbrella type unit trust, known as the Principal Global Investors Funds, authorised by the Central Bank of Ireland (“**CBI**”) as an undertaking for collective investment in transferable securities pursuant to UCITS Regulations.

As of April 30, 2014 the Firm’s net assets under management totaled \$1.785bn, which is managed on a discretionary basis by the Investment Managers. For the purposes of this brochure, a “**client**” will refer to a fund and/or a separate account client (and not the investors in a fund).

The Private Fund Clients focus on investing in Emerging Markets, primarily in fixed income through sovereign and corporate debt along with equity, foreign exchange and interest rates. Each Private Fund has an established strategy and the investment management services provided by the Firm and Investment Managers (together the “**Finisterre Managers**”) to its clients are governed by written agreements.

The Firm does not participate in any wrap fee programs by providing portfolio management services.

### Finisterre Group structure

Finisterre Holdings is registered in Malta under registration number C 48353 and details of its ownership are set out above. In addition to the Firm, Finisterre Holdings is the parent company Finisterre USA Inc., and Finisterre Hong Kong Limited. It also owns Finisterre Capital LLP indirectly through its investment in Finisterre Capital UK Limited.

Finisterre Capital LLP is a UK limited liability partnership; regulated by the UK Financial Conduct Authority since 27 January 2003; and has been providing investment management services for the Firm since 2003. Finisterre Capital LLP is also a registered investment adviser with the SEC since 23 August 2012, and has

been registered with the Commodity Futures Trading Commission as a commodity pool operator and a commodity trading advisor since 23 January 2013.

Finisterre Hong Kong Limited commenced activity in May 2012, providing portfolio investment management to clients, with a focus on Asian securities and markets, and is regulated by the Securities and Futures Commission in Hong Kong (the “SFC”) with a Type 9 asset management licence.

Finisterre USA Inc. was established in January 2004 to provide marketing and administrative services to the Firm.

## **ITEM 5 FEES AND COMPENSATION**

### **Fees**

The fee scale generally includes both management and performance fees. Fees are deducted from client assets and are not generally negotiable. Specific fee details are contained in the prospectus for each client.

With respect to Private Fund Clients, a management fee is charged each month in arrears equal to 1/12 of 2% of the total market value of the assets in the client account (including net unrealized gains and losses of investments and cash, cash equivalents and accrued interest) on the last day of the month.

With respect to Private Fund Clients, a performance fee is charged equal to 20% of the net profits of a client paid annually in arrears. The calculation of this fee is subject to a high water mark. Should an investor redeem all or part of their investment during a year any performance fee due on the investment will become due upon the redemption date.

Certain share classes in certain Private Funds may charge management fees and performance fees which may be higher or lower than the stated range, and these are disclosed fully in the Private Fund's offering documentation.

Separate fee arrangements are in place with i) Firm and or Firm affiliates by way of side letter; and ii) in respect of the UCITS Fund.

To the extent a client pays fees on an account a portion of which it then invests in another Firm client, the Firm will waive any overlapping fees.

### **Other expenses**

In addition to investment management and performance fees, clients will also be subject to other trading expenses such as brokerage commissions, interest expenses, taxes, duties and other governmental charges, transfer and registration fees or similar expenses, costs associated with foreign exchange transactions, other portfolio expenses; and costs, expenses and fees associated with such investments. Please refer to Item 12 of this Firm Brochure for a discussion of the Firm's brokerage practices.

Clients will also bear the operating and other expenses including, legal expenses, administration expenses, middle and back office expenses, organizational expenses, audit expenses and tax expenses.

### **Compensation**

Save as disclosed herein, neither the Firm nor any of their employees accept compensation for the sale of securities or other services or other investment services or products.

## ITEM 6 PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

The Firm provides investment management services to multiple portfolios for multiple clients and as discussed in Item 5, the Firm receives performance-based fees.

Employees of the Firm do not currently receive compensation determined on a discretionary basis linked with the performance fee earned from a client, but may do so in the future.

When the Firm manages more than one client account, or where employees of the Investment Manager may receive compensation linked with the performance fees earned, a potential exists for one client account to be favored over another client account as the Firm and relevant investment personnel may have a greater incentive to favor client accounts that pay them higher fees or performance fees.

The Finisterre Managers have adopted and implemented joint policies and procedures intended to address conflicts of interest relating to the management of multiple clients and the allocation of investment opportunities. Each client is managed by a distinct portfolio manager, and all of the Firm's Private Fund Clients are charged performance fees. The Firm and relevant investment personnel manage both client accounts that are charged performance fees and accounts that are charged an asset-based fee, which is a non-performance based fee.

Save as detailed below, the allocation procedures require trades to be allocated based on assets under management of each client taking into account the different agreed strategies in each underlying investment management mandate.

Orders are not genuinely required to be aggregated and accordingly, a client may receive a less favorable price than if client orders were aggregated. However, to the extent that they are, the relevant Finisterre Manager executing the order will endeavor to ensure that there is a fair and timely allocation, including that each client receives the same executed price or a volume weighted average where there is a series of executions.

