

**March 30, 2015**  
**Form ADV Part 2A**

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**This brochure provides information about the qualifications and business practices of The Baupost Group, L.L.C. If you have any questions about the contents of this brochure, please contact us at 617-210-8300. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

**Additional information about The Baupost Group, L.L.C. also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Registration as a registered investment adviser pursuant to the Investment Advisers Act of 1940, as amended (the “Advisers Act”) does not imply a certain level of skill or training.**

**Item 2.       Material Changes**

There have been no material changes since the last published Form ADV Part 2A dated March 28, 2014.

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#### **Item 4. Advisory Business**

The Baupost Group, L.L.C. (“Baupost”) was formed in May 1982 (originally as The Baupost Group, Inc.). Baupost’s President, Chief Executive Officer and principal owner, Seth A. Klarman, serves as Portfolio Manager and has been managing the investments of Baupost since the company’s inception. Baupost manages twelve investment limited partnerships (each, a “Partnership,” collectively, the “Baupost Partnerships”). All of the Baupost Partnerships are privately offered investment vehicles exempt from registration as investment companies under the Investment Company Act of 1940, as amended (the “1940 Act”). Baupost serves as the managing general partner of each of the Baupost Partnerships, while Baupost Partners, L.L.C. (“Baupost Partners”), a Massachusetts limited liability company and an affiliate of Baupost, serves as profit sharing general partner to some of the Baupost Partnerships (together with Baupost, the “General Partners”). Baupost has no ownership interest in Baupost Partners, but certain members and employees of Baupost are members of Baupost Partners.

As managing general partner of each Baupost Partnership, Baupost is solely responsible for the management and administration of such Baupost Partnerships, including the making of all investment decisions on behalf of such Baupost Partnerships and the placing of all orders for the purchase and sale of investments. Baupost Partners has no responsibility for the management or administration of, and does not exercise any investment discretion with respect to, the Baupost Partnerships.

Baupost manages each Baupost Partnership consistently with the stated investment strategy of such Baupost Partnership as described in such Baupost Partnership’s offering documents. Eleven of the Baupost Partnerships, one of which is an overflow vehicle (the “Overflow Partnership”), invest in a wide range of public and private securities and assets (collectively, the “Primary Partnerships”). One Partnership invests primarily in municipal fixed-income securities (the “Municipal Partnership”). Baupost does not provide specifically tailored investment advice to investors.

Contributions and withdrawals from the Baupost Partnerships are subject to the terms and conditions set forth in the respective limited partnership agreements (“LP Agreements”) of the Baupost Partnerships in which investors are invested. Investors are admitted to the Baupost Partnerships at the discretion of Baupost, and contributions by investors to the Baupost Partnerships are accepted solely at the discretion of Baupost.

As of December 31, 2014, Baupost’s regulatory assets under management were approximately \$31,729,447,020, all of which are managed on a discretionary basis.

#### **Item 5. Fees and Compensation**

As compensation for its advisory services, Baupost receives management fees from each of the Primary Partnerships, which are generally required to be paid in advance at the beginning of each

quarter. For the Municipal Partnership, Baupost is allocated for each calendar quarter an amount not greater than 6% of net periodic income as of the end of the last business day of such quarter, as defined in the LP Agreement. For the fee schedule related to Partnerships excluded from the definition of “investment company” pursuant to Section 3(c)(1) of the 1940 Act, please see Appendix A.

In addition, the General Partner(s) are eligible to receive performance-based compensation from the Primary Partnerships. Investors in the Primary Partnerships are subject to a profit sharing obligation, pursuant to which a certain portion of eligible profits initially allocated to each investor is reallocated to the General Partner(s) as of the last business day of each fiscal period, which period is generally a year for the Primary Partnerships (except that it may be a shorter period in the event of a withdrawal of an investor as described below). Under the profit sharing obligation, a portion of the profits from the capital accounts of each relevant investor is allocated to the capital account of the General Partner(s) based on overall profits and losses to the relevant Partnership and subject to the limitations set forth in each applicable LP Agreement. If an investor withdraws money during the year, a proportionate amount of the profit sharing obligation of the investor will be reallocated from the capital account of the investor to the capital account of the General Partner(s). The profit sharing obligation of each relevant investor is no greater than 20% of eligible profits, as described in detail in each Partnership’s respective LP Agreement.

Management fees and profit sharing obligations are deducted from the Baupost Partnerships’ reported net asset values. Investors in the Baupost Partnerships have capital accounts which are increased by contributions and by allocations of income and are reduced by distributions, allocations of losses, management fees and any reallocations of profit sharing obligation from such accounts. Management fees and profit sharing obligations are non-negotiable and non-refundable; however, Baupost may, in its sole discretion, waive these fees for certain investors in whole or in part.

In addition to the fees disclosed above and pursuant to the LP Agreement of each Partnership, an investor also bears its allocable share of a Partnership’s expenses, which may include but are not limited to (i) custody, audit, insurance, and tax prep expenses, (ii) legal expenses related to a specific investment, a potential investment opportunity, area of investment, or legal work related to partnership amendments, (iii) expenses related to sourcing investments (including “dead deals”), investment due diligence or to the ongoing maintenance of investments (e.g., brokerage commissions, travel expenses (if permitted under the applicable LP Agreement), consulting and other relevant professional or service provider expenses, translation expenses), (iv) pricing and investment valuation services, and (v) other expenses associated with the operation of the Baupost Partnerships. In connection with certain private investments, the Baupost Partnerships will bear the management or other fees charged by operating partners engaged by Baupost to manage those investments. The Baupost Partnerships may also, in certain limited instances, bear an operating partner’s operational expenses. Additionally, the Baupost Partnerships will incur brokerage and

other transactions costs when a broker-dealer is used in connection with an investment. For additional information regarding brokerage practices, please see Item 12 below.

Further, the Baupost Partnerships may invest in other pooled investment vehicles, including unaffiliated investment companies, partnerships or other investment vehicles. When a Baupost Partnership invests in other pooled investment vehicles, investors may pay multiple levels of management and performance fees (the fees of Baupost and its affiliates on the one hand, and the fees and expenses of the other pooled investment vehicles on the other). To the extent Baupost is aware that a pooled investment vehicle in which a Baupost Partnership has invested may make an investment that could result in multiple fees, Baupost will attempt to value the merits of such an investment (as with other investments with multiple fees) based on the after-fee returns to the Baupost Partnership.

#### **Item 6. Performance-Based Fees and Side-By-Side Management**

As described in Item 5 (“Fees and Compensation”), the General Partner(s) are eligible to receive performance-based compensation from each Baupost Partnership. However, Baupost recognizes that managing partnerships with differing terms relating to performance-based fees may present potential conflicts of interest, including that Baupost may have an incentive to favor one Partnership over another. To mitigate these conflicts, Baupost’s policies and procedures seek to provide that investment personnel make decisions based on the best interests of the Baupost Partnerships, without consideration of Baupost’s pecuniary interests. Baupost has adopted a Trade Allocation Policy that seeks to allocate investments to the Baupost Partnerships in a fair and equitable manner.

#### **Item 7. Types of Clients**

Baupost’s clients are the Baupost Partnerships. Baupost manages two Partnerships exempt from registration under Section 3(c)(1) of the 1940 Act and ten Partnerships exempt from registration under Section 3(c)(7) of the 1940 Act. Investors, which may be high net worth individuals, corporations, charitable institutions, pension and profit sharing plans, trusts, individual retirement accounts and other entities, are admitted to the Baupost Partnerships at the discretion of Baupost. Baupost also allows certain of its employees to invest in certain Baupost Partnerships. Some (but not all) of the Baupost Partnerships impose a minimum initial investment requirement of up to \$25 million, which may be waived at the discretion of Baupost.

#### **Item 8. Methods of Analysis, Investment Strategies and Risk of Loss**

Baupost is an opportunistic, value-oriented, open mandate investment organization whose goal is to achieve good absolute returns on a long-term, risk-adjusted basis. The firm is an experienced investor in a wide range of securities and asset classes, including publicly-traded securities, real estate, and private equity holdings. Baupost strives to limit the risk of capital loss within Baupost’s

portfolios. However, as with any investing, there is a potential for loss that investors should be prepared to bear.

The objective of the Baupost Partnerships is to invest their capital in such a manner as to maximize their total risk-adjusted returns to the investors over an extended period of time. To achieve this objective the Baupost Partnerships seek to invest in assets which are undervalued relative to their market price. The Baupost Partnerships invest, either directly or indirectly, in securities and other assets that have some or all of the following characteristics: they are currently out of favor, but have good prospects; they sell at a significant discount to underlying economic value; they have catalysts in place for the realization of underlying value; they are highly complex; they are somewhat or highly illiquid and they sell at prices below what would reasonably be expected due to market imperfections and inefficiencies, including but not limited to temporary supply demand imbalances, information gaps, and selling pressures.

The Baupost Partnerships may directly subscribe for, purchase or otherwise acquire, and/or sell (including short sales) or otherwise dispose of equity securities of all types globally, including stock (including preferred and convertible stock as well as common stock of any type), warrants, options, swaps, and other secured and unsecured equity instruments, currency, futures, derivatives, commodities, contract rights of any kind, royalty interests and other instruments and rights of a financial character. The equity securities in which the Baupost Partnerships invest include securities which are listed or traded on domestic exchanges or other trading networks, as well as securities listed or traded on foreign exchanges and securities traded in foreign or domestic over-the-counter markets. The Baupost Partnerships may also invest in domestic and foreign fixed income securities including distressed debt, private or governmental securities of all types, mortgage and asset backed securities, structured products, loans and loan pools, securitized products, and trade claims.

