

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
FORM ADV PART 2A: FIRM BROCHURE**

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**This brochure provides information about the qualifications and business practices of Basso Capital Management, L.P. (“Basso”), an investment adviser registered with the United States Securities and Exchange Commission (“SEC”). If you have any questions about the contents of this brochure, please contact us by telephone at (203) 352-6100 or by email at [legalnotices@bassocap.com](mailto:legalnotices@bassocap.com). The information in this brochure has not been approved or verified by the SEC or by any state securities authority.**

**Registration with the SEC does not imply a certain level of skill or training.**

**Additional Information about Basso is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **ITEM 2: MATERIAL CHANGES**

There have been no material changes between the March 28, 2013 filing date of Basso's prior Part 2A of Form ADV and today's date.

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## **ITEM 4: ADVISORY BUSINESS**

### **General Description of Basso**

Basso Capital Management, L.P. (“Basso”), a Delaware limited partnership, was formed in November 2003. Basso has, since January 1, 2004, served as the investment adviser to several private investment funds (“Funds”), and since October 15, 2013, as a sub-adviser to an SEC-registered investment company (“Mutual Fund”). For the approximately ten years before Basso’s formation, a predecessor entity named Basso Securities Ltd. was sub-adviser to private investment funds managed by a third party, two of which became Basso Funds in 2004. The combined advisory period of approximately 20 years has been characterized by a primary focus on investments in convertible securities. Basso (and other related entities) is owned by its four Founding Managing Partners - CEO Howard Fischer, who started Basso Securities Ltd. in 1994, John Lepore and Philip Platek, each of whom joined Mr. Fischer in 1998, and Dwight Nelson, who joined in 1999.

In this brochure we discuss certain conflicts of interest and our policies and procedures designed to detect and address these conflicts. We also discuss certain risks presented by investments in the Funds. We encourage our investors and prospective investors to review our policies and procedures and inquire directly with us about our conflicts and risks. Please request a copy of the relevant Fund’s most current offering materials for a fuller description of these and other conflicts and risks that might exist.

### **Investment Strategies**

Basso focuses on hedged investments in convertible securities, but also invests in various other securities, and manages non-convertible-focused Funds. Convertible securities are a form of debt or preferred equity security that can be converted into the common shares of the issuing company, or the cash value of such shares, at a prescribed price. Basso applies a number of strategies when investing in convertible securities, strategies that are discussed more completely in the confidential offering memorandum for the relevant Fund. The main convertible strategies have overlapping elements, but can generally be categorized as:

- Relative Value. This strategy typically involves pairing a long position in a convertible security with a short, or hedge, position in the equity into which the security is convertible. These positions present the opportunity to capture the positive yield differences between the convertible securities and their equity hedges or to realize gains from relative mispricings between the long and short positions under various market conditions.
- Low Premium Convertibles. A convertible security is considered to be “low premium” when it trades near to the value of the equity shares into which it converts. An investment in a low premium convertible security is usually hedged by a large short position in the underlying equity and may serve as a synthetic put or benefit from changes in the relative valuation of the trade’s components due to upward or downward movements in the equity price.

- Credit-Oriented. Convertible securities inherently include a credit component, which at times may present an investment opportunity on its own or relative to other parts of the issuing company's capital structure. A Fund may invest long or short, hedged or unhedged, in convertible securities whose valuations are predominantly based on the underlying credit component, in reliance on Basso's fundamental analysis of the issuer's credit.
- Equity-Oriented. Convertible securities may serve as a proxy, or substitute, for investing in the issuer's equity directly. Equity-oriented convertible investments may be made without a hedge, or with a lesser or greater hedge than would otherwise be typical, as a reflection of Basso's opinion of the equity's market price compared to its potential fair value.
- Event-Oriented/Special Situations. Convertible securities often are impacted by the occurrence of corporate events such as mergers, acquisitions, spinoffs and restructurings, many of which trigger special rights for the convertible's holders or cause movements in the market prices for these securities. Analysis of these events is combined with a review of the legal documents governing the securities that Basso intends to invest in, as this review is significant to understanding the potential impact of the events.

While these strategies underlie Basso's approach to investing in convertible securities, Basso also applies some of these strategies in connection with its management of Funds that do not purchase convertible securities as their core investments. One Fund managed by Basso focuses on investing in securities issued by special purpose acquisition companies, or SPACs, which attempt to use the money raised in their initial public offerings to purchase one or more existing private businesses. SPACs offer investing opportunities that require careful attention to stock prices, trading activity, company news and company fundamentals. Basso also manages a proprietary Fund that focuses on various trading and news-flow-oriented strategies.