With respect to allocations of initial public offerings or primary debt offerings (collectively, "**New issues**"), the Firm has adopted the Trade Allocation Policy, where the relevant Finisterre Manager will determine each client's total capacity in accordance with a pre-determined allocation spreadsheet based on strategy AUM, it is expected that this determination will be made in the majority of cases by the Investment Manager by virtue of the Firm's delegation to them of the core day to day portfolio management. Each client may request participation up to its total capacity. Upon allocation by the issuer to the relevant Finisterre Manager, each client then generally participates in the allocation pro rata based on the requested amount. The Chief Investment Officer of Finisterre Capital LLP (the "**Chief Investment Officer**") has discretion to apply an alternative allocation procedure in instances where he determines that an allocation in accordance with the Trade Allocation Policy will not result in a fair allocation between clients. In such a case, the Chief Investment Officer must notify the Firm's Chief Compliance Officer (the "**Chief Compliance Officer**") of the allocation among clients together with his rationale for exercising discretion to apply the alternative allocation procedure.

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

Investors in the Private Funds include individual professional investors, institutions, pension funds, private funds, trusts, corporations and other business entities. With respect to the Private Funds, the minimum investment is described in the relevant offering documents of the Private Fund.

As stated above, the Firm is also a sub-adviser to the UCITS Fund.



## ITEM 8 METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

### Methods of Analysis

The investment process is based primarily on fundamental macroeconomic and political analysis and depending on the client may also include bottom-up fundamental credit analysis. The process is designed to identify improving/deteriorating external credit spreads, appreciating and depreciating currencies and equity markets, and rising and falling yields in the fixed income markets. The clients take positions in external debt obligations, currencies, local fixed income instruments, and equities/equity indices when factors have been identified which will drive substantial appreciation or depreciation of these positions. The investment strategy is not dependent upon the continued economic and institutional development of any particular country or region or positive developments in financial markets generally, but rather seeks to profit from changes in the outlook for balance of payments, inflation and other economic variables that can affect external credit spreads, currencies, interest rates and equities in selected countries, whether positive or negative.

The trading style consists of the application of a traditional hedge fund approach to emerging market financial markets. This means that the relevant Finisterre Manager consistently seeks to identify high conviction long and short positions. By actively managing the proportion of short and long positions, the systemic risk or market beta of the portfolios both at a country level and at a global level are dynamically varied. Positions are selected using a top-down macro process as well as bottom up analysis but there is frequent tactical trading which is consistent with these longer term fundamental themes. Emerging financial markets consistently present opportunities for directional long short strategy; this is due to the volatile nature of economic and political developments in the countries themselves and also to the structure and nature of the investor base in those markets.

The mix of strategy between outright positioning and relative value will change given the underlying market environment. In highly volatile conditions, the portfolio will be more heavily weighted towards relative value opportunities as a means of controlling the risk and reducing the overall volatility. In more stable market conditions the portfolio will be more inclined towards outright positioning.

Overall capital preservation is emphasized in the construction and embedded risk of the portfolio. The primary tools to achieve this are attention to the liquidity of the positions in the portfolio, the correlation of the positions, the number of positions in the portfolio to ensure proper diversification, net exposure and gross exposure limits. The portfolios are opportunistically hedged at a portfolio level and opportunistic trading is employed to adjust position sizes as risk/reward dynamics shift and volatility and liquidity of the portfolio are tested.

### Investment strategies

The Private Funds use the following Emerging Markets strategies:

Global Opportunity: the strategy employs a top-down macro approach to Emerging Markets and invests in a broad range of Emerging Market assets. The strategy is primarily a fixed income strategy trading sovereign and corporate debt, foreign exchange, interest rates and a limited amount of equity.

Sovereign Debt: the strategy employs a top-down macro approach to Emerging Markets sovereign debt. The strategy invests primarily in external debt obligations of Emerging Market sovereign borrowers and to a lesser extent local fixed income instruments, currencies and corporate credits.

Credit: the strategy employs a bottom-up fundamental credit approach to Emerging Markets. The strategy looks to exploit event-driven situations with substantial credit-event linked upside. It follows primarily a bottom-up approach rooted in fundamental credit, asset valuation and documentation analysis.

## **Investing Risks**

Investment in a client carries a high degree of risk including, but not limited to, the risks referred to below. Some or all of the investment risks will apply to each of the Private Funds, and the UCITS Fund, depending on their respective investment strategies or sub-strategies.

No assurance can be given that a client will achieve its investment objective or that shareholders will realise a profit on their investment. Moreover, shareholders may lose some or a significant portion or all of their investment. The risks referred to below do not purport to be exhaustive and potential investors should review a client's offering documents carefully and in its entirety and consult with their professional advisers before making an application for investment.

Substantial risks are involved in investing in the various securities and financial instruments the client intends to purchase and sell. Prices may be influenced by, among other factors; changing supply and demand relationships; the domestic and foreign policies of Governments, particularly policies to do with trade or with fiscal and monetary matters; political events, particularly elections and those events that may lead to a change in Government; the outbreak of hostilities, even in an area in which the client is not invested; economic developments, particularly those related to balance of payments and trade, inflation, money supply, the issuance of Government debt, changes in official interest rates, monetary revaluations or devaluations and modifications in financial market regulations.

### ***Material risks relating to investment strategies***

#### ***Emerging Market Risks***

Investment in Emerging Markets involves various risk factors and considerations which may not be associated with investing in more developed markets. These factors could result in losses to the client and include the following:

Political and Economic Factors - Emerging Market countries may be at an early stage of institutional and economic development and may experience significant economic imbalances and financial instability. Political uncertainties and market dislocations may disrupt credit fundamentals including social unrest coupled with opposition to or reversal of policies of reform. Military action and coups d'état may be more likely to occur. Adverse government policies, or intervention, taxation, restrictions on foreign investment and on currency convertibility and repatriation, including expropriation, nationalization or confiscation or other developments in the laws and regulations of emerging market countries in which investments are made could result in substantial losses to the client.

