

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

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**March 29, 2016**

**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 27, 2015 filing date of Basso's prior Part 2A of Form ADV and today's date.

### **ITEM 3: TABLE OF CONTENTS**

	<b><u>Page</u></b>
Item 2: Material Changes.....	i
Item 4: Advisory Business .....	1
Item 5: Fees and Compensation.....	4
Item 6: Performance-Based Fees and Side-By-Side Management .....	5
Item 7: Types of Clients.....	6
Item 8: Methods of Analysis, Investment Strategies and Risk of Loss .....	6
Item 9: Disciplinary Information .....	10
Item 10: Other Financial Industry Activities and Affiliations .....	10
Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	10
Item 12: Brokerage Practices .....	12
Item 13: Review of Accounts .....	14
Item 14: Client Referrals and Other Compensation.....	15
Item 15: Custody.....	15
Item 16: Investment Discretion.....	15
Item 17: Voting Client Securities .....	16
Item 18: Financial Information .....	16

## **ITEM 4: ADVISORY BUSINESS**

### **General Description of Basso**

Basso Capital Management, L.P. (“Basso” or “the firm”), 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 (“Basso Funds”). 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 more than 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 Basso Securities Ltd. in 1998, and Dwight Nelson, who joined in 1999.

In serving as investment adviser to the Basso Funds, Basso is responsible not only for investment decisions, but other matters such as marketing, investor relations, administration, valuation, legal and audit. The firm also acts, generally with the title “sub-adviser”, on behalf of convertible-security-focused funds (or portions of funds) that are managed by other entities. Basso’s role as sub-adviser is largely limited to making investment decisions, with related trade execution and processing responsibilities. Currently, the firm has four such relationships, two with multi-strategy, multi-manager entities falling under the K2/D&S Management Co., L.L.C. (“K2”) and Franklin Templeton Investments umbrella, a third as sole sub-adviser to a K2-managed entity and a fourth as the sole adviser to a UCITS fund managed by DB Platinum Advisors. These funds are referred to in this brochure as the “Sub-Advised Funds”, and the Basso Funds and Sub-Advised Funds are sometimes collectively referred to as “the Funds”. We note that each of the Sub-Advised Funds has its own offering materials, prepared by the relevant managing company, that describe the particular entity’s investment terms, management, risks and policies. We refer you to those Sub-Advised Funds’ offering materials, as this brochure is prepared primarily for delivery to investors in the Basso Funds, and is focused largely on matters pertaining to the Basso Funds.

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 Basso Funds (many of which are common to investments in the Sub-Advised Funds). We encourage our investors and prospective investors to review our policies and procedures and inquire directly with us about these conflicts and risks. Please request a copy of the relevant Basso Fund’s most current offering materials for a fuller description of these and other conflicts and risks that might exist.

### **Investment Strategies**

#### **Convertible Securities**

The firm focuses on hedged investments in convertible securities, but also invests in various other securities. Convertible securities are a form of debt or preferred equity 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 offering materials for the relevant Basso Fund (or in the relevant Sub-Advised Fund's offering materials). 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 yield differences between the convertible securities and their equity hedges or to realize gains (or losses) 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 produce profit or loss from changes in the relative valuation of the trade's components due to upward or downward movements in the equity price.
- Credit Directional. Convertible securities inherently include a credit component that 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 Directional. 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.
- Volatility. Volatility, or gamma, relates to the call option embedded within most convertible securities. By trading volatility (changing the equity hedge held against a long convertible position by buying and selling shares) Basso hopes to profit from short term movements in stock prices that are more correlated with the broader markets than with the longer term, fundamentals-based trends which are part of the other strategies mentioned above.

- Non-Market and Direct Transactions. Basso will from time to time, either independently or with other convertible security holders, engage in bi-lateral negotiations with the issuers of convertible securities or their representatives. These negotiations center on possible transactions such as exchanges, one-time payments and conversion rate adjustments that provide economic or other benefits to the issuer and the convertible security holders – the Funds will participate should acceptable terms be reached.