All of the Funds managed by Basso have broad investment discretion. As noted, the principal types of securities purchased and sold by Basso's largest Fund include convertible securities and equities; however, this Fund and the other Funds also invest in other equity-linked securities such as put and call options, warrants and rights, as well as corporate or government bonds, credit derivatives, futures, currency forwards and the securities of distressed companies. The Funds buy and sell securities on both exchange-listed and over-the-counter markets. Basso takes both long and short positions in these instruments. There are no material limitations on the instruments that Basso may trade on behalf of the Funds.

### **Investment Mandate**

The investment mandate for each Fund is described in its confidential offering memorandum. That Fund-specific mandate guides Basso's role as investment adviser. Basso has full discretion when trading on behalf of the Funds and therefore does not require or seek approval from the Funds or the investors in the Funds before trading. Basso has in the past, and may in the future, negotiate managed account or fund relationships in which Basso would tailor

its advisory services to an investor's needs. For example, managed account clients may be allowed to request certain investing or trading restrictions.

### **No Wrap Fee Programs**

Basso does not participate in wrap fee programs and does not manage wrap fee accounts.

### **Assets Under Management**

As of March 1, 2014, Basso managed approximately \$514,346,593 of client assets on a discretionary basis.

## **ITEM 5: FEES AND COMPENSATION**

### **Management Fees and Performance Based Compensation**

Basso charges Fund investors a management fee based on their account balances. The fee is payable at the end of each calendar quarter, and is pro-rated for partial periods. The fee is deducted from the investor's account in arrears, rather than billed or deducted in advance. Basso may, in its discretion, waive or reduce the management fee for certain investors.

Basso charges Fund investors performance-based compensation at year end or when they redeem or withdraw from a Fund. Like the management fee, the performance-based compensation is deducted from the investor's account in arrears. The performance-based compensation is a percentage of the amount by which the net asset value of the investor's investments has grown during the year. The performance-based compensation is not charged, however, unless the net asset value of an investor's account exceeds the investor's "high water mark". The high water mark, generally, is the highest prior net asset value of the investor's account, either at the time of initial investment or at any earlier year end, before reduction for any accrued performance-based compensation. In short, Basso does not earn performance-based compensation unless the investor has recouped losses measured against its high water mark. Basso may, in its discretion, waive or reduce the performance-based compensation for certain investors.

Basso's fee schedule is omitted because this brochure is only being delivered to qualified purchasers, as defined in the Investment Company Act of 1940, as amended, and to non-U.S. persons.

### **Fund Expenses**

Each Fund pays all of its ongoing investment, administrative and operating expenses, some of which are or may be:

- Investment expenses such as brokerage commissions and other transaction charges; interest on margin accounts and other indebtedness; borrowing charges, fees and expenses related to short selling; taxes and other governmental charges; legal fees in reviewing and negotiating trading documentation;

- certain research expenses;
- legal, accounting, auditing and other professional fees and expenses of the Funds;
- certain insurance expenses;
- tax preparation fees and expenses and the costs of preparing and distributing annual reports and certain other tax-related items to investors;
- administrative costs, including the fees and out-of-pocket expenses of the Funds' third party administrator;
- fees and expenses of service providers;
- litigation-related expenses;
- indemnification payments;
- the Fund's *pro rata* portion of the fees and expenses of any master fund or any trading vehicles that the Fund invests through, including directors' fees and expenses, when applicable; and
- reimbursements due to Basso for all costs and expenses, if any, borne by Basso on behalf of the Fund.

The Funds do not pay any of Basso's internal expenses, such as office rent and overhead, or employee salaries and health care.

Other types of charges, such as those relating to transaction costs and brokerage fees, are discussed in Item 12.

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

As described in Item 5 above, Basso receives both performance-based compensation and an asset-based fee for managing the Funds. The confidential offering memorandum of each Fund sets forth conflicts of interest that Basso may face with respect to receiving performance-based compensation.

In sub-advising the Mutual Fund, Basso receives an asset-based fee only.

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

Basso provides investment advice to the Funds, which are considered to be "pooled investment vehicles" because numerous individuals and entities are invested in each Fund and their assets are combined prior to being invested by the Fund. The Funds' investors include high net worth individuals, other pooled investment vehicles (sometimes called "funds of funds"), pension plans, trusts, institutional investors and other types of business entities. The Funds based in the United States limit investors to persons who are both "qualified purchasers" as

defined in the Investment Company Act and “accredited investors” as defined in the Securities Act of 1933, as amended. Investors in the Cayman Islands-based Funds must be either non-U.S. persons or, if U.S. persons, both qualified purchasers and accredited investors. Generally, the Funds require a minimum initial investment of \$1,000,000, although this minimum can be waived at the discretion of a given Fund’s Board of Directors, following discussions with Basso.