Credit Factors - Emerging Market debt instruments may be characterized by low credit quality with a correspondingly high risk of payment delays or of default by the issuer or of a rescheduling of an issuer's obligations. Some investments may be in non-performing obligations in default which carry a significant risk of unfavourable restructuring terms and/or the risk of repudiation of the claim by the issuer.

Market Illiquidity and Volatility - Most of the trading in Emerging Market instruments is not on a recognised or organised exchange but OTC. These markets may be significantly influenced by large investors trading substantial blocks of securities. They may also be significantly influenced by changes in the sentiment and perceptions of market participants without regard to fundamental factors. By comparison with more developed securities markets, most emerging countries securities markets are smaller, less liquid and more volatile. Some of the client's investments may be privately placed or may be illiquid structured securities and minimum holding periods may apply to these, as a consequence the client may experience difficulty in valuing certain investments to determine net asset value and in disposing of certain investments to meet liquidity needs or in light of adverse developments affecting a particular investment or its issuer the client may find it necessary to dispose of securities at unfavourable prices or to retain securities that it would otherwise sell.

**Tax and Other Legal Factors** - The policy environment in Emerging Markets is often fluid and unpredictable and this may result in sudden adverse changes in tax treatment or other laws or regulations affecting investments. In addition settlement, clearing and registration procedures as well as the national legal and accounting infrastructure may be underdeveloped enhancing the risks of error, fraud, or legal challenges and reducing the degree of investor protection.

**Accounting Standards and Custody** - Financial reporting standards and practices as well as the quality and reliability of official data and statistics are generally inferior when compared with more developed countries. Therefore less information and less reliable information may be available with respect to Emerging Market countries and investments. Generally accepted international accounting standards may not necessarily be followed by Emerging Market issuers. The inability of the client to obtain sufficient reliable information to analyse its investments on a continuing basis may result in the need to dispose of investments after their value has suffered a material decline as a result of previously unreported, or inadequately reported, adverse circumstances. Custodial, settlement and clearing services in many Emerging Market countries are also not as highly developed as those that exist in more developed countries and the banking institutions that fulfil custodial roles are not subject to as high a degree of supervision, or supervision by as highly trained personnel, as are their counterparts in non-emerging market countries. Although the Finisseries Managers intend to restrict investments in Emerging Market countries to securities for which they believe adequate custodial, settlement and clearing services are available, there can be no assurance that these services will prove adequate to protect the interests of the client.

#### *Short Selling*

The client's investment portfolio may include short positions. Short selling involves selling securities that may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from a decline in the price of a particular security. A short sale creates the risk of an unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the client of buying those securities to cover the short position. There can be no assurance that the security necessary to cover the short position will be available for purchase. Purchasing securities to close out a short position can itself cause the price of the relevant securities to rise further, thereby exacerbating the loss. In addition, if a sufficient number of market participants have entered into a short position, the short position may not react in the same way as a security would with no or limited short interest. In the case of a market downturn the short position may therefore not provide the investment return that the Firm expected.

There is also a risk that the securities borrowed in connection with a short sale must be returned to the lender of such securities on short notice. If a request for the return of borrowed securities occurs at a time when other short sellers of the securities are receiving similar requests, a short squeeze can occur, and it may be necessary to replace borrowed securities previously sold short with purchases on the open market at a disadvantageous time, possibly at prices significantly in excess of the proceeds received from originally selling the securities short.

#### *Use of Borrowings and Leverage*

The client uses leverage for a variety of purposes, including in order to provide flexibility to take advantage of opportunities to enhance returns while seeking to maintain optimal capital levels, and may also borrow to cover operating expenses and make redemption or distribution payments or for clearance of transactions. The use of leverage may not only lead to enhanced returns, but also may lead to enhanced risks. The interest expense and other costs incurred in connection with such borrowing may not be recovered by appreciation in the investments purchased or carried. Gains realised with borrowed funds may cause the net asset value to increase at a faster rate than would be the case without borrowings. If, however, investment results fail to cover the cost of borrowings, the net asset value could also decrease faster than if there had been no borrowings. In addition, unanticipated increases in applicable margin requirements could adversely affect the liquidity of the client and therefore adversely affect the client's performance. Leverage will increase the loss to investors of any depreciation in the value of investments thus a relatively small price movement in a leveraged instrument may result in a substantial loss.

#### *Undervalued/Overvalued Securities*

One of the key objectives of the client will be to identify and invest in undervalued and overvalued securities ("**misvalued securities**"). The identification of investment opportunities in misvalued securities is a difficult task, and there can be no assurance that such opportunities will be successfully recognised. While purchases of undervalued securities and short sales of overvalued securities offer opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from the client's investments may not adequately compensate for the business and financial risks assumed.

#### *Hedging Transactions*

The clients may utilise a variety of financial instruments, both for investment purposes and for risk management purposes in order to: (i) protect against possible changes in the market value of the client's investment portfolio resulting from fluctuations in the price of securities and changes in interest rates; (ii) protect the client's unrealised gains in the value of the client's investment portfolio; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads or gains on any investment in the client's portfolio; (v) hedge the interest rate or currency exchange rate on any of the client's liabilities or assets; (vi) protect against any increase in the price of any securities the client anticipates purchasing at a later date; or (vii) for any other reason that the Finisterre Managers deems appropriate. A substantial risk remains, nonetheless, that such techniques will not always be possible to implement and when possible will not always be effective in limiting losses.