The Baupost Partnerships may invest in a wide variety of real estate securities or directly in all types of real estate assets, most often with operating partners. The Baupost Partnerships' investments may also include interests in private equity, real estate and leveraged buy-out vehicles. These vehicles are typically organized as limited partnerships or limited liability companies, and are managed by third party asset managers that specialize in the particular class of assets under management. The Baupost Partnerships may provide loans to third party asset managers to fund capital commitments related to these investments. The total amount of these loans is de minimus.

At times a significant amount of the Baupost Partnerships' investments may be in "illiquid securities", which may include securities or other assets that are not freely tradeable or are otherwise illiquid due to, among other things, regulatory or contractual limitations, securities law restrictions or because an investment has been designated as restricted and is segregated from the remainder of the Partnership's other liquid assets in accordance with the terms of each Partnership's LP Agreement (commonly referred to as a side pocket). These investments may include, for example, interests in real estate, private equity investment vehicles, private

investments in public equity (PIPEs), trade claims, Rule 144A securities and other direct assets such as car loans, consumer loans, commodities or non-performing assets.

## **Investment Policies**

***Investment Selection.*** The Baupost Partnerships select investments according to many criteria, which may include the current price of the investment compared to the book value, estimated underlying economic value, current and projected future earnings, cash flow, dividend stream or interest coupon, as well as skills of management and future prospects of the business or asset. The Baupost Partnerships utilize several analytical techniques which include fundamental analysis, analysis of historical relationships, economic analysis, business cycle analysis, interest rate analysis and industry analysis to make their investment decisions.

***Control of Portfolio Investments.*** In general, the Baupost Partnerships' investments in private equity, real estate and leveraged buy-out vehicles are typically structured to include the right to approve major decisions with respect to the management actions of the third party asset manager.

When the Baupost Partnerships purchase securities directly, they generally do so for investment purposes and not for the purpose of influencing or controlling management of the issuer. However, the Baupost Partnerships may seek to influence or control management by investing in a potential takeover, leveraged buy-out or reorganization or by investing in other entities that were organized in order to purchase securities for the purpose of influencing or controlling management, if Baupost believes that the possible increase in the value of its investment will outweigh the risks and costs associated with the investment. The Baupost Partnerships may also seek to influence or control management by discussing formally or informally with management different operating strategies, proposing shareholder resolutions, engaging in a proxy contest, serving on a board of directors or serving on a creditors' committee established in connection with a company's insolvency.

***Cash Balances and Portfolio Turnover.*** The Baupost Partnerships hold any cash balances they may accumulate for investment, reinvestment or distribution to investors in short term debt securities, either taxable or, in whole or in part, tax exempt, in securities subject to repurchase agreements, in taxable or tax exempt money market mutual funds or in interest-bearing bank accounts. These cash balances are most typically held in securities issued by or backed by the government of the United States. Holding cash is not typically an asset allocation decision but rather is the result of not currently finding enough attractive investment opportunities viewed on a risk adjusted basis for the total capital base. The cash balances of the Baupost Partnerships (including cash equivalent amounts held in short-term debt securities, money market mutual funds or bank accounts) will vary from time to time as Baupost may deem advisable and may at any particular time amount to a significant portion of the assets of the Baupost Partnerships. Portfolio turnover is not a limiting factor with respect to investment decisions. High portfolio turnover involves correspondingly greater brokerage commissions and other transaction costs, which will



be borne by the Baupost Partnership. Baupost may also deem it advisable to hold no cash balances whatsoever from time to time.

## **Investment Risks**

The types of investments made by the Baupost Partnerships are subject to certain risks.

### Value Style Risk

Baupost adheres to a “value” investment philosophy. As a result, there is a risk that the securities markets may continue indefinitely to undervalue the investments in the Baupost Partnerships’ portfolios or that the investments may fail to appreciate, as anticipated by Baupost. This risk may be greater for small and medium-sized companies, which could be more vulnerable to adverse developments and are less liquid to trade.

The Baupost Partnerships frequently invest in securities, industries and asset classes that are out of favor or ignored by other investors. Investors incur the risk that such a contrarian strategy may not work and, to the extent that adverse economic and investment trends continue for a long time, that the Baupost Partnerships may not achieve their goals.

### Risks of Investing in Distressed Investments

The Baupost Partnerships may invest in distressed investments, which may or may not be publicly traded and which may involve a substantial degree of risk, including the risk that an issuer may default on scheduled interest and/or principal payments. In certain periods, there may be little or no liquidity in the markets for these securities or instruments. In addition, the prices of such securities or instruments may be subject to periods of abrupt and erratic market movements and above-average price volatility. It may be more difficult to value such securities and the spread between the bid and asked prices of such securities may be greater than normally expected. If Baupost’s evaluation of the risks and anticipated outcome of an investment in a distressed security should prove incorrect, the Baupost Partnerships may lose a substantial portion or all of their investment or they may be required to accept cash and/or securities with a value less than the Baupost Partnerships’ original investment.

### Risks of Investing in Illiquid Securities

The Baupost Partnerships have in the past and may purchase illiquid securities. Furthermore, the Baupost Partnerships may invest in liquid securities that later become illiquid and may remain illiquid for an uncertain or protracted duration. The number of potential purchasers and sellers, if any, for such securities is limited, and the ability of the Baupost Partnerships to sell such securities at their fair value may be limited.

The Baupost Partnerships may not be able to readily dispose of illiquid securities or may be contractually prohibited from disposing of such securities for a period of time. Accordingly, if the

Baupost Partnerships' portfolios become more heavily weighted towards illiquid securities and other illiquid investments, the Baupost Partnerships' ability to redeem limited partnership interests in cash will be limited, and the risk that the Baupost Partnerships will need to pay withdrawal requests in-kind will increase.

Securities that have not been registered under the Securities Act of 1933, as amended (the "1933 Act") are referred to as private placements or restricted securities and are purchased directly from the issuer or in the secondary market. Limitations on resale may have an adverse effect on the marketability of such securities. The Baupost Partnerships may have to register such restricted securities in order to dispose of them, resulting in additional expense and delay. For example, the Baupost Partnerships may purchase shares in private investments in public equity ("PIPEs"), which generally are not registered with the Securities and Exchange Commission until after a certain time period from the date the private sale is completed. This restricted period can last many months and the price of the security may fall during such restricted period. Until the public registration process is completed, PIPEs are restricted as to resale and the Baupost Partnerships cannot freely trade the securities. If the issuer is unable to obtain an effective resale registration statement for a PIPE, the PIPE will remain restricted under U.S. securities laws (subject to the availability of some other exemption) and the Baupost Partnerships may be unable to recover from the issuer an amount sufficient to compensate for the loss of liquidity of such security. There is no assurance that any restricted equity securities will be publicly registered, or that the registration will remain in effect.

In addition, the Baupost Partnerships may invest in private equity investments. Such securities are illiquid and difficult to price for a variety of reasons. Because those securities are rarely traded, even among institutional investors, a reliable arms-length price often is not available as a pricing benchmark. Furthermore, the value of illiquid securities of private companies depends heavily on the complex legal rights attached to the securities themselves that are difficult to evaluate.

#### Risks of Investing in Debt Securities

Fixed-income securities are subject to market and credit risk. Market risk relates to changes in a security's value as a result of changes in interest rates or interest rate spreads generally. Credit risk relates to the ability of the issuer to make payments of principal and interest.

Debt securities in which the Baupost Partnerships invest may or may not be rated by rating agencies such as Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Ratings Services ("S&P"), and, if rated, such rating may range from the very highest to the very lowest, currently C for Moody's and D for S&P. Securities rated below investment grade (below Baa if rated by Moody's and below BBB if rated by S&P) normally provide a yield or yield to maturity that is significantly higher than that of investment-grade issues, but are predominately speculative with respect to capacity to pay interest and repay principal. The lower-rated categories include debt securities that are in default and debt securities of issuers that are insolvent. The rating

assigned to a security by Moody's or S&P does not reflect an assessment of the volatility of the security's market value or the liquidity of an investment in the security.

The values of lower-rated securities (including unrated securities of comparable quality) generally fluctuate more than those of higher-rated securities, although they may be less sensitive to interest rate changes. In addition, the lower rating reflects a greater possibility that the financial condition of the issuer, or adverse changes in general economic conditions, or both, or an unanticipated rise in interest rates, may impair the ability of the issuer to make payments of principal and income. The inability (or perceived inability) of issuers to make timely payment of interest and principal would likely make the values of fixed-income securities held by the Baupost Partnerships more volatile and could limit the Baupost Partnerships' ability to sell their securities at prices approximating the values the Baupost Partnerships had placed on such securities. In addition, the market price of lower-rated securities is likely to be more volatile because: (i) an economic downturn or increased interest rates may have a more significant effect on the yield, price and potential for default; (ii) the market may at times become less liquid or respond to adverse publicity or investor perceptions, increasing the difficulty in disposing of the securities; and (iii) past legislation has limited (and future legislation may further limit) investment by certain institutions in lower-rated securities or the tax deductibility of the interest by the issuer, which may adversely affect the value of such securities. The Baupost Partnerships will not necessarily dispose of a security when its rating is reduced below its rating at the time of purchase and may buy more.