As noted, Basso also provides investment advice in its role as sub-adviser to the Mutual Fund. The Mutual Fund is generally open to investment without the restrictions noted in the preceding paragraph. Basso plays no role in the offering or marketing of the Mutual Fund.

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

### **Investment Strategies**

See Item 4 above for a description of the major strategies and the broad types of analyses that Basso uses in its investment process when managing the Funds.

### **Risk Monitoring**

Risk monitoring informs Basso’s investment activities and is designed to help Basso assess certain market exposures and determine whether any portfolio or position level adjustments are warranted. Basso’s beliefs as to the appropriate level of risk at any point in time for a Fund — whether overall, or concerning a particular investment asset, asset class, strategy or market — change in response to many factors, including the global macroeconomic environment and the investment opportunities within the Fund’s strategies. Basso’s risk monitoring processes help the firm’s portfolio managers understand some, but not all, of the investment risks to which the Funds are exposed.

### **Overview of Risks Factors**

Investors in the Funds should understand that even the most rigorous processes do not ensure successful investing. Investing in securities and derivatives involves the possibility of losing some, and possibly all, of a person’s investment. This is true regardless of the amount of hedging undertaken, which varies between the Funds and at differing times within a Fund, and the diversification of the portfolio maintained by a Fund.

The following is a discussion of some of the material risks associated with Basso’s trading strategies and the securities the Funds invest in. Each of the strategies is subject to many of these risks. The confidential offering memorandum for each Fund contains a more complete description of the risks associated with an investment in the Fund.

*Relative Value Determinations.* The success of a relative value trade depends on Basso’s ability to design an investment process that capitalizes on relative mispricings among interrelated instruments. This investment process must consider several factors. Among these, that there is not always a predictable relationship between the pricing of a convertible security and its underlying equity. Further, regulatory issues, corporate events and changes in company fundamentals can each impact convertible security and equity valuations, sometimes unequally.



*Convertible Security Hedging Risk.* Convertible security hedging usually involves acquiring convertible securities and selling short a variable amount of the underlying equity security, or vice versa. Some of the risks that can impact the success of Basso's hedging include rising interest rates or declining volatility, changes in the availability of shares for short selling purposes and material changes in an issuing company's prospects, dividend policy or credit rating.

*Material Event Analysis.* Event oriented and special situation strategies, as noted earlier, involve investing in positions whose profitability depends on the occurrence, non-occurrence or other result of some significant corporate or other market event. These events can include mergers, tender offers, exchange offers, proxy contests, restructurings, bankruptcies and regulatory or legal developments. The likelihood of these events occurring is affected by numerous factors, including market movements, regulatory intervention, shareholders' consent and changes in interest rates and economic outlook. The risk that an anticipated event does not occur can be high, and unexpected outcomes can lead to substantial losses. Moreover, these events can impact positions in strategies that are not initially established as event oriented or special situation.

*Securities Lending and Borrowing.* The Funds do not directly lend securities to third parties in the ordinary course of business. The Funds' securities are, however, held by qualified custodians who are permitted to "rehypothecate", or loan, the securities to third parties. When a Fund's securities are loaned, the Fund may be unable to exercise voting or other rights associated with the securities. In addition, a Fund may experience substantial losses if its qualified custodian defaults on its obligations to return rehypothecated securities or becomes insolvent. The Funds do borrow securities directly, as a precursor to selling them short. When a Fund borrows securities, it is subject to the risk that the lender will recall them while the Fund has an open short position. If this occurs, the Fund could be compelled to (i) borrow securities from another source (possibly at a materially higher cost), (ii) close a short position earlier than anticipated (potentially impacting the Fund's ability to hedge certain of its exposures) or (iii) close related positions that Basso believes could be inadequately hedged if borrowable securities cannot be located.

*Short Sales.* The Funds sell securities short. Securities sold short must later be replaced or offset by market purchases, and therefore any increase in the market price of these securities results in a loss (though the loss may be offset by a gain on the related convertible security). Purchasing securities to close out short positions can itself cause their market price to rise further, in turn increasing losses. Short selling is subject to a potentially unlimited risk of loss because there is no cap on how high the price of a security may rise before the short position is closed out. Short selling has at times been the subject of regulatory scrutiny - regulatory restrictions in one or more markets in which Basso trades, like the short-selling ban imposed by the U.S. Securities and Exchange Commission in September 2008, could severely impair Basso's ability to engage in short selling and render a strategy unprofitable.