### SPAC Securities

Basso also advises a Fund that invests in the securities issued by special purpose acquisition corporations, or SPACs. A SPAC is a publicly-traded, “blind pool” funding vehicle for which a management team raises capital through an initial public offering (“IPO”), usually by selling units that consist of one share of equity and one warrant. The capital raised is placed in a trust and held for the benefit of the shareholders until such time as the management team identifies a private company to merge into the SPAC. The shareholders then have the option to retain their shares and thus become investors in the new operating business or to request redemption of their shares at the pro-rata amount of the trust, which is typically equal to or in excess of the price paid for the unit in the IPO. Basso’s SPAC Fund typically buys units in the IPO and, based on market prices, an assessment of the merger (if any) and other factors, determines when and whether to dispose, trade or remain invested in the SPAC’s shares or warrants.

### Investment Discretion and Mandate

The firm has broad investment discretion when managing the Basso Funds. As noted, Basso’s convertible Funds principally trade convertible securities and their underlying equities; however, these entities may also trade 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. Basso’s SPAC Fund primarily trades the securities issued by SPAC entities, including equities, warrants, rights and units. Long and short positions are taken on the securities traded by the Basso Funds, and these securities are either traded over-the-counter or on listed exchanges.

Basso also has similar, broad discretion when acting as sub-adviser for all, or its allotted portion of, the Sub-Advised Funds. However, Basso’s management of these entities is subject to limitations, based on regulatory and non-regulatory restrictions, which do not impact the Basso Funds. These restrictions are more fully discussed in the relevant Sub-Advised Fund’s offering materials.

Basso would, in the future, as it does currently with the Sub-Advised Funds, tailor its advisory services to an investor’s needs. For example, an account could be managed with 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, 2016, Basso managed approximately \$998,300,000 of client assets on a discretionary basis.

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

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

Basso Fund investors are charged 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, and does so for its owners and employees.

Basso Fund investors are also charged performance-based compensation at year end or when they redeem or withdraw their investment. 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, and does so for its owners and employees.

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.

Basso receives a management fee for sub-advising each of the Sub-Advised Funds, and a performance fee for sub-advising one of these entities. The responsibility for charging or deducting these fees resides with the management company for the respective Sub-Advised Fund, which in turn wires Basso its agreed-to fees.

### **Fund Expenses**

Each Basso 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; reporting expenses, including regulatory reporting expenses; legal fees in reviewing and negotiating trading documentation;

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

The Basso 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.

The expense and fee provisions governing the Sub-Advised Funds are discussed in their respective offering materials.

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

As described in Item 5 above, Basso receives a performance-based fee for managing some, but not all, of the Funds. The offering materials of each such Fund set forth conflicts of interest that Basso may face with respect to receiving performance-based compensation – notably, that the firm may be incentivized to make riskier or more speculative investments than would be the case if performance-based compensation was not received.

In addition, performance-based compensation may create an incentive to favor such Funds over management-fee-only Funds; nonetheless, Basso believes that its interests are aligned with the ongoing stability and viability of each of the Funds. Basso has designed and implemented procedures that seek to ensure that all clients are treated fairly and equitably, in order to prevent this potential conflict from influencing the allocation of investment opportunities across the Funds. If Basso determines that more than one Fund should purchase or



sell a particular security at the same time, the firm uses its best efforts to allocate these purchases and sales equitably after consideration of certain factors, including, among others: cash available for investment in each account, current Fund asset mix and hedges, Fund investment objectives and restrictions and existing position sizes. With all factors being equal, it is Basso's policy to allocate trades on a pro rata basis, both when purchasing and selling securities.

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

The Basso Funds 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 firm. The Basso Funds' investors include pension plans, institutional investors, other pooled investment vehicles (sometimes called "funds of funds"), high net worth individuals and other business entities. The Basso 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 Basso Funds must be either non-U.S. persons or, if U.S. persons, both qualified purchasers and accredited investors. Generally, the Basso Funds require a minimum initial investment of \$1,000,000, although this minimum can be waived.

As noted, Basso also provides investment advice in its role as sub-adviser to the Sub-Advised Funds. The Sub-Advised Funds are, with one exception, mutual fund or similar entities open to investment without the restrictions noted in the preceding paragraph. The exception, a fund entity, is open to investors who are also, generally concurrently, making larger "fund of fund" investments in other similar entities not managed or sub-advised by Basso.

## **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 (with, as noted above, a focus on the risks pertaining to the Basso Funds). Each of the strategies is subject to many of these risks. The offering materials for each Fund contain a more complete description of the risks associated with an investment in that 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 purchasing 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 a 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 Basso Funds do not directly lend securities to third parties in the ordinary course of business. The Basso