Certain securities held by the Baupost Partnerships may permit the issuer of such securities at its option to "call," or redeem, its securities. If an issuer were to redeem securities held by the Baupost Partnerships during a time of declining interest rates, the Baupost Partnerships may not be able to reinvest the proceeds in securities providing the same investment return as the securities redeemed.

The Baupost Partnerships may at times invest in so-called "zero-coupon" bonds and "payment-in-kind" bonds. Zero-coupon bonds do not pay interest currently for their entire lives and are issued at a significant discount from their principal amount in lieu of paying interest periodically. Payment-in-kind bonds allow the issuer, at its option, to make current interest payments on the bonds either in cash or in additional bonds. Such investments may experience greater fluctuation in market value in response to changes in market interest rates than bonds which pay interest currently in cash. Both zero coupon and payment-in-kind bonds allow an issuer to avoid the need to generate cash to meet current interest payments, but also may require a higher rate of return to attract investors who are willing to defer receipt of such cash. Accordingly, such bonds may involve greater credit risks than bonds paying interest currently.

#### Real Estate-Related Transaction Risks

The Baupost Partnerships may invest in real estate and in real estate-related securities. Real estate-related securities include securities that are backed by, represent interests in or are secured by real estate, as well as securities issued by companies or limited partnerships or limited liability

companies that invest in real estate or interests in real estate. Investments in real estate and real estate-related securities entail certain risks due to a variety of factors, including uncertainties surrounding the underlying real estate ventures. Factors affecting the performance of real estate ventures may include changes in interest rates, excess supply of real property in certain markets, satisfactory completion of construction, sufficient level of occupancy, adequacy of financing available in capital markets, competent management, rent levels and maintaining adequate rent to cover operating expenses, local and regional markets for competing assets, changes in applicable zoning and other laws and governmental regulations (including taxes), and social and economic trends.

Real estate investments that the Baupost Partnerships may make include investments in foreign properties. In addition to the risks associated with real estate investment generally, investment in foreign properties and ventures involves additional risks such as currency exchange rate risk, liquidity risk, and the risk of unfamiliar or changing property ownership and tax laws. See “Risks of Investing in Foreign Securities and Emerging Market Securities” below.

Many of the real estate-related securities in which the Baupost Partnerships may invest will not be readily marketable. Investments in real estate and in real estate-related securities that are not readily marketable entail additional risks, such as difficulty in pricing the real estate or security for purposes of determining the particular Baupost Partnership’s net asset value (“NAV”) and the possibility that the Baupost Partnerships would be unable to sell the real estate or security at a price approximating its market value when they decide to sell the real estate or security.

The Baupost Partnerships frequently utilize operating partners to manage day-to-day operations of certain real estate interests. Such services are typically performed by the operating partner’s personnel, not by personnel of Baupost or any of its affiliates and Baupost typically does not exercise day-to-day control over or management of the operating partners.

While operating partners may co-invest in and receive a share of the profits from the assets they manage, there is a risk that their interests may not be directly aligned with those of the Baupost Partnerships and their decisions, actions or omissions may adversely affect the Baupost Partnerships. Since operating partners may manage assets held by the Partnerships and assets not held by the Partnerships, operating partners may face conflicts of interest between choices that may favor one investment over another, as well as decisions regarding devotion of time and resources.

#### Risks of Investing in Mortgage-Backed and Asset-Backed Securities

The Baupost Partnerships may invest in mortgage-backed and asset-backed securities frequently at discounts to original issue price because of distress in the performance of the underlying collateral. When market interest rates decline, many mortgages are refinanced, and mortgage-backed securities are paid off earlier than expected. Prepayments may also occur on a scheduled basis or due to foreclosure. Accordingly, holders of these securities may not benefit fully from the

increase in value that other fixed-income securities experience when rates decline. Furthermore, under such circumstances, the Baupost Partnerships would be forced to reinvest the proceeds of the payoff at current yields, which are lower than those paid by the security that was paid off. For distressed mortgage or asset backed securities, the continued underperformance of the collateral including rising default rates or loss severity, home price depreciation, litigation or problems with the servicing of the collateral, may all contribute to increased risk of loss and price decline.

When market interest rates increase, the market values of mortgage-backed securities usually decline. At the same time, however, mortgage refinancing slows, which lengthens the effective maturities of these securities. As a result, the negative effect of the rate increase on the market value of mortgage securities is usually more pronounced than it is for other types of fixed-income securities. The ability of an issuer of asset-backed securities to enforce its security interest in the underlying assets may be limited. Government policies regarding the modification of non-performing mortgages may affect the value of these securities. Asset-backed securities are subject to many of the same risks as mortgage-backed securities.

Prepayments may cause losses on securities purchased at a premium. At times, some of the mortgage-backed and asset-backed securities in which the Baupost Partnerships may invest will have higher than market interest rates and therefore will be purchased at a premium above their par value. Unscheduled prepayments, which are made at par, will cause the Baupost Partnerships to experience a loss equal to any unamortized premium. In addition, a reduction in prepayments may increase the effective maturities of these securities, subjecting them to a greater risk of decline in market value in response to rising interest rates than traditional debt securities.

#### Risks of Investing in Foreign Securities and Emerging Markets Securities

The Baupost Partnerships may invest without limit in securities principally or exclusively traded in foreign markets. Although Baupost seeks to find appropriate hedges for currency risk, since foreign securities are normally denominated and traded in foreign currencies, the value of the Baupost Partnerships' assets may be affected favorably or unfavorably by currency exchange rates and exchange control regulations (which may include suspension of the ability to transfer currency from a given country and repatriation of investments). Exchange rates with respect to certain currencies may be particularly volatile. There may be less information publicly available about a foreign company than about a U.S. company, and foreign companies are not generally subject to accounting, auditing and financial reporting standards and practices comparable to those in the United States. The securities of some foreign companies are less liquid and at times more volatile than securities of comparable U.S. companies. Foreign brokerage commissions and other fees are also sometimes higher than in the United States. Foreign settlement procedures and trade regulations may involve certain risks (such as delay in payment or delivery of securities or in the recovery of the Baupost Partnerships' assets held abroad) and expenses not present in the settlement of domestic investments. The Baupost Partnerships may engage in foreign currency exchange transactions in connection with the purchase and sale of foreign securities and to protect

the value of specific portfolio positions, although appropriate hedging transactions may not always be available or, even if such transactions are available, Baupost may choose not to hedge foreign currency exposure.

Some countries in which the Baupost Partnerships may invest may have fixed or managed currencies that are not free-floating against the U.S. dollar. Further, certain currencies may not be traded internationally. Certain of these currencies have experienced or may experience a steady devaluation relative to the U.S. dollar. Any devaluations in the currencies in which the Baupost Partnerships' portfolio securities are denominated may have a detrimental impact on the Baupost Partnerships. Many countries in which the Baupost Partnerships may invest have experienced substantial, and in some periods extremely high, rates of inflation for many years. Inflation and rapid fluctuations in inflation rates have had and may continue to have negative effects on the economies and securities markets of certain countries.

In addition, there may be a possibility of nationalization or expropriation of assets, imposition of currency exchange controls, confiscatory taxation, political or financial instability and diplomatic developments which could affect the value of the Baupost Partnerships' investments in certain foreign countries. Legal remedies available to investors in certain foreign countries may be more limited than those available with respect to investments in the United States or in other foreign countries. The laws of some foreign countries may limit the Baupost Partnerships' ability to invest in securities of certain issuers located in those foreign countries.

The risks described above, including the risks of nationalization or expropriation of assets, are typically increased to the extent that the Baupost Partnerships invest in issuers located in under-developed and developing nations, which are sometimes referred to as "emerging markets." Investments in securities of issuers located in countries with emerging economies or securities markets are speculative and subject to certain special risks. Political and economic structures in many of these countries may be in their infancy and developing rapidly, and such countries may lack the social, political and economic stability characteristic of more developed countries. Certain of these countries have in the past failed to recognize private property rights and have at times nationalized or expropriated the assets of private companies. In many of these countries it is necessary for the Baupost Partnerships to appoint a local agent for the purpose of effecting the registration or sale of securities. There can be no assurance that the attorneys-in-fact that the Baupost Partnerships may from time to time appoint to serve as agents will properly effect such transactions or that they will not attempt to exceed their authority.

Emerging markets are also subject to unanticipated political or social developments that may affect the values of the Baupost Partnerships' investments in these countries and the availability to the Baupost Partnerships of additional investments in these countries. The small size, limited trading volume and relative inexperience of the securities markets in these countries may make the Baupost Partnerships' investments in such countries illiquid and more volatile than investments in more developed countries. There may be little financial or accounting information available with

respect to issuers located in these countries, and it may be difficult as a result to assess the value or prospects of an investment in such issuers. Because of these and other factors it is possible that the Baupost Partnerships may lose the entire amount of their investments in any such issuer.

#### Risks of Investing in Trade Claims

The Baupost Partnerships may purchase claims against companies, including insolvent companies. These claims are typically unsecured and generally represent money due a creditor or a supplier of goods or services to such company. Such claims are subject to certain risks, such as the risk that the Baupost Partnerships may not be paid by the debtor on a timely basis, if at all, or the risk that if the Baupost Partnerships do receive payment, it may be in an amount less than what the Baupost Partnerships paid for the claim. The ultimate amount and value of the claim may be vastly different from that expected at the time of purchase.