*Hedging.* Basso does not attempt to hedge all market or other risks inherent in a Fund's positions, and will hedge certain risks only partially. Basso may choose not, or may determine that it is economically unattractive, to hedge certain risks — either in respect of particular positions or in respect of the Fund's overall portfolio. A Fund's portfolio may also contain

unhedged positions when Basso has a strong fundamental, or directional, view regarding specific positions. While Basso may rely on diversification to control these risks, Basso generally is not subject to any formal diversification requirements with respect to any Fund.

*Leverage.* Basso Funds trade on a leveraged basis by purchasing securities on margin, selling securities short and using options and swaps. Leverage increases the magnitude of both the Fund's profits and losses. Further, decreased availability of margin, or increases in margin rates, can impact profitability.

*Trading Frequency.* Basso's convertible positions are, as noted, typically comprised of a long convertible security and a short equity hedge. Basso closely monitors both sides of these positions, long and short. Convertible securities are bought and sold in response to market and macroeconomic events, portfolio manager judgments and investor capital activity – the impact of these and other factors can result in periods of greater and lesser convertible trading activity. Short equity positions may be actively, or “dynamically”, traded in response to some of these same factors, as well as Basso's perception of likely future events. In addition, when a new convertible security is issued, a Fund may engage in a short period of active buying and selling of that security, often on an unhedged basis.

*Securities in General.* Prices for securities are affected by numerous, often complex and interrelated factors. Some of these factors are interest rates, general economic conditions, geopolitical forces, foreign exchange rates, market sentiment, analyst research and media reports, trading patterns, credit availability and spreads, an issuer's financial condition and corporate announcements, competition, lawsuits and regulatory changes. Just as these factors are complex, so too is the investment process. There can be no assurance that Basso will successfully identify the factors affecting the prices of securities or correctly determine their impact on the Fund's investments.

*Convertible Securities.* Convertible securities, including debt, preferred stock and mandatorily convertible instruments, are securities that can at a set price be converted into common shares of the issuer or the cash value of those shares. Issuers of convertible securities may be in uncertain financial condition. Many of the convertible debt instruments purchased are issued by companies that do not have investment grade debt ratings and will have an increased risk of default. Moreover, whether or not an actual default occurs, the prices of non-investment grade debt are often highly volatile. Because convertible securities can also act like equity options on the shares they convert into, they are vulnerable to declines in value if market volatility declines.

*Equity Securities.* A number of Basso's strategies attempt to gauge the direction or future price level of different equity or equity-related securities or include equity securities as a component of a particular trade (including, as noted, as hedges for convertible positions). Numerous inter-related and difficult-to-quantify economic factors influence the prices of equities, including market sentiment and subjective and extraneous political and economic matters. There can be no assurance that Basso will be able to gauge future equity price levels correctly. A Fund's directional equity positions may be leveraged, and even comparatively minor adverse market movements can result in substantial losses.

*Corporate Debt.* The Funds may invest in non-convertible debt. This debt is frequently non-investment grade or unrated, and may be subject to greater market fluctuations and risks of loss of income and principal than investment grade securities. Prices for this debt are often influenced by many of the same difficult-to-predict factors that affect equity prices, as well as the market's perception of the issuer's ability to pay the debt in accordance with its terms, the occurrence of issuer-related events such as earnings announcements and, to a lesser degree, fluctuations in prevailing interest rates.

*Options.* Option trading can be speculative and may involve a high degree of risk. If a Fund purchases a put or a call option, it may lose the entire premium paid. When a Fund writes or sells a put or call option, the loss is potentially unlimited.

*Derivatives in General.* A Fund may trade derivative financial instruments such as warrants, options, futures contracts and forwards, and may use these instruments for hedging and other trading purposes. The use of derivative instruments involves a variety of material risks, including those posed by the extremely high degree of leverage often embedded in derivatives and possible deviations between the actual and theoretical value of a derivative. When a Fund trades derivative instruments "over-the-counter", the Fund may be subject to the credit risk of the parties it trades with and may also bear the risk of settlement default. These risks may differ materially from those connected with exchange-traded transactions, which generally are backed by clearing organization guarantees, daily marking-to-market and settlement, segregation and minimum capital requirements applicable to intermediaries. In addition, the markets for certain derivatives are frequently characterized by limited liquidity, which can make it difficult and costly for a Fund to close out positions in order to realize gains or limit losses.