Hedging also involves special risks, including the possible default by the other party to the transaction, illiquidity and, to the extent the Finisterre Managers assessment of certain market movements is incorrect, the risk that the use of hedging could result in losses greater than if hedging had not been used. The client will be subject to the risk of the failure or default of any counterparty to the client's transactions. If there is a failure or default by the counterparty to such a transaction, the client will have contractual remedies pursuant to the agreements related to the transaction (which may or may not be meaningful depending on the financial position of the defaulting counterparty).

#### *Investment Management Risk*

The investment performance of the client is substantially dependent on the services of certain individuals involved in the Finisterre Managers' business. In the event of the death, incapacity, departure, insolvency or withdrawal of any of these individuals, or the dissolution, bankruptcy or liquidation of the Finisterre Managers, the performance of the client may be adversely affected. Investors must rely on the judgment of the Finisterre Managers.

#### ***Risks associated with types of securities***

##### *Contingent Liability Transactions*

Contingent liability transactions, which are margined, require the client to make a series of payments against the purchase price, instead of paying the whole purchase price immediately.

If the client trades in futures and forwards, options, contracts for difference, swaps or repurchase transactions, it may sustain a total loss of the margin deposited to establish or maintain a position. If the market moves against the client, it may be called upon to pay substantial additional margin at short notice to maintain the position. If the client fails to do so within the time required, its position may be liquidated at a loss and the client will be responsible for the resulting deficit. Even if a transaction is not margined, it may still carry an obligation to make further payments in certain circumstances over and above any amount paid when the client entered the contract.

##### *Contracts for Difference*

The client may invest in contracts for difference. A contract for difference is a contract intended to replicate the rise or fall in the underlying value or price of property of any description or in an index or other factor designated for that purpose in the contract. Contracts for difference can be futures on an

index, currency and interest rate swaps or individual equities. However, unlike other futures and options, these contracts can only be settled in cash. Investing in a contract for difference often carries the same risks as investing in a futures contract or option. Transactions in contracts for differences may also have a contingent liability and an investor should be aware of the implications of this as set out above.

#### *Credit Default Swaps*

The client may take long and short positions in credit default swaps. A credit default swap is a type of credit derivative which allows one party (the “**protection buyer**”) to transfer credit risk of a reference entity (the “**reference entity**”) to one or more other parties (the “**protection seller**”). The protection buyer pays a periodic fee to the protection seller in return for protection against the occurrence of a number of events (each a “credit event”) which may be experienced by the reference entity. Credit default swaps carry specific risks including, but not limited to, high levels of leverage, the possibility that premiums are paid for credit default swaps which expire worthless, wide bid/offer spreads and documentation risks. In addition, there can be no assurance that the counterparty to a credit default swap will be able to fulfil its obligations to the client if a credit event occurs in respect of the reference entity. Further, the counterparty to a credit default swap may seek to avoid payment following an alleged credit event by claiming that there is a lack of clarity in, or an alternative meaning of, language used in the contract, most notably the language specifying what would amount to a credit event.

#### *Credit Risk*

The issuers of debt securities may default on their obligations, whether due to insolvency, bankruptcy, fraud or other causes and their failure to make the scheduled payments could cause the client to suffer significant losses. The client will therefore be subject to credit risks. Also, the market for debt securities may be inefficient and illiquid, making it difficult to accurately value financial instruments.

#### *Currency Risk*

Investments acquired by the client are in a range of currencies including those applicable to Emerging Markets and the clients may also actively trade foreign exchange instruments. The currency risk associated with these activities may be substantial and could result in significant losses to the client. Although the Finisterre Managers will seek to profit from the client's foreign exchange positions, there is no assurance that this can be performed effectively.

Many Emerging Markets have underdeveloped capital market structures where the risks associated with holding currency are significantly greater than in other more developed markets. Currency exchange rates are highly volatile and subject to severe event risks, as the political situation with regard to the relevant foreign government may itself be volatile. It should also be noted that, in highly volatile markets, predictions of correlation based on historical data can diverge dramatically from observed market moves.

#### *Debt Securities*

The client may invest in debt securities which may be unrated by a recognised credit-rating agency or below investment grade and which are subject to greater risk of loss of principal and interest than higher-rated debt securities. Because investors generally perceive that there are greater risks associated with unrated and below investment grade securities, the yields and prices of such securities may fluctuate more than those for higher-rated securities. The market for non-investment grade securities may be smaller and less active than that for higher-rated securities, which may adversely affect the prices at which these securities can be sold and result in losses to the client. The client may invest in debt securities which rank junior to other outstanding securities and obligations of the issuer, all or a significant portion of which may be secured on substantially all of that issuer's assets. The client may invest in debt securities which are not protected by financial covenants or limitations on additional indebtedness. Also, the market for credit spreads is often inefficient and illiquid, making it difficult to accurately calculate discounting spreads for valuing financial instruments.