#### Risks of Investing in Reorganization Transactions

The Baupost Partnerships may invest in the securities of companies involved in mergers, consolidations, liquidations and reorganizations or as to which there exist tender or exchange offers (collectively, “Reorganization Transactions”). The expected gain on an individual investment in a company involved in a Reorganization Transaction is often smaller than the possible loss if the transaction is unexpectedly terminated. The expected completion of each transaction is also extremely important since the length of time that the Baupost Partnerships’ assets may be invested in securities of a company involved in a Reorganization Transaction will affect the rate of return realized by the Baupost Partnerships. The Baupost Partnerships will not invest their assets in a Reorganization Transaction unless Baupost determines that the probability of a timely and successful completion of the transaction offsets any risks associated with possible delays in its successful completion. The majority of mergers and acquisitions are consummated in less than six months, while tender offers are normally completed in less than two months. Liquidations and certain other types of corporate reorganizations usually require more than six months to complete. Baupost may invest the Baupost Partnerships’ assets in both negotiated, or “friendly,” reorganizations and non-negotiated, or “hostile,” takeover attempts.

There can be no assurance that any Reorganization Transaction proposed at the time the Baupost Partnerships make investments will be consummated or will be consummated on the terms and within the time period contemplated. To the extent the Baupost Partnerships become involved in Reorganization Transactions, the Baupost Partnerships may participate more actively in the affairs of the issuer than may be typical for other investors, which may result in increased costs to the Baupost Partnerships, such as increased legal expenses.

#### Risks of Investing in Pooled Investment Vehicles and Pass-Through Entities

From time to time the Baupost Partnerships may invest in other pooled investment vehicles, including real estate investment trusts and investment companies registered under the 1940 Act as

well as unregistered investment vehicles. When the Baupost Partnerships invest in other pooled investment vehicles, investors may pay multiple levels of management and performance fees (i.e., both management fees and the profit sharing obligations paid to the General Partner(s), on the one hand, and management and performance fees paid with respect to the other pooled investment vehicles, on the other). In addition, such investments may have limited liquidity and any investment by the Baupost Partnerships in such vehicles will have the risks inherent in the instruments in which such vehicles invest, over which Baupost may have limited or no management or voting control. To the extent the Baupost Partnerships invest in pooled investment vehicles and other “pass-through” entities which are treated as partnerships for federal income taxation purposes, the Baupost Partnerships must rely on such vehicles to deliver to them certain tax information that is necessary to complete the Baupost Partnerships’ own tax returns. If this information is not delivered to the Baupost Partnerships in a timely fashion, the Baupost Partnerships will be delayed in providing tax information to their investors.

#### Risks of Investing in Equity Securities of Small-to-Medium Sized Companies

The Baupost Partnerships may invest in equity securities of small-to-medium sized companies that Baupost believes have potential for capital appreciation greater than that of the market averages. Such companies may have limited product lines, markets or financial resources, and may be dependent on a limited management group. Securities of small-to-medium sized companies may be traded in the over-the-counter (“OTC”) markets. While OTC markets have grown rapidly in recent years, many OTC securities trade less frequently and in smaller volumes than exchange-listed securities. The values of these securities may fluctuate more sharply than exchange-listed securities, and the Baupost Partnerships may experience some difficulty in acquiring or disposing of positions in these securities at prevailing market prices.

#### Leverage Risk

While they have not historically done so, the Baupost Partnerships may engage in trading on margin by borrowing funds and pledging securities as collateral, thereby utilizing leverage. Although leverage increases returns if the Baupost Partnerships earn a greater return on the incremental investments purchased with borrowed funds than it pays for such funds, the use of leverage decreases returns if the Baupost Partnerships fail to earn as much on such incremental investments as it pays for such funds. The effect of leverage in a declining market would also result in a greater decrease in the NAV of the Partnership than if the Partnership were not so leveraged. If the assets, if any, used to secure the borrowing decrease in value, the Baupost Partnerships may be required to pledge additional collateral to the lender in the form of cash or securities to avoid liquidation of those assets. In addition, the underlying investments in the Baupost Partnerships may be leveraged in the form of corporate debt, public or private equity investments or mortgage debt on real estate investments.



## Derivatives Risks

The Baupost Partnerships may engage in a variety of transactions using “derivatives”, including options, futures and swaps. The use of derivative instruments may involve risks different from, or greater than, the risks associated with investing directly in the underlying securities. Derivatives are financial instruments the value of which depends upon, or is derived from, the value of something else, such as one or more underlying investments, indexes, interest rates or currencies. Derivatives may be traded on organized exchanges, or in individually negotiated transactions with other parties. Derivatives involve special risks and costs and may result in losses to the Baupost Partnerships. The successful use of derivatives requires sophisticated management, and will depend on the ability of Baupost to analyze and manage derivatives transactions. The prices of derivatives may move in unexpected ways, especially in abnormal market conditions. The Baupost Partnerships may use derivatives both for hedging and non-hedging purposes.

If a derivative is used for hedging purposes, some risk may be caused by an imperfect or variable degree of correlation between movements in the price of the derivative and the price of the underlying security or instrument being hedged. In the event of an imperfect correlation between a derivative position and a portfolio position (or anticipated position) that is intended to be protected, the desired protection may not be obtained and the Partnership may not achieve the desired hedging effect or be exposed to the risk of loss. With respect to currency hedging transactions, it is not always possible to hedge fully or perfectly against currency fluctuations affecting the value of the securities denominated in foreign currencies because the value of such securities also is likely to fluctuate as a result of independent factors not related to currency fluctuations.

Some derivatives, such as swaps, have a leveraging effect and therefore may magnify or otherwise increase investment losses to the Baupost Partnerships. Other risks arise from the potential inability to terminate or sell derivatives positions. A liquid secondary market may not always exist for the Baupost Partnerships’ derivatives positions at any time. In fact, many OTC instruments will not be liquid.

A loss may be sustained by the Baupost Partnerships as a result of the failure of the other party to a derivative (a “counterparty”) to comply with the terms of the derivatives contract. If there is a default by a counterparty, the Baupost Partnerships will be limited to contractual remedies pursuant to the agreements related to the transaction. There is no assurance that counterparties will be able to meet their obligations pursuant to the contracts or that, in the event of default, the Baupost Partnerships will succeed in pursuing contractual remedies. The Baupost Partnerships will generally attempt to mitigate such risk by requiring counterparties to post additional collateral as the value of a swap with such counterparty increases, but the collateral may be insufficient to cover the counterparty’s obligations or the counterparty may refuse to post additional collateral. If a counterparty’s creditworthiness declines, the value of a derivative with such counterparty may also decline.

The Baupost Partnerships will also be subject to counterparty risk in situations where a Baupost Partnership is required to collateralize its position. For example, certain swaps and other transactions will require a Baupost Partnership to post margin with a counterparty. These situations involve some risk to such Baupost Partnership if the counterparty defaults on its obligations (or becomes insolvent or is otherwise unable to perform) and the Baupost Partnership is delayed in or prevented from recovering the collateral. In addition, the Baupost Partnership may be required to post collateral to cover any delay between the date of a trade and the settlement date. Some contracts may not require the counterparty to post collateral. In such circumstances, the Baupost Partnership would not receive collateral from the counterparty to cover the Baupost Partnership's exposure.

Derivatives transactions are also subject to documentation risk, including the risk that the parties may disagree as to the proper interpretation of the terms of a contract. If such a dispute occurs, the cost and unpredictability of the legal proceedings required for the Baupost Partnerships to enforce their contractual rights may lead the Baupost Partnerships to decide not to pursue its claims against the other counterparty. The Baupost Partnerships thus assume the risk that they may be unable to obtain payments owed to them under contracts relating to OTC transactions or that those payments may be delayed or made only after the Baupost Partnerships have incurred the costs of litigation. Furthermore, with respect to some derivatives contracts, the counterparty is given sole discretion over determinations that affect the value of the contract or the parties' rights and obligations under the contract.

To the extent the Baupost Partnerships engage in derivatives transactions with a single counterparty or a small number of counterparties, the Baupost Partnerships have greater exposure to the risks described in the foregoing paragraphs and a default by a single counterparty could have an adverse effect on the Partnership and its assets and investment returns.

Certain derivatives transactions that may be used by the Baupost Partnerships, including certain interest rate swaps and certain credit default index swaps, are required to be cleared. In a cleared derivatives transaction, a Baupost Partnership's counterparty to the transaction is a central derivatives clearing organization, or clearing house, rather than a bank or broker. Since the Baupost Partnerships are not members of a clearing house, and only members of a clearing house can participate directly in the clearing house, the Baupost Partnerships have entered into cleared derivatives transactions through clearing members that are futures commission merchants and members of the clearing houses. A Baupost Partnership makes and receives payments owed under cleared derivatives transactions (including margin payments) through its accounts at clearing members. A Baupost Partnership's clearing members guarantee the Baupost Partnership's performance of its obligations to the clearing house. In contrast to bilateral derivatives transactions, in some cases following a period of advance notice to a Baupost Partnership, clearing members can generally require termination of existing cleared derivatives transactions at any time and increase the amount of margin required to be provided by the Baupost Partnership to the clearing member for any cleared derivatives transaction above the amount of margin required by

the clearing house or clearing member. Clearing houses also have broad rights to increase margin requirements for existing transactions and to terminate transactions. Any such termination or increase could interfere with the ability of a Baupost Partnership to pursue its investment strategy. Also, a Baupost Partnership is subject to execution risk if it enters into a derivatives transaction that is required to be cleared (or which Baupost expects to be cleared), and no clearing member is willing to clear the transaction on the Baupost Partnership's behalf. In that case, the transaction might have to be terminated, and the Baupost Partnership could lose some or all of the benefit of any increase in the value of the transaction after the time of the trade.