*Developing Markets.* The Funds invest in securities of issuers based in developing countries. These securities present certain special risks, including: political or economic instability; the possibility of governmental actions such as expropriation, nationalization or confiscatory taxation; currency controls; withholding taxes on dividends, interest and gains; less robust bankruptcy laws and practice; fluctuating currency exchange rates and restrictive regulations. As compared to U.S. entities, developing market entities generally disclose less financial and other information publicly, and are subject to less stringent and less uniform accounting, auditing and financial reporting standards.

*Futures.* Futures prices are highly volatile, and influenced by supply and demand relationships, government trade, fiscal, monetary and exchange control policies, political and economic events and marketplace emotions. Futures trading is highly leveraged. Furthermore, futures trading may be illiquid as a result of daily limits on movements of prices. A Fund's futures trading could also be adversely affected by speculative position limits.

## **ITEM 9: DISCIPLINARY INFORMATION**

There have been no legal or disciplinary actions that are material to a client's or prospective client's evaluation of Basso's advisory business.

## **ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Basso Management, LLC, a Delaware limited liability company, serves as general partner or managing member of the U.S. Funds managed by Basso. The four Basso Founding Managing Partners also serve as the principals of Basso Management, LLC.

Basso has delegated certain discretionary investment management and trading authority to Basso Associates UK Limited (“BAUK”), a wholly-owned subsidiary of Basso, which is registered with the U.K. Financial Conduct Authority under Part IV of the U.K. Financial Services and Markets Act 2000, and has been granted a certificate of registration as a Foreign Institutional Investor by the Securities and Exchange Board of India pursuant to Regulation 7 of the SEBI (Foreign Institutional Investors) Regulations, 1995. Basso is responsible for compensation payable to BAUK, but any trading expenses incurred by BAUK as a result of its trading a Fund’s assets are borne by the relevant Fund. Personnel who provide advisory services on behalf of BAUK are subject to Basso’s policies and procedures as set out in the Basso Compliance Manual and Code of Ethics as well as the BAUK Financial Conduct Authority Compliance Manual.

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

### **Code of Ethics**

Basso is an SEC-registered advisor and has adopted a Code of Ethics pursuant to rule 204A-1 under the Investment Advisers Act that is built on the principle that Basso owes a fiduciary duty to the Funds and their investors. The Code of Ethics and related compliance procedures in place at Basso seek to prevent activities that run, or appear to run, contrary to the best interests of the Funds. Some of the underlying principles of the Code include the obligation to act with integrity, competence and respect in all work matters, to place the interests of Basso and its clients above personal interests, to avoid actual or potential conflicts of interest and to uphold the rules governing capital markets. All principals and employees of Basso must confirm that they understand the Code of Ethics and agree to comply with it both upon initial employment and through an annual certification.

Basso’s principals and employees may trade securities for their own accounts, including securities in which a Fund may invest. However, every personal securities transaction must comply with the procedures and restrictions set forth in the Code of Ethics, which are designed to mitigate and manage potential or actual conflicts of interest that may arise from personal securities transactions. Basso’s policy requires most personal trades to be pre-cleared by the Chief Compliance Officer or his designee. The two main exceptions to the pre-clearance policy are trades involving securities issued by open-end mutual funds or the common stock of companies in the Standard & Poor’s 500 Index.

The pre-clearance policy involves a multi-step process that includes confirming whether the security is issued by a company that is on Basso’s “restricted list”. The restricted list contains the names of companies whose securities cannot be purchased by Basso, its personnel or the Funds. The typical reasons for a restriction are that Basso has entered into a

confidentiality agreement with a company or otherwise received material non-public information about a company.

In addition, the pre-clearance process confirms whether any Fund has a position in a company's securities. If so, an analysis is done with the appropriate portfolio manager to determine whether a personal trade in the same securities can go forward without negatively impacting the Fund's position. The answer may depend on the size and direction of the proposed trade, the type of securities held by the Fund and the timing of expected trading by the Fund.

All personal account trades must be held for at least 30 days, and once sold, cannot be repurchased for another 30 days. It is Basso's view that these restrictive periods discourage its personnel from diverting attention from their duties towards the Funds, as could occur if Basso personnel were permitted to trade more frequently for their personal accounts.