#### *Derivatives*

The clients utilise both exchange-traded and OTC derivatives, including, but not limited to, futures, forwards, swaps, options and contracts for difference, as part of its investment approach. These

instruments can be highly volatile and expose investors to a high risk of loss. Furthermore, trading in derivatives is a highly specialised activity and it may give rise to additional operational risks. The low initial margin deposits normally required to establish a position in such instruments permit a high degree of leverage. As a result, depending on the type of instrument, a relatively small movement in the price of a contract may result in a profit or a loss which is high in proportion to the amount of funds actually placed as initial margin and may result in unquantifiable further loss exceeding any margin deposited. In addition, daily limits on price fluctuations and speculative position limits on exchanges may prevent prompt liquidation of positions resulting in potentially greater losses. Further when used for hedging purposes there may be an imperfect correlation between these instruments and the investments or market sectors being hedged. Transactions in OTC contracts may involve additional risk as there is no exchange market on which to close out an open position. It may be impossible to liquidate an existing position, to assess the value of a position or to assess the exposure to risk. Contractual asymmetries and inefficiencies can also increase risk, such as break clauses, whereby a counterparty can terminate a transaction on the basis of a certain reduction in net asset value, incorrect collateral calls or delays in collateral recovery. The client may also sell covered and uncovered options on securities and other assets. To the extent that such options are uncovered, the client could incur an unlimited loss.

#### *Equity and Equity-linked Securities*

The clients may engage in trading equity and equity-linked securities (including equity-based derivatives), the values of which vary with an issuer's performance and movements in the broader equity markets. Numerous economic factors, as well as market sentiment, political and other factors, influence the value of equities.

A number of the equity-like financial instruments in which the client may trade are referenced to underlying equities but incorporate other components - duration, strike price, premiums, etc. - which may result in the client's positions being unprofitable even though the Finisterre Managers may have correctly assessed the market value of the underlying equity.

Market prices of equity securities as a group have dropped dramatically in a short period of time on several occasions in the past, and they may do so again in the future. In addition, actual and perceived accounting irregularities may cause dramatic price declines in the equity securities of companies reporting such irregularities or which are the subject of rumours of accounting irregularities. These factors may adversely affect the client.

Common stock and similar equity securities generally represent the most junior position in an issuer's capital structure and, as such, generally entitle holders to an interest in the assets of the issuer, if any, remaining after all more senior claims to such assets have been satisfied. Holders of common stock generally are entitled to dividends only if and to the extent declared by the governing body of the issuer out of income or other assets available after making interest, dividend and any other required payments on more senior securities of the issuer. Moreover, in the event of insolvency or winding-up of a company in which the client is invested, the claims of ordinary shareholders rank behind all other claims. Resulting losses to the client could have a material adverse effect on the performance of the client and returns to shareholders.

#### *Forward Foreign Exchange Contracts*

The clients may enter into forward foreign exchange contracts. A forward foreign exchange contract is a contractually binding obligation to purchase or sell a particular currency at a specified date in the future. Forward foreign exchange contracts are not uniform as to the quantity or time at which a currency is to be delivered and are not traded on exchanges. Rather, they are individually negotiated transactions.

There is no limitation as to daily price movements on this market and none of the client's counterparties will be required to make or continue to make a market in any forward foreign exchange contracts. Transactions in forward foreign exchange contracts are not regulated by any regulatory authority nor are they guaranteed by an exchange or clearing house. A counterparty default would eliminate any profit potential and compel the client to cover its commitments for resale or repurchase, if any, at the then

current market price. These events could result in significant losses.

#### *Futures Contracts*

The clients may engage in futures trading. Transactions in futures involve the obligation to make, or to take, delivery of the underlying asset of the contract at a future date, or to settle the position with cash. They carry a high degree of risk. The low margins normally required in futures trading permit a very high degree of leverage. As a result, a relatively small movement in the price of a futures contract may result in a profit or loss which is high in proportion to the amount of funds actually placed as margin and may result in unquantifiable further loss exceeding any margin deposited.

Futures trading in many contracts on futures exchanges (although generally not in currencies) is subject to daily price fluctuation restrictions, commonly referred to as “daily limits”, which prohibit the execution of futures trades on any given day outside a prescribed price range based on the previous day’s closing prices. Daily limits do not limit ultimate losses but may make it costly or impossible for the Firm to liquidate a futures position against which the market is moving. A series of “limit moves”, in which the market price moves the “daily limit” with little or no trading taking place, could subject the client to major losses.

The “gearing” or “leverage” often obtainable in futures trading means that a small deposit or down payment can lead to large losses as well as gains. It also means that a relatively small movement in the value of an underlying asset can lead to a proportionately much larger movement in the value of the client’s investment, and this can work against the client as well as for it. Futures transactions have a contingent liability, and the implications of this, in particular the margining requirements, described above under “Contingent Liability Transactions”.

#### *Illiquid Securities*

In some circumstances, investments may be relatively illiquid making it difficult or impossible to acquire or dispose of them at the prices quoted on the various exchanges or at the prices which the Firm considers reflects their value. Accordingly, the client’s ability to respond to market movements may be impaired and the client may experience adverse price movements upon liquidation of its investments. Settlement of transactions may be subject to delay and administrative uncertainties. The market prices, if any, for such investments tend to be volatile and may not be readily ascertainable and the client may not be able to sell them when it desires to do so or to realise what it perceives to be their fair value in the event of a sale. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the OTC markets. The client may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale.

#### *Interest Rate Risk*

The client is subject to interest rate risk. Generally, the value of fixed income securities will change inversely with changes in interest rates. As interest rates rise, the market value of fixed income securities tends to decrease. Conversely, as interest rates fall, the market value of fixed income securities tends to increase. This risk will be greater for long-term securities than for short-term securities. The client may attempt to minimize the exposure of the portfolios to interest rate changes through the use of interest rate swaps, interest rate futures and/or interest rate options. However, there can be no guarantee that the Finisterre Managers will be successful in fully mitigating the impact of interest rate changes on the portfolio.