Some types of cleared derivatives are required to be executed on an exchange or on a swap execution facility. A swap execution facility is a trading platform where multiple market participants can execute derivatives by accepting bids and offers made by multiple other participants in the platform. While this execution requirement is designed to increase transparency and liquidity in the cleared derivatives market, trading on a swap execution facility can create additional costs and risks for the Baupost Partnerships. For example, swap execution facilities typically charge fees, and if a Baupost Partnership executes derivatives on a swap execution facility through a broker intermediary, the intermediary may impose fees as well. Transactions executed on a swap execution facility are subject to the rules of that facility, and a Baupost Partnership could be held liable for violations of such rules. Also, a Baupost Partnership may indemnify a swap execution facility, or a broker intermediary who executes cleared derivatives on a swap execution facility on the Baupost Partnership's behalf, against any losses or costs that may be incurred as a result of the Baupost Partnership's transactions on the swap execution facility.

These and other new rules and regulations could, among other things, further restrict a Baupost Partnership's ability to engage in, or increase the cost to the Baupost Partnership of, derivatives transactions, for example, by making some types of derivatives no longer available to the Baupost Partnership, increasing margin or capital requirements, or otherwise limiting liquidity or increasing transaction costs.

### Risks of Investing in Options

While it has not historically done this, Baupost Partnerships may seek to increase their current return by writing covered call and put options on securities. The Baupost Partnerships receive a premium from writing a call or put option, which increases the Baupost Partnerships' return if the option expires unexercised or is closed out at a net profit. When a Baupost Partnership writes a call option, it gives up the opportunity to profit from any increase in the price of a security above the exercise price of the option; when it writes a put option, the Baupost Partnership takes the risk that it will be required to purchase a security from the option holder at a price above the current market price of the security. The Baupost Partnerships may also from time to time buy and sell combinations of put and call options on the same underlying security to earn additional income. The Baupost Partnerships may also buy options to enter into swap transactions (swaptions). In exchange for an option premium, the buyer of a swaption obtains the right, but not the obligation,

to enter into a specified swap agreement with an issuer on a specified future date. The agreement will specify whether the buyer of the swaption will be a fixed-rate receiver (such as a call option on a bond) or a fixed-rate payer (such as a put option on a bond). The Baupost Partnerships may also buy and sell put and call options and buy swaptions for hedging purposes. The Baupost Partnerships' use of these strategies may be limited by applicable law.

#### Risks of Investing in Futures and Related Options

The Baupost Partnerships may, to the extent permitted by applicable law, buy and sell futures contracts and related options. A futures contract is an agreement between two parties to buy and sell a specific quantity of a commodity (including a securities index or an interest-bearing security) for a set price at a future date. The Baupost Partnerships may also buy and sell call and put options on futures or on securities indexes in addition to or as an alternative to purchasing or selling futures contracts, or, to the extent permitted by applicable law, to earn additional income.

The use of futures and options involves certain special risks. Futures and options transactions involve costs and may result in losses. Certain risks arise because of the possibility of imperfect correlations between movements in the prices of futures and options and movements in the prices of the underlying securities, securities index, currencies or other commodities or of the securities or currencies in the Baupost Partnerships' portfolios which are the subject of the hedge (to the extent the Baupost Partnerships use futures and options for hedging purposes). The successful use of futures and options further depends on Baupost's ability to forecast market or interest rate movements correctly. Other risks arise from the Baupost Partnerships' potential inability to close out their futures or options positions, and there can be no assurance that a liquid secondary market will exist for any futures contract or option at a particular time. The use of futures and options for purposes other than hedging is regarded as speculative. Certain regulatory requirements may also limit the Baupost Partnerships' ability to engage in futures and options transactions.

#### Risks of Investing in Swaps, Caps, Floors and Collars

The Baupost Partnerships may enter into swaps, caps, floors and collars on various securities, securities indexes, interest rates, prepayment rates, commodities, foreign currencies or other financial instruments or indexes, for both hedging and non-hedging purposes.

Swaps typically involve an exchange of obligations by two parties. For example, interest rate swaps involve the exchange of respective rights to receive interest, such as an exchange of fixed-rate payments for floating-rate payments. Currency swaps involve the exchange of respective rights to make or receive payments in specified currencies. In an equity swap, the counterparty generally agrees to pay the Baupost Partnerships the amount, if any, by which the notional amount of the equity swap contract would have increased in value had it been invested in the underlying stock or stocks plus the dividends that would have been received on those stocks. The Baupost Partnerships agree to pay to the counterparty a floating rate of interest (typically based on the London Inter Bank Offered Rate) on the notional amount of the equity swap contract plus the

amount, if any, by which that notional amount would have decreased in value had it been invested in such stock or stocks. Therefore, the return to the Baupost Partnerships on any equity swap contract should be the gain or loss on the notional amount plus dividends on the underlying stocks less the interest paid by the Baupost Partnerships on the notional amount less premium paid, if any. The Baupost Partnerships may also from time to time enter into the opposite side of equity swap contracts, which are known as “reverse equity swaps.”

The Baupost Partnerships may also enter into credit default swaps, including credit default swaps on mortgage-backed securities (such as residential mortgage-backed securities), asset-backed securities, corporate debt, municipal debt or sovereign debt. In a credit default swap, one party pays what is, in effect, an insurance premium through a stream of payments to another party in exchange for the right to receive a specified return in the event of a default (or similar events) by a third party on its obligations. Typically, in a credit default swap, the Baupost Partnerships may pay a premium and, in return, have the right to put certain bonds or loans to the counterparty upon default by the issuer of such bonds or loans (or similar events) and to receive in return the par value of such bonds or loans (or another agreed upon amount). In addition, the Baupost Partnerships could also receive the premium and be obligated to pay a counterparty the par value of certain bonds or loans upon a default (or similar event) by the issuer. A credit default swap transaction on mortgage-backed and asset-backed securities, corporate debt or sovereign debt would be subject to the same risks as those described herein with respect to such securities, in addition to the risks associated with swap transactions.

Certain interest rate swaps and certain credit default index swaps are required to be cleared. For more information about the risks associated with such swaps, please see “Derivatives Risks” above. Swap transactions that are not subject to clearing are “principals” markets in which performance with respect to a swap contract is the responsibility only of the counterparty and not of any exchange or clearing corporation. As a result, a Baupost Partnership entering into swaps that are not subject to clearing will be subject to the risk of the inability of or refusal to perform with respect to such contracts on the part of the counterparties trading with it.

Payments under a swap contract may be made at the conclusion of the contract or periodically during its term. The Baupost Partnerships thus assume the risk that they may be delayed in or prevented from obtaining payments owed to them pursuant to swap contracts. To address this risk with respect to interest rate swaps, the Baupost Partnerships will usually enter into interest rate swap contracts on a net basis, which means that the two payment streams (one from the Baupost Partnerships to the counterparty, one to the Baupost Partnerships from the counterparty) are netted out, with the Baupost Partnerships receiving or paying, as the case may be, only the net amount of the two payments. Interest rate swaps do not involve the delivery of securities, other underlying assets, or principal. Accordingly, the risk of loss with respect to interest rate swaps entered into on a net basis would be limited to the net amount of the interest payments that the Baupost Partnerships are contractually obligated to make. If the other party to an interest rate swap defaults, the Baupost Partnerships’ risk of loss consists of the net amount of interest payments that the

Baupost Partnerships are contractually entitled to receive. In contrast, currency swaps and other types of swaps may involve the delivery of the entire principal value of one designated currency or financial instrument in exchange for the other designated currency or financial instrument. Therefore, the entire principal value of such swaps may be subject to the risk that the other party will default on its contractual delivery obligations. Credit default swaps generally only require payment in the event of an actual default or credit event, as opposed to a credit downgrade or other indication of financial difficulty.

In addition, because swap contracts are individually negotiated, there also may be circumstances in which it would be impossible for the Baupost Partnerships to close out their obligations under the swap contract. Moreover, unless the Baupost Partnerships choose to, and are successful in, negotiating transfer rights, then swaps contracts are ordinarily non-transferable. Under such circumstances, the Baupost Partnerships might be able to negotiate another swap contract with a different counterparty to offset the risk associated with the first swap contract. Unless the Baupost Partnerships are able to negotiate such an offsetting swap contract, however, the Baupost Partnerships could be subject to continued adverse developments, even after Baupost has determined that it would be prudent to close out or offset the first swap contract.

The use of swaps involves investment techniques and risks different from and potentially greater than those associated with ordinary portfolio securities transactions. If Baupost is incorrect in its expectations of market values, interest rates, or currency exchange rates, the investment performance of the Baupost Partnerships would be less favorable than it would have been if this investment technique were not used. Certain swaps that the Baupost Partnerships may use can also have the effect of creating leverage and thus can give rise to many of the same risks associated with borrowing funds or trading on margin. Because certain foreign markets may be closed for all practical purposes to U.S. investors such as the Baupost Partnerships, we may invest indirectly in such markets through swap transactions and would therefore be subject to the risks described above with respect to investments in foreign securities. Swap transactions are also subject to the same counterparty risk as that described for derivatives generally.

The use of swaps involves the risk that the price of the swap used by the Baupost Partnerships to calculate NAV does not accurately reflect its fair market value, which could have a favorable or unfavorable effect on the NAV of the Baupost Partnerships. Many swaps are complex and may be valued based on quotations given by swap counterparties, who have adverse interests to the Baupost Partnerships with respect to the value of such swaps. In certain cases, the Baupost Partnerships' swap counterparty may be the only source of value quotations for a swap, while in other cases, multiple quotes may be available. There are also different methodologies that may be used to determine the value of a credit default swap and credit default swap spreads may be wide. As a result of the foregoing factors, the Baupost Partnerships may not be able to close out swaps at the price used by the Baupost Partnerships to calculate the NAV.

If the assets, if any, pledged to the counterparty in connection with a swap agreement decrease in value, the Baupost Partnerships may be required to pledge additional collateral to the lender in the form of cash or securities to avoid liquidation of those assets. Also, under certain circumstances, if a swap counterparty undervalues the Baupost Partnerships' interest in a swap, it could require the Baupost Partnerships to transfer greater amounts of collateral to the counterparty than if the swap was valued at fair market value. The rights of any counterparty to the Baupost Partnerships to receive payments may be senior to the rights of the investors, and the terms of the Baupost Partnerships' swap agreements may contain provisions that limit certain activities of the Baupost Partnerships.

The U.S. government has enacted legislation which includes provisions for new regulation of the derivatives market, including clearing, margin, reporting and registration requirements. Because the legislation leaves much to rule making (and many of the rules are not yet final), its ultimate impact remains unclear. The regulatory changes could, among other things, restrict the Baupost Partnerships' ability to engage in swaps and other derivatives transactions (including because certain types of swaps or other derivatives transactions may no longer be available to the Baupost Partnerships) and/or increase the costs of such transactions (including through increased margin requirements), and the Baupost Partnerships may be unable to execute their respective investment strategies as a result. Additionally, the new requirements may result in increased uncertainty about counterparty credit risk.

These regulations are new and evolving, so their potential impact on the Baupost Partnerships and the financial system are not yet known. While the new regulations and central clearing of some derivatives transactions are designed to reduce systemic risk (i.e., the risk that the interdependence of large derivatives dealers could cause them to suffer liquidity, solvency or other challenges simultaneously), there is no assurance that the new clearing mechanisms will achieve that result, and in the meantime, as noted above, central clearing and related requirements expose the Baupost Partnerships to new kinds of risks and costs.

Caps, floors and collars are variations on swaps. The purchase of a cap entitles the purchaser to receive payments from the party selling the cap to the extent that a specified index exceeds a predetermined interest rate or amount. The purchase of an interest rate floor entitles the purchaser to receive payments from the party selling the floor to the extent that a specified index falls below a predetermined interest rate or amount. A collar is a combination of a cap and a floor that preserves a certain return within a predetermined range of interest rates or values. Caps, floors and collars are similar in many respects to over-the-counter options transactions, and may involve investment risks that are similar to those associated with options transactions and options on futures contracts.

## Risks Associated with Short Sales

While they have not historically done so, the Baupost Partnerships may engage in short sales (and also gain short exposure through the use of derivatives, including forward sales, futures, and swaps). In a short sale, the seller sells a security that it does not own, typically a security borrowed from a broker or dealer. Because the seller remains liable to return the underlying security that it borrowed from the broker or dealer, the seller must purchase the security prior to the date on which delivery to the broker or dealer is to be made. The Baupost Partnerships will typically engage in short sales only when Baupost believes the value of the security will decline or as part of a hedging strategy or as part of a stub trade. The making of short sales exposes the Baupost Partnerships to the risk of liability for the market value of the security sold. If the price of the security sold short increases between the time of the short sale and the time the Baupost Partnerships replace the borrowed security, the Baupost Partnerships will incur a loss; conversely, if the price declines, the Baupost Partnerships will realize a gain. Any gain will be decreased, and any loss increased, by the transaction costs associated with short sales. Although the Baupost Partnerships' gain is limited to the price at which they sold the security short, their potential loss is unlimited if the Baupost Partnerships do not own the security. In addition, there can be no assurance that securities necessary to cover a short position will be available for purchase or that securities will be available to be borrowed by the Baupost Partnerships at a reasonable cost. If a request for return of borrowed securities occurs at a time when other short sellers of the security are receiving similar requests, a "short squeeze" can occur, and the Baupost Partnerships may be compelled to replace borrowed securities previously sold short with purchases on the open market at the most disadvantageous time, possibly at prices significantly in excess of the proceeds received in originally selling the securities short.

The SEC has, in the past, adopted interim rules requiring reporting of all short positions above a certain de minimis threshold and may adopt rules requiring monthly public disclosure of short positions in the future. In addition, other non-U.S. jurisdictions where the Baupost Partnerships may trade have adopted reporting requirements. If the Baupost Partnerships' short positions or its strategy become generally known, it could have a significant effect on Baupost's ability to implement its investment strategy. In particular, it would make it more likely that other investors could cause a "short squeeze" in the securities held short by the Baupost Partnerships forcing the Baupost Partnerships to cover their positions at a loss. Such reporting requirements may also limit Baupost's ability to access management and other personnel at certain companies where Baupost seeks to take a short position. In addition, if other investors engage in copycat behavior by taking positions in the same issuers as the Baupost Partnerships, the cost of borrowing securities to sell short could increase drastically and the availability of such securities to the Baupost Partnerships could decrease drastically. Such events could make the Baupost Partnerships unable to execute its investment strategy. The SEC has adopted restrictions on the short sale of securities which fall more than 10 percent in a given day (referred to as the "circuit breaker" or "modified uptick rule"). It is unclear what effect these restrictions will have on the Baupost Partnership. If the SEC were



to adopt additional restrictions on short sales, such restrictions could restrict the Baupost Partnerships' ability to engage in short sales in certain circumstances, and the Baupost Partnerships may be unable to execute their investment strategy as a result. The SEC and regulatory authorities in other jurisdictions may adopt (and in certain cases have adopted) bans on short sales of certain securities in response to market events. Bans on short selling may make it impossible for the Baupost Partnerships to execute certain investment strategies and may have a material adverse effect on the Baupost Partnerships' ability to achieve their investment objective and generate returns. In addition, engaging in short selling may increase the Baupost Partnership's risk of becoming subject to government investigation.

#### Risks of Investing in Repurchase Agreements

The Baupost Partnerships may enter into repurchase agreements with banks and broker-dealers, which are agreements by which the Baupost Partnerships acquire a security for cash and obtain a simultaneous commitment from the seller to repurchase the security at an agreed-upon price and date. The resale price is in excess of the acquisition price and reflects an agreed upon market rate unrelated to the coupon rate of the purchased security. Baupost will generally monitor such transactions to try to ensure that the value of the underlying securities will be at least equal at all times to the total amount of the repurchase obligation, including the interest factor. Such transactions afford an opportunity for the Baupost Partnerships to earn a return on temporarily available cash at no market risk, although there is a risk that the seller may default in its obligation to pay the agreed upon sum on the redelivery date. Such a default may subject the Baupost Partnerships to expenses, delays and risks of loss. In addition, if the seller should be involved in bankruptcy or insolvency proceedings, the Baupost Partnerships may incur delays and costs in selling the underlying security or may suffer a loss of principal and interest if the Baupost Partnership is treated as an unsecured creditor and is required to return the underlying collateral to the seller's estate.

#### Risks of Investing in Sovereign Debt

Investment in sovereign debt can involve a high degree of risk. The governmental entity that controls the repayment of sovereign debt may not be able or willing to repay the principal and/or interest when due in accordance with the terms of the debt. A governmental entity's willingness or ability to repay principal and interest when due may be affected by, among other factors, its cash flow situation, the extent of its foreign reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the governmental entity's policy toward the International Monetary Fund, the political constraints to which a governmental entity may be subject, and changes in governments and political systems. At certain times, certain countries (particularly emerging market countries) have declared moratoria on the payment of principal and interest on external debt. Governmental entities may also depend on expected disbursements from non-U.S. governments, multilateral agencies and others to reduce principal and interest arrearages on their debt. The commitment on the part of

these governments, agencies and others to make such disbursements may be conditioned on a governmental entity's implementation of economic reforms and/or economic performance and the timely service of such debtor's obligations. Failure to implement such reforms, achieve such levels of economic performance or repay principal or interest when due may result in the cancellation of such third parties' commitments to lend funds to the governmental entity, which may further impair such debtor's ability or willingness to service its debts in a timely manner. Consequently, governmental entities may default on their sovereign debt. Holders of sovereign debt may be requested to participate in the rescheduling of such debt and to extend further loans to governmental entities. There is no bankruptcy proceeding by which sovereign debt on which governmental entities have defaulted may be collected in whole or in part.

#### Concentration of Investments Risk

During times when the Baupost Partnerships invest their assets in a small number of issuers, or in a larger number of issuers but with significant concentration of assets in only a few, the value of the Baupost Partnerships' assets may fluctuate more widely than the value of a portfolio that invests in a greater number of issuers. This lack of diversification involves an increased risk of loss to the Baupost Partnerships if an issuer in which the Baupost Partnerships invest were unable to make interest or principal payments or if the market value of the issuer's securities were to decline.

#### **Item 9. Disciplinary Information**

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

#### **Item 10. Other Financial Industry Activities and Affiliations**

Neither Baupost 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, futures commission merchant, commodity pool operator, commodity trading advisor, or associated person of any of the foregoing entities. Baupost does not recommend or select other investment advisers for the Baupost Partnerships for which we receive compensation directly or indirectly from those advisers that creates a material conflict of interest, nor does Baupost have other business relationships with those advisers that create a material conflict of interest. Pursuant to a Sourcing and Sub-Management Agreement, Baupost Group International LLP provides advisory services to Baupost by augmenting the sourcing of potential investments in Europe.

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

Baupost has adopted a Code of Ethics (the "Code"), which, amongst other things, (i) sets forth the standards of professional conduct to which Baupost requires all "supervised persons," as defined

in Section 202 of the Advisers Act, to adhere in accordance with our fiduciary obligations; (ii) governs the personal securities transactions of Baupost’s supervised persons; and (iii) requires all supervised persons to report any violations of the Code to Baupost’s chief compliance officer. The general principles of the Code seek to minimize conflicts of interest and, in accordance with fiduciary obligations, place the interests of the Baupost Partnerships first. As such, the Code provides that supervised persons conduct their personal investment activities in a manner that is not detrimental to the Baupost Partnerships.

The Code restricts or prohibits certain personal investment transactions by supervised persons. Supervised persons may buy or sell certain “reportable securities” (as defined in the Code) for their own account only with the prior written authorization of designated officers of Baupost. In addition, among other things, supervised persons are (i) prohibited from buying or selling a security on the same day on which Baupost has a pending buy or sell order with respect to such security; (ii) required to disclose all personal reportable securities holdings upon commencement of employment and annually thereafter; and (iii) required to report all personal reportable securities transactions quarterly.

Supervised persons who are defined as “Investment Personnel” under the Code (generally, those employees who make investment recommendations on behalf of the Baupost Partnerships) are generally prohibited from purchasing “public securities” (as defined in the Code). In addition, Investment Personnel are prohibited from buying or selling securities for seven days before or after one of the Baupost Partnerships trades in such security.

The restrictions of the Code do not preclude purchases of interests in the Baupost Partnerships. Supervised persons may be investors of the Baupost Partnerships, and some of the key personnel of Baupost may have significant interests in the Baupost Partnerships as investors.

Baupost will provide a copy of the Code to any investor or potential investor upon request.

## **Item 12. Brokerage Practices**

It is Baupost’s policy, in placing each transaction for a Baupost Partnership, to seek “best execution.” Baupost will seek to obtain an outcome for a purchase or sale of a security that is in the best long-term economic interests of the Baupost Partnerships, subject to the circumstances of the transaction and the quality and reliability of the executing broker or dealer. Best execution is not measured solely by reference to commission rates or price. Paying a broker a higher commission rate than what another broker might charge is appropriate if the difference in cost is reasonably justified in seeking what is in the best long-term economic interests of the Baupost Partnerships.

Baupost believes that for the vast majority of securities transactions for the Baupost Partnerships, best execution is not quantifiable, but rather is a set of quality standards – a trading process that seeks to maximize the value of a Baupost Partnership’s portfolio over the course of time, given

the stated investment objectives and circumstances. In short, Baupost seeks to achieve the best overall end result for each Baupost Partnership, the key components of which include honorable intentions, a dedicated staff, up-to-date information and systems, reputable broker-dealers and sufficient oversight. Maximizing long term profit for the Baupost Partnerships takes precedence over short-term goals of cost efficiency in connection with individual trades.

Factors. In determining whether a particular broker or dealer is likely to provide best execution, Baupost takes into account all factors that it deems relevant to the broker's or dealer's execution capability, including:

- The overall reputation, experience and financial stability of the broker-dealer;
- The quality of the broker-dealer relationship with Baupost, including the attention, consistency and quality of trading personnel with whom transactions are conducted;
- Research services, including the quality of proprietary research and investment ideas that ultimately become meaningful positions in a Baupost Partnership's portfolio of investments and the ability of the broker-dealer to provide access to company management and industry specialists, subject to the restrictions and limitations discussed in the Research Services Section below;
- The broker-dealer's trading expertise, including the ability to minimize total trading costs and to trade without impacting the market;
- The ability, when possible, to maintain Baupost's anonymity when executing a trade;
- The quality of execution, including the broker-dealer's infrastructure in areas such as order handling, clearing and settlement;
- The ability to provide ad hoc information or other services;
- The quality of service rendered by the broker-dealer in prior transactions; and
- The belief that the broker-dealer charges a fair and reasonable fee for each trade, and that Baupost has been treated fairly and honestly in prior trades.

In determining whether a particular broker or dealer is likely to provide best execution in a particular transaction, Baupost will also take into account the following factors:

- The price, including commissions or spread;
- The size of the transaction;
- The timing of the transaction, taking into account market prices and trends;
- The nature of the market for the security;

- Whether the broker-dealer has the ability to transact in the share size and price sought by Baupost, and the ability to in fact execute and settle the trade;
- Whether the broker-dealer is informed about the investment and involved in the particular market in which the investment trades; and
- The difficulty of execution for the type of security and market in which it trades.

In addition, Baupost considers the use of electronic trading tools such as crossing networks and execution algorithms when placing trades on behalf of the Primary Partnerships, particularly when trading equities. These tools enable Baupost to transact passively and source liquidity anonymously. However, when the trade size is substantial, the requirements unusual or the issue illiquid, any of which may necessitate additional time for the trade to be executed, Baupost will often rely on the expertise and ability of individuals to assess and react to market conditions as they develop. In addition, when purchasing or selling OTC securities with market makers, Baupost generally seeks market makers it believes to be actively and effectively trading the security being purchased or sold.

Research Services. Many securities firms offer to provide investment managers (such as Baupost) a variety of services and benefits that go beyond execution, clearance and settlement of transactions. These services and benefits include such things as (1) the broker-dealer firms' proprietary research reports and analytical products, (2) information and advice about market conditions and individual securities, (3) investment opportunities that may be attractive for the Baupost Partnerships, and (4) opportunities to meet with company management. Investment managers often seek to recognize broker-dealers who provide these services or benefits, by directing transactions to these broker-dealers, or by paying higher commissions to these broker-dealers than would otherwise be appropriate.

A potential conflict of interest is presented in every instance where an investment manager chooses to place a client trade with a broker-dealer that has furnished the manager with services or benefits other than order execution, clearance and settlement (unless the manager has paid the full value of such services and benefits using the manager's own assets). The conflict arises because the manager receives a benefit for which it does not need to pay and has an incentive to select a broker-dealer based on its own interest in receiving such benefits, as opposed to the clients' interest in receiving most favorable execution. Because of this conflict of interest, the law places strict limits on investment managers' discretion to place transactions with broker-dealers who are providing services or benefits to the investment manager. Baupost attempts to minimize such potential conflicts through the use of commission-sharing arrangements whereby a portion of the commission dollars generated through Baupost's normal trading activity are aggregated and periodically allocated through a third party to firms that provide research services to Baupost. Research services that Baupost may receive include research reports, investment ideas, access to issuer management and investment conferences and other information that assists Baupost in the

performance of its investment advisory responsibilities. Baupost finds commission sharing arrangements to be valuable because by separating the execution and research capabilities of different broker-dealers, Baupost can concentrate trading with those broker-dealers that provide superior execution while still obtaining valuable research from other broker-dealers and research providers. Baupost's use of commissions to pay for research and related services is undertaken pursuant to the safe-harbor provisions of Section 28(e) of the Securities Exchange Act of 1934 and in accordance with SEC interpretive guidance regarding the application of such provisions.

In addition, broker-dealers may provide Baupost with access to proprietary research reports which are used for the Baupost Partnerships. Since these and other products and services are generally made available by broker-dealers as part of a bundled business package to Baupost (which may or may not use such products and services) without regard to rates of commission or volume of business, it is Baupost's understanding that such broker-dealers do not set discrete prices for such products and services. Accordingly, Baupost does not separately compensate such broker-dealers for the provision of such services and does not believe that it pays a premium for such broker-dealers' services, because these broker-dealers do not break out the costs for such services.

Baupost does trade with certain broker-dealer firms that provide valuable research and other services. However, the only circumstances in which Baupost, in selecting a broker-dealer to execute a transaction for a Baupost Partnership, may take into account research services or benefits provided by the broker-dealer are when Baupost has determined, in good faith, that the amount of commission on the transaction is reasonable in relation to the value of the research or other benefit from the broker-dealer, viewed in terms of either that transaction or Baupost's overall responsibilities to the Baupost Partnerships.

Baupost does not recommend, request or require that a Baupost Partnership execute transactions through a specific broker-dealer or permit any Baupost Partnership to direct Baupost's transactions to a particular broker, nor does Baupost consider, in selecting broker-dealers, whether we receive or a related person receives client referrals from a broker-dealer or a third party.