Basso reviews all personal trading records on a monthly basis to confirm that all necessary pre-clearances were obtained, all 30-day holding periods were complied with and no restricted list securities were traded. In addition, Basso undertakes a "front running" check to confirm whether personal trading has taken place prior to Fund trading, and if it has, to determine whether improper advantage was taken or the Funds were disadvantaged.

Basso's Code of Ethics also contains policies and procedures designed to ensure that insider trading is not engaged in. Insider trading is generally understood to be trading on the basis of material non-public information. The Code of Ethics addresses the principal elements of insider trading, including materiality, and the procedures to follow when coming into possession of material non-public information. Maintenance of the restricted list, mentioned earlier, is a central component of Basso's insider trading procedures.

To augment the Code of Ethics, Basso personnel receive training in a number of areas. For instance, insider trading is addressed twice a year in firm-wide trainings sessions as well as in periodic emailed "compliance reminders". Training sessions and compliance reminders also cover such topics as market manipulation, regulations that govern trading, required government filings, anti-money laundering and the Foreign Corrupt Practices Act. Conflicts of interest that can impact Basso and the Funds, such as those arising from the giving and receipt of gifts to and from business partners, and the making of political contributions, are also discussed and the subject of specific compliance procedures.

Investors or prospective investors may obtain a copy of Basso's Code of Ethics by making a written request to Basso Capital Management, L.P., Attention: Chief Compliance Officer, 1266 East Main St., 4th Floor, Stamford, CT 06902.

## **Conflicts of Interest**

Basso is subject to additional conflicts of interest which may impact its clients and investors beyond those discussed immediately above. The confidential offering memorandum for each Fund contains a more complete description of the most significant conflicts of interest associated with an investment in the Fund, and potential investors should read about those conflicts carefully. Briefly, those conflicts concern i) other business activities that Basso and its

partners may engage in, which may create time and resource competition with the Funds, ii) other accounts and funds that Basso may open which may have differing features and rights than those of the Funds and iii) allocation issues between Funds and such other accounts and funds, which are discussed below in Item 12. In addition, although Basso devotes a significant amount of time to the Funds in order to carry out its responsibilities, Basso is required to devote only such time and attention to the business and affairs of the Funds as it determines to be necessary or advisable. Basso and/or its principals may currently be involved in other business ventures (which may include proprietary trading) or may organize or become involved in other business ventures in the future. The Funds will not share in the risks or rewards of these other ventures.

## **ITEM 12: BROKERAGE PRACTICES**

### **Selection of Broker-Dealers**

The Funds maintain a number of different brokerage and custody arrangements with banks and other established financial institutions. The selection of brokers to execute securities transactions for the Funds' accounts is guided by the primary goal of obtaining "best execution" for clients. In determining whether a Fund is receiving best execution from specific counterparties, and in circumstances where execution may be obtained from more than one broker or dealer, Basso evaluates such factors as price (including commissions), the financial stability, credit quality and reputation of the broker, and the quality of the investment research, investment strategies, execution capabilities, clearance, settlement, custody, recordkeeping and other services provided by the broker. Best execution does not always mean getting the lowest possible price for a particular trade.

Basso currently uses one principal electronic communications network for its non-broker trading of common stock and options. In selecting this network, Basso considered factors similar to those noted in the preceding paragraph, along with ease of use, speed and routing of trades, trade execution and the fullness of market price disclosure. "Soft dollar" commissions are paid when Basso uses this network – in short, the Funds pay commissions somewhat higher than would ordinarily accompany this type of equity and option trading because this network provides the connectivity, communication of allocation instructions and routing necessary for efficient trading in securities as well as other services in the form of research reports on particular industries and companies, economic surveys and analyses and other news services.

Soft dollar commissions are used by Basso to pay for certain research products and services that are intended to fall within the "safe harbor" created by section 28(e) of the U.S. Securities Exchange Act of 1934, as amended. These products and services assist Basso in its investment decision making, and include earnings estimates, company research, commentary on economic and financial markets, price modeling tools, security pricing and convertible security databases. On occasion, soft dollars usage may fall outside the 28(e) safe harbor - Basso believes these circumstances are infrequent, and the usage will fall within Basso's fiduciary duty to the Funds. At such times as the assets of a given Fund are considered to be "plan assets" under ERISA, Basso ensures that all soft dollar usage falls within the 28(e) safe harbor.

When Basso uses client commissions to buy research, it receives a benefit because it does not have to furnish or pay for the research itself. Because the Funds pay somewhat higher

commissions to generate soft dollars, Basso faces a conflict of interest between its need to access the research and the Funds' possible interest in paying the lowest commission rates available. Basso addresses this conflict by reviewing the factors noted above when selecting the broker-dealers and electronic networks it uses, and by considering the reasonableness of the commissions paid in relation to the research or services provided.