#### *Options*

The seller (writer) of an option has the obligation to make, or to take, delivery of the underlying asset of the contract at a future date, or in some cases to settle the position with cash. The buyer of an option has the right (but not the obligation) to exercise the option, thereby making or taking delivery of the underlying asset of the contract at a future date, or in some cases settling the position with cash. Options carry a high degree of risk. The “gearing” or “leverage” often obtainable in options trading means that a small deposit

or down payment can lead to large losses as well as gains. It also means that a relatively small movement can lead to a proportionately much larger movement in the value of the client's investment, and this can work against the client as well as for it. Options transactions have a contingent liability, and the implications of this, in particular the margining requirements, described above under "Contingent Liability Transactions".

#### *Sovereign Debt*

The client may invest directly and indirectly through derivative instruments (including swaps and credit default swap indices) in sovereign debt instruments. The issuers of sovereign debt or the governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or interest when due, and the client may have limited recourse in the event of a default. A sovereign debtor's willingness or ability to repay principal and pay interest in a timely manner may be affected by, among other factors, its cash flow situation, the extent of its foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the sovereign debtor's policy toward international lenders and the political constraints to which a sovereign debtor may be subject. Furthermore, such entities may be entitled to claim sovereign immunity from any claims made against them should they default on any of their obligations under such loans. This may hinder, or prevent entirely, the recovery of any loss suffered as a result of such default.

#### *Sovereign Risk*

Government interference with international transactions in its currency or the debt obligations of itself or its nationals through various means, including, without limitation, regulation of the local exchange market, restrictions on foreign investment by residents, limits on flows of investment funds from abroad and debt moratoria, may expose the client to unanticipated losses.



**ITEM 9 DISCIPLINARY INFORMATION**

The Firm and its supervised persons have not been involved in any legal or disciplinary events that are material to a client's or potential client's evaluation of its advisory business or the integrity of the Firm's management.

## ITEM 10 OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Neither the Firm nor any of its management persons is registered, or has an application pending to register, as a broker-dealer, registered representative of a broker-dealer, or a futures commission merchant (“FCM”).

The Firm acts as the manager to the Private Funds, and the UCITS Fund. The Firm delegates the core of the day to day portfolio management to the Investment Managers. Certain Private Funds are structured to have a feeder fund which is a Delaware limited partnership (the “**Delaware Partnerships**”). The Firm acts as general partner to the Delaware Partnerships.

Finisterre Capital LLP is registered as a commodity pool operator and commodity trading advisor with the Commodity Futures Trading Commission. In connection with Finisterre Capital LLP’s registration, certain employees and related persons of Finisterre Capital LLP are registered as associated persons and/or principals.

The Finisterre Managers do not have any arrangements in which they are compensated for recommending or selecting other investment advisers for its clients, nor do they have any other business relationship with an investment adviser that would create a material conflict of interest with respect to their clients.

Finisterre Capital LLP currently has a marketing arrangement with PGI under which PGI and its affiliates solicit investors for the Firm’s clients in return for a percentage of client fees subsequently earned by the Firm on such business. The agreement is global.

Frode Foss-Skiftesvik is a director of the Firm which acts as general partner to the Delaware Partnerships, a director and responsible officer of Finisterre Hong Kong Limited and a member of Finisterre Capital LLP.

Yan Swiderski is a member of Finisterre Capital LLP and a director of certain clients who are domiciled in the Cayman Islands.

## **ITEM 11 CODE OF ETHICS, PARTICIPATION OR INTERESTS IN CLIENT TRANSACTIONS, AND PERSONAL TRADING**

### **Code of Ethics**

The Firm has adopted a Code of Ethics (the “**Code**”) that obligates the Firm and the members of its staff to put the interests of the Firm’s clients before their own interests and to act honestly and fairly in all respects in their dealings with clients. All of the Firm’s staff members are also required to comply with applicable U.S. securities laws.

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

The Firm is firmly committed to making its employees and investors (both current and prospective) aware of the requirements within our Code. All of the Firm’s employees are provided with a copy of the Code at the time of hire and annually thereafter, and each employee must affirm that they have received a copy of the Code, and that they have read and understand its provisions. Additionally, the Chief Compliance Officer conducts periodic compliance training that addresses the requirements of the Code and the other policies described in this Item.

The Chief Compliance Officer will provide a copy of its Code to any client or prospective client upon request and without charge. To receive a copy of the Code please contact our Chief Compliance Officer, Ursula Newman, on +44 (0) 203 206 6927 .

### **Participation or Interests in Client Transactions**

The Firm acts as a general partner as well as an investment advisor to certain Private Funds for which they solicit investments. Where appropriate, recommendations may be made to clients to invest in other clients to whom the Firm serves as investment manager. These practices create a conflict of interest because the Firm has an incentive to recommend its products to clients based on its own financial interests, rather than solely the interests of a client.

Investors are required to complete subscription documents, which determine not only if they are eligible to invest in such funds under the various securities law, but also whether the decision to do so was made on an independent basis. To the extent a client pays fees on an account a portion of which it then invests in another Firm client, the Firm will waive any overlapping fees.

### **Personal Trading**

The Finisterre Group, including its staff members, may invest in the same securities (or related securities, e.g., warrants, options or futures) that the Finisterre Managers recommend to clients. Such practices present a conflict where, the Finisterre Group, including staff members, are in a position to trade in a manner that could adversely affect clients (e.g. place their own trades before or after client trades are

executed in order to benefit from any price movements due to the clients' trades). In addition to affecting the Finisterre Group's objectivity, these practices by the Finisterre Group may also harm clients by adversely affecting the price at which the clients' trades are executed.