### **Trade Aggregation and Allocation**

Once Baupost has determined that an investment will be purchased for all Primary Partnerships, Baupost will generally aggregate the Primary Partnerships' orders and place the aggregated order with a single broker or dealer for execution. However, as an overflow vehicle, the Overflow Partnership will generally not participate in aggregated purchase orders with the other Primary Partnerships. Instead, Baupost will generally place a separate purchase order for the Overflow Partnership once the purchase orders for the other Primary Partnerships have been executed. However, the Overflow Partnership will typically participate with the other Primary Partnerships in transactions in illiquid investments, contracts or other investment types where a separate transaction for the Overflow Partnership may not be feasible. The Overflow Partnership will also participate in aggregated sales orders with the other Primary Partnerships.

In most instances, aggregation of orders can result in lower commissions, a more favorable net price or more efficient execution than separately placing each Partnership's orders. Baupost is not obligated to place all transactions on an aggregated basis, and there may be instances in which order aggregation results in a less favorable transaction outcome than a particular Partnership would have obtained by trading separately.

Each Partnership participating in an aggregated order will participate at the same price as all other participants, and all transaction costs on the order will be allocated pro rata to all participating Partnerships. As a general rule, allocations of purchases among participating Partnerships are made pro rata based on a Partnership's most recent month-end NAV adjusted for available buying capacity, subject to and modified by other considerations.

### **Trade Errors**

Baupost has established a Trade Error Policy to handle trade errors (as defined in the Policy) that may arise in connection with placing trades on behalf of the Baupost Partnerships. Baupost attempts to correct errors as soon as practicable after discovery. If a Partnership realizes a gain from a trade error or the correction thereof, the gain will remain with the Partnership. If a Partnership realizes a loss, Baupost will evaluate the trade error in light of the standard of care owed to the Partnership under the relevant LP Agreement. Losses resulting from trade errors caused by a mistake which, in the judgment of Baupost, does not constitute a breach of the standard of care provided for in the relevant LP Agreement, typically will not be borne by Baupost. Where improper trades appear to be the result of intentional action or inaction by Baupost, or the circumstances surrounding trade errors may demonstrate a pattern of negligence, the trades will be reviewed by Baupost in a timely fashion to determine whether any changes to internal processes are necessary or other action is warranted.

### **Item 13. Review of Accounts**

Baupost, as managing general partner of the Baupost Partnerships, performs a monthly review of the Baupost Partnerships' accounts and ensures that each of the Baupost Partnerships is in compliance with its LP Agreement. As part of this review, Baupost verifies that income, loss, expenses, management fee, profit sharing obligation and other items are allocated appropriately to each investor in the applicable Baupost Partnership (collectively the "Capital Account Allocation Process"). This Capital Account Allocation Process review is performed by Baupost's Accounting and Valuations department under the supervision of its Controller and is overseen by Baupost's Chief Financial Officer ("CFO").

Baupost determines the NAV for each Baupost Partnership quarterly by deducting all indebtedness, expenses, charges, and other liabilities (whether fixed or contingent, accrued to the appraisal date) of the particular Baupost Partnership from the value of the assets. In addition, Baupost ensures that each Baupost Partnership's NAV reflects fair and accurate market valuations of all investments at the time of pricing. In accordance with each LP Agreement, Baupost

generally elects to value securities and assets that are illiquid and for which reliable market-based quotations are not readily available at the lower of cost or market value. Baupost's CFO is responsible for: (i) implementing Baupost's Valuation Policy; (ii) ensuring that all Baupost employees involved with the pricing process adhere to the Valuation Policy; (iii) the valuation of all investments the Baupost Partnerships hold at each pricing period; and (iv) overseeing the review of the Baupost Partnerships' accounts (as described above). Baupost's Valuation Committee periodically reviews and assesses the continued accuracy and effectiveness of the Valuation Policy, recommending changes as appropriate.

In addition to Baupost's quarterly determination of NAV, Baupost performs various levels of review of the Baupost Partnerships' books and records each month. The Accounting and Valuation team, under the supervision of Baupost's Controller, prepare and conduct reviews of these books and records. Baupost's CFO performs the final level of review and approval of each Baupost Partnership's books and records.

The books and records of the Baupost Partnerships are also subject to external verification. The financial statements of the Baupost Partnerships are prepared and audited in conformity with accounting principles generally accepted in the United States of America ("GAAP") at each calendar year-end. Additionally, periodically throughout each year, Baupost engages an independent auditor to perform certain procedures for the Primary Partnerships including but not limited to independent valuation testing, custody verification, mathematical accuracy testing of trial balances and capital accounts, and partner income allocation testing.

Investors in the Baupost Partnerships are provided with regular written or electronic reports communicating information relating to capital account value, Baupost Partnership NAV, portfolio allocation, and performance. Regular reporting is provided at the capital account level, at the Partnership level, and consolidated across Baupost's entire portfolio of Partnerships with substantially similar investment objectives. Investors receive various written or electronic reports on a monthly, quarterly and annual basis.

These reports, which may vary by Partnership, generally include:

- value of an investor's capital account,
- value summary of the investments held by the Partnerships,
- value of Restricted Investments, as defined in the applicable LP Agreement, at both a capital account and a Partnership level,
- largest positions and respective percentages of NAV,
- fair market value disclosures based on fair value level hierarchy,
- monthly estimates of performance,
- cumulative and average annual total returns of the Baupost Partnerships over various periods,
- breakdown of total returns by investment type, and



- largest position gains and losses.

Reports are distributed in hard copy or electronically, mainly through Baupost's website. Investors who are members of Baupost's Advisory Board may receive additional information. Baupost also provides investors with:

- periodic investor letters from management,
- annual audited financial statements of the Baupost Partnerships,
- due diligence reports, and
- Schedule K-1s, preceded by account-level tax estimates to assist with tax planning.

Finally, Baupost holds periodic investor webcasts and meetings to provide updates on investment activity and performance of the portfolio. These oral communications are generally archived for a limited period on Baupost's website for the benefit of investors.

#### **Item 14. Client Referrals and Other Compensation**

Baupost does not compensate any person for client referrals, nor do we receive any economic benefit from someone who is not a client for providing investment advice or other advisory services to the Baupost Partnerships.

#### **Item 15. Custody**

Under the Advisers Act, Baupost is deemed to have custody of client funds or securities in any circumstances under which (i) we actually possess funds or securities, (ii) we are authorized to withdraw funds or securities from the Baupost Partnerships (for example, to deduct fees), or (iii) we or a related person serves in a legal capacity, such as general partner, which affords us access to funds or securities of the Baupost Partnerships.

For these reasons, Baupost is subject to Rule 206(4)-2 (often referred to as the "Custody Rule") of the Advisers Act in respect of all client assets. As one requirement of this rule, Baupost has engaged a PCAOB-registered independent accounting firm to perform an annual audit of the financial statements prepared in accordance with GAAP, which are distributed to all investors within 120 days of each Baupost Partnership's fiscal year end.

In addition, Baupost has retained a "qualified custodian" (as defined by the Advisers Act), which may be a broker-dealer, bank or another type of institution, to hold all assets of the Baupost Partnerships (other than certain privately offered securities).

#### **Item 16. Investment Discretion**

Baupost has discretionary authority over all assets it manages for the Baupost Partnerships as described in the respective LP Agreements. This discretionary authority is conferred on Baupost pursuant to each Baupost Partnership's LP Agreement. Certain of the Baupost Partnerships have

a sole investor, at whose direction Baupost may exclude such Baupost Partnerships from investments in private investment funds or other illiquid investments.

#### **Item 17.      Voting Client Securities**

Baupost has sole authority to vote the Baupost Partnerships' securities, and we adhere to an internal Proxy Voting Policy that governs our practices in exercising this voting authority. Our policy is to vote proxies on securities held by the Primary Partnerships in a manner that seeks to maximize the long-term economic interests of the Primary Partnerships, although Baupost considers both the short-term and long-term implications of each proposal in determining the optimal vote.

If Baupost should determine that a material conflict of interest exists in voting a proxy (*e.g.*, if an employee of Baupost may personally benefit if the proxy is voted in a certain manner), Baupost's procedures provide for the Proxy Voting Committee to convene and to determine the appropriate vote. Decisions of the Proxy Voting Committee must be unanimous. If the Proxy Voting Committee is unable to reach a unanimous decision, Baupost, at its own expense, will engage a competent third party to determine the appropriate vote based on Baupost's Proxy Voting Policies and Procedures.

Information regarding how Baupost votes proxies is available to the Baupost Partnerships. Additionally, the Baupost Partnerships have access to Baupost's Proxy Voting Policies and Procedures.

#### **Item 18.      Financial Information**

Baupost does not require or solicit prepayment of any fees six months or more in advance and does not have any financial condition that would impair its ability to meet contractual commitments to the Baupost Partnerships.

Fee Schedules

Baupost Limited Partnership 1983 B-1

Management Fee: 1.00% annually paid quarterly in advance calculated based on the capital account balance the first day of the quarter.

Profit Sharing: 20% of net profits less management fee in excess of unreversed losses attributable to the previous two years.

Baupost Limited Partnership 1987 F-1

Management Fee: None.

Profit Sharing: 6% of net periodic income as of the end of the last business day of each calendar quarter, as defined in the LP Agreement.