Soft dollars generated by trades executed on behalf of one particular Fund may be used for services that benefit that Fund or other Funds. Nonetheless, given the structure and nature of the various Basso Funds, and their trading volumes, Basso believes there is an overall proportionality between the soft dollar commissions paid by a given Fund and the soft dollar-related benefits it receives.

### **Directed Brokerage**

Basso does not currently permit its clients or investors to direct brokerage, which is the practice of requiring Basso to execute transactions through a specified broker-dealer. As noted, Basso considers numerous factors in determining which brokers to work with, and looks to obtain best execution at all times. Basso may in the future provide investment advisory services to additional Funds whose investors are advised by a single manager or a managed account in which the client may want Basso to execute transactions through a specified broker-dealer. These clients should understand that compliance with a directed brokerage arrangement may result in Basso's being unable to achieve the most favorable execution of the client's trades. Directing brokerage may also cost clients more money. For example, in a directed brokerage account, clients may pay higher brokerage commissions because Basso may not be able to aggregate orders to reduce transaction costs, or clients may receive less favorable prices.

### **Trade Aggregation and Allocation**

Trade aggregation is important when different Funds are trading the same securities. At those times, Basso will typically execute trades on an aggregate basis and allocate the securities bought or sold on a *pro rata* basis to the relevant Funds. The *pro rata* allocation may at times be altered depending upon a number of factors, principal among these is whether a Fund is paying out redemptions or receiving new investments. In addition, Basso will consider the participating Funds' respective portfolios, hedges, investment programs and other possible tax and legal considerations in determining whether a *pro rata* allocation is appropriate. If a trade cannot be fully executed under existing market conditions, the amount executed will be allocated among the appropriate accounts on a basis that Basso considers fair and equitable.

### **Trade Errors**

In the course of trading and investing for the Funds, Basso personnel may make "trade errors" — *e.g.*, errors in executing specific trading instructions. Examples of trade errors include purchasing or selling the wrong security, or the right security in the wrong quantity or account. Trade errors may result in losses or gains. Basso attempts to identify and minimize trade errors, in part by promptly reconciling confirmations with order tickets and intended orders. On a quarterly basis, trade errors resulting in losses are netted against trade errors resulting in gains. When this netting identifies a balance due to a Fund, Basso reimburses the Fund for the amount

due. Netting is done exclusively on a Fund-by-Fund basis, and not between different Funds. Material trading error losses are immediately reimbursed by Basso. Any Fund for which periodic netting is not applied due to ERISA considerations is reimbursed by Basso for trade errors resulting in losses as they occur.

### **ITEM 13: REVIEW OF ACCOUNTS**

Basso's Investment Committee oversees strategy allocation and risk management for all Basso Funds on an active basis. The committee's members are Basso's Founding Managing Partners. The committee generally meets weekly, as well as on an ad-hoc basis when economic events, investor actions or newly-arising issues indicate. Committee reviews focus on macroeconomic issues, leverage, diversification, trends, analyst and research opinions and overall strategy. Committee members also work with Basso's risk manager, whose reports provide various risk measures and matrices, and with Basso's analysts. The committee also establishes quantitative and qualitative guidelines within which other trading desk personnel are allowed to trade for the Funds.

In addition, Basso's operations personnel, including its two Senior VPs of Operations, perform a variety of account reviews on an ongoing basis. These reviews focus on cash management, cash reconciliation, trade confirmation and reconciliation, portfolio valuation and corporate actions, and are undertaken with ongoing coordination among the Funds' administrator, various prime brokers, banks and counterparties. Basso's General Counsel/Chief Compliance Officer, with certain designees, performs various review functions, in some cases on a daily basis. These functions cover such areas as Basso's restricted trading list, personal trading, beneficial ownership levels and reporting obligations, trade errors, short selling and proxy voting. Basso's Chief Financial Officer and Chief Accounting Officer each perform a number of review functions on an ongoing basis, also in conjunction with the Funds' administrator, prime brokers, banks and counterparties. These functions include preparation of monthly accounts and annual financial statements, portfolio and net asset valuation, cash management and reconciliation, books and records maintenance and other matters.

All Fund investors receive account statements and reports of estimated investment performance on a monthly basis. The main convertible Funds also send a weekly estimate of investment performance and monthly transparency reports that provide such portfolio data as geographic distribution, leverage and top position exposures. Basso also provides investors with audited financial statements annually through the Funds' administrator. Communications with any clients other than those described above are as agreed between Basso and the client.