The Firm's Personal Account Dealing policy, which forms part of the Code and the terms of an employee contract, has been adopted in an effort to minimize such conflicts. The Firm requires each officer and employee of the Firm to report quarterly and annually their' and their spouse's and dependent's securities holdings and transactions to the Chief Compliance Officer. Except for investments held by staff members at the time they join the Firm, staff members are restricted from investing in emerging markets listed equities or equities listed on a non-emerging markets exchange with operations primarily in emerging markets; and fixed-income securities where the issuer is located in emerging markets or has substantially all of its operations located in emerging markets. Minimum holding periods are also in place for other investments. Trading in employee accounts will be reviewed by the Chief Compliance Officer.

## ITEM 12 BROKERAGE PRACTICES

### Selection of Broker-Dealers

The Firm delegates the core of its day to day portfolio management services to the Investment Managers who in turn select broker-dealers in accordance with joint internal policies and procedures adopted by the Firm and the Investment Managers which have been approved by the client. A number of factors are considered by the relevant Finisterre Managers in selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation. Such factors include price, the broker-dealer's relevant expertise related to specific instruments traded, speed of execution, transaction costs including fees and commissions, likelihood of execution and settlement, size of the trade, nature of the trade, market impact and other considerations relevant to the trade.

The Chief Compliance Officer and Chief Investment Officer meet periodically to evaluate the broker-dealers used to execute client trades.

### Soft-Dollars Arrangement

As the core day to day portfolio management is delegated to the Investment Managers the Firm is not involved on a day to day basis with the selection of brokers. However the Firm has adopted joint policies and procedures with the Investment Managers that state that where commissions can appropriately, without client disadvantage, be avoided altogether dealing should be undertaken on that basis. Where commission is payable the broker with the lowest rate will be selected unless the cost of a transaction is not the highest priority. Where there is a direct choice of broker with other factors being equal the lower commission broker will be employed. By an appropriate balance of these factors it is believed that the best overall execution in terms of both execution and price will be achieved.

Where equity transactions are undertaken, research or other products or services may also be received in addition to execution from a broker-dealer in connection with client securities transactions. This is known as a "soft dollar" relationship. The use of "soft dollars" to obtain research and brokerage services to services of a type that would qualify as research and brokerage within the meaning of Section 28(e) of the Securities Exchange Act of 1934 ("**Section 28(e)**") will be limited although, the arrangements through which these services are received may not be within the safe harbor afforded by Section 28(e) due to the market mechanism or the market intermediary compensation involved in the transaction. Even when investment transactions for clients are outside the Section 28(e) safe harbor, the commissions paid will be used for the acquisition of Section 28(e) types of research and brokerage. Research services within Section 28(e) may include, but are not limited to, research reports (including market research), discussions with research analysts and research advisory services.

The use of client commissions (or markups or markdowns) to obtain research and brokerage products and services raises conflicts of interest. For example, the Finisterre Managers will not have to pay for the products and services itself. This creates an incentive to select or recommend a broker-dealer based on interest in receiving those products and services.

Clients may have to pay commissions (or markups or markdowns) higher than those charged by other broker-dealers in return for soft dollar benefits (known as paying-up), resulting in higher transaction costs for clients.

When client commissions are used to obtain Section 28(e) eligible research and brokerage products and services, the Chief Compliance Officer will ensure the soft dollar practices are periodically reviewed and evaluated, and are determined in good faith whether, with respect to any research or other products or services received from a broker-dealer, the commissions used to obtain those products and services were reasonable in relation to the value of the brokerage, research or other products or services provided by the broker-dealer. This determination will be viewed in terms of either the specific transaction or the overall responsibilities to the accounts or portfolios over which the Investment Managers exercises investment

discretion. At all times the relevant Finisterre Managers will endeavor to negotiate low commission rates.

Research and brokerage services obtained by the use of commissions arising from a client's portfolio transactions may be used by the Finisterre Managers in its other investment activities, including, for the benefit of other client accounts. The Finisterre Managers do not seek to specifically allocate the benefit derived from research or brokerage services acquired through soft dollars to client accounts proportionately to the soft dollar credits the clients generate. However, the Finisterre Managers would only earn soft dollars from equity transactions and the benefits are provided directly to the relevant portfolio managers who undertake equity transactions which ensures that clients who incur potentially higher brokerage costs benefit from the services received.

Finisterre Managers may also receive proprietary research and brokerage services, within the meaning of Section 28(e) of the Securities Exchange Act, from certain broker-dealers that execute trades for clients. Proprietary research generally includes access to company executives, conferences, analysis, forecasts, and in-house research. This type of research does not have an identifiable value and is provided based on Finisterre Managers total client trading activity or by simply opening an account. The Firm does not view such services and research as soft-dollar arrangements.

#### **Brokerage for Client Referrals**

Receipt of client referrals from a broker-dealer is not considered when selecting a broker dealer.

#### **Directed Brokerage**

The Finisterre Managers do not accept clients who require it to execute transactions through a specified broker-dealer. Clients however may recommend use of their preferred broker-dealer subject to the determination that the said broker-dealer provides most favorable execution of client transactions.

#### **Prime Brokerage**

Each Private Client has one or more prime brokers through which services are provided that may include custody, trade clearance and financing. Prime brokers may also provide research, reporting and analysis tools as part of their services. In addition, a prime broker may host conferences and events through which the fund may identify potential investors.

#### **Step-Outs**

Investment Managers may use "step-out trades" when determining that it may facilitate better execution for certain client trades. Step-out trades are transactions which are placed at one broker-dealer and then "given up" or "stepped out" by that broker-dealer to another broker-dealer. Step-out trades may benefit the client by finding a natural buyer or seller of a particular security so that a larger block of shares can be traded more efficiently. Unless directed otherwise by the client, Finisterre Managers may use step-out trades for any client account.

#### **Aggregation (Bunching) of Trades**

Please refer to Item 6 of this Firm Brochure for a discussion of the Firm's procedures regarding aggregation.

## **ITEM 13 REVIEW OF CLIENT ACCOUNTS**

### **Client Account Reviews**

All the Firm's clients are monitored by their assigned portfolio manager(s). Each client's holdings, performance, market value and cash are updated each business day. Risk reporting is undertaken on at least twice daily at a minimum, which incorporates monitoring the client's account for compliance with investment limits. The relevant portfolio manager and the Chief Investment Officer (or where applicable senior management) review and sign off on the daily risk reporting.

### **Client Reports**

With respect to the Private Funds, investors receive monthly written newsletters from Finisterre Capital LLP and monthly statements from the client's administrator. In addition, investors in the Private Funds receive audited financial statements for each Private Fund in which they are invested in as soon as practicable after each financial year end. Investors in the Private Funds may also receive additional reports from Finisterre Managers pursuant to the terms of the Private Fund's offering memoranda.

#### **ITEM 14 CLIENT REFERRALS AND OTHER COMPENSATION**

The Firm compensates third parties for referrals whereby the third party introduces potential investors to invest in the Private Funds. Before making payments for any referral, the Firm requires each third party to enter into a written referral agreement with the Firm (or its related persons where applicable). The fee paid to the third party is typically a percentage of the fee received by the Firm from the client in respect of the investment introduced by the third party.

In addition to agreements in place with third parties, Finisterre Capital LLP currently has a marketing arrangement with PGI under which PGI and its affiliates solicit business on behalf of the clients in return for a percentage of client fees subsequently earned by the Firm on such business. The agreement is global.



#### ITEM 15 CUSTODY OF CLIENTS CASH & SECURITIES

The Firm is deemed to have custody of client assets due to serving as the general partner to U.S. limited partnerships and intends to comply with Rule 206(4)-2 under the Advisers Act (the "**Custody Rule**") by meeting the conditions of the pooled vehicle annual audit provision.

## **ITEM 16 INVESTMENT DISCRETION**

As previously stated in Item 4, the Firm delegates the core day to day portfolio management to the Investment Managers and retains the risk management function. The Firm has delegated oversight of the portfolio management to an IC. The Finisterre Managers only provide such services to a client if they have signed a written management agreement or other document showing the client's grant of discretion or other authority for its account. The discretionary authority generally allows the Investment Managers to select, and to determine the quantity of securities or financial instruments to be bought or sold for the client account.

The Finisterre Managers work together in order to adhere to the investment policies, limitations and restrictions of the account in exercising discretionary authority to make decisions for the client account. Because of the differences in, amongst others, client investment objectives and strategies, risk tolerances and other criteria, there will be differences among clients in invested positions and securities held. Further details on the investment strategies are set out in Item 8 and further information regarding the Firm's Trade Allocation Policy is set out in Item 6.

If it appears that a trade error has occurred, the relevant Finisterre Manager will review the relevant facts and circumstances to determine an appropriate course of action in accordance with the Finisterre Managers' Trade Error Policy. To the extent that trade errors and breaches of investment guidelines and restrictions occur, the objective of the error correction procedure is to ensure that clients are treated fairly. The Finisterre Managers have the discretion to resolve a particular error in any appropriate manner that is consistent with the above stated policy.

Investment Managers may effect cross transactions between clients as part of their investment management discretion. Cross transactions between clients are not permitted if they would constitute principal trades (save for the purposes of routine rebalancing transactions) or trades for which the Firm or its affiliates are compensated as a broker. All cross transactions will be conducted in accordance with applicable law, including the Investment Company Act of 1940.

## **ITEM 17 VOTING CLIENT SECURITIES**

The Firm has adopted proxy voting policies and procedures that are designed to ensure that in cases where the Firm votes proxies with respect to client securities, such proxies are voted in the best interests of its clients. In fulfilling its obligations to advisory clients, the Firm seeks to act in a manner that will enhance the economic value of the underlying securities held by each advisory client. As the Firm delegates the core day to day portfolio management to the Investment Managers it is not anticipated that any such proxy voting will be undertaken by the Firm.

In voting proxies, the Investment Managers will utilize the services of a third-party proxy voting service and also receives recommendations from another third party regarding recommendations as to how any proxy should be voted in the best interest of a client. The Investment Managers generally vote in accordance with such recommendations but may not follow such recommendation if they determine that it is not in the best interest of a client.

Investors in the Private Funds are not permitted to direct their votes in a particular solicitation. If a material conflict of interest between the Firm and a client exists with respect to voting proxies, the Investment Manager will determine whether voting in accordance with the guidelines set forth in its proxy voting policies and procedures is in the best interests of the client.

Clients may obtain a copy of the Firm's proxy voting policies and procedures and information about how the Firm voted a client's proxies by contacting the Chief Compliance Officer, Ursula Newman, on +44 (0) 203 206 6927.

**ITEM 18 FINANCIAL INFORMATION OF THE ADVISER**

As the Firm does not require or solicit prepayment of more than \$1,200 in fees per client more than 6 months or more in advance, this item is not applicable.