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

Please see Item 12 above for a description of "soft dollar" research or other services that Basso receives as a result of its trading activities on behalf of the Funds and related conflicts of interest.

Basso currently uses a placement agent for marketing its main convertible-focused Funds. This agent is registered as a broker-dealer with the U.S. Securities and Exchange Commission



and is paid a fee for those persons and entities who chose to invest in these Funds after an introduction to Basso by the agent.

Basso personnel occasionally speak at conferences and programs sponsored by the Funds' prime brokers for investors interested in hedge funds. These conferences and programs can provide Basso with an introduction to potential Fund investors. Basso does not compensate prime brokers for providing access to these "capital introduction" opportunities, nor does Basso commit to execute trades with prime brokers sponsoring these events. However, when deciding which prime brokers to use among prime brokers that provide the Funds with the same approximate quality of services and pricing, Basso may take into account access to capital introduction opportunities and other services that the prime brokers offer.

#### **ITEM 15: CUSTODY**

Basso is deemed to have custody of client funds or securities because it acts as the manager or as the investment adviser to clients with the authority to dispose of funds and securities in their accounts. Client assets are held in custody by qualified custodians, which are broker-dealers or banks unaffiliated with Basso. The Funds are subject to an annual audit and the audited financial statements are distributed to each investor in the Funds generally within 120 days following a Fund's fiscal year end. The audited financial statements are prepared in accordance with U.S. generally accepted accounting principles by an independent public accountant that is registered with and subject to inspection by the Public Company Accounting Oversight Board.

#### **ITEM 16: INVESTMENT DISCRETION**

Basso generally has full discretionary authority to manage client accounts. The authority is discussed in the confidential offering memorandum of each Fund, and is set out in certain documents such as the Limited Partnership Agreements or Investment Management Agreements governing the Funds. This discretion includes the authority to determine the securities to be bought and sold, the timing, quantity and price of these securities transactions, the broker or dealer to be used and the commission rates paid. Basso generally also has full discretion, as discussed above in Item 12, to select prime brokerage and other banking and counterparty relationships, as well as other related investment parameters, such as leverage.

Basso has, in the past, managed a single investor fund and managed account. Basso would in the future consider managing investment assets under the same or similar structures, and consider investor requests regarding portfolio composition, leverage or similar limitations. Nonetheless, Basso would generally expect to retain full, day-to-day, discretionary authority over the investment process within the agreed upon parameters.

#### **ITEM 17: VOTING CLIENT SECURITIES**

Basso has the authority to vote all securities held by each of the Funds. Basso has adopted proxy voting policies and procedures consistent with Rule 206(4)-6 under the Investment Advisers Act. The general policy is to vote proxy proposals in a way that Basso believes will cause the related investment's value to increase the most or decline the least. In

limited circumstances, Basso may abstain from voting a proxy when it believes this course of action would be in the applicable Fund's best interest.

Basso's General Counsel/Chief Compliance Officer or his designee, in coordination with Basso's investment professionals and operations staff, prime brokers and an independent proxy voting service: receive proxy voting materials; determine each Fund's holdings as of the record date; identify and address any material conflicts between Basso's interests and those of the Funds, or among the Funds; determine how to vote, or as noted, whether to abstain from voting; submit proxy votes and keep proxy voting records. If a conflict of interests is identified, Basso will not vote the proxy on behalf of the Funds until it has determined that the conflict is not material or has agreed upon, implemented and documented a method for resolving the conflict.

As a standard practice, the portfolio manager in charge of the security being voted is asked how the Funds should vote. A description of the issues being voted is circulated to the portfolio manager, along with the recommendations of company management. Votes contrary to company management's recommendation on routine matters are supported by an explanation from the portfolio manager, as are all votes on non-routine matters. Examples of non-routine matters include mergers, substantial asset dispositions, material acquisitions and certain corporate governance changes.

Basso does not permit individual investors or a group of investors to direct proxy voting.

Investors may obtain a copy of Basso's proxy voting policy, and information regarding how client securities have been voted, by making a written request to Basso Capital Management, L.P., Attention: Chief Compliance Officer, 1266 East Main St., 4th Floor, Stamford, CT 06902.

#### **ITEM 18: FINANCIAL INFORMATION**

Basso does not solicit prepayment of fees from its clients, and has not been the subject of a bankruptcy petition during the past ten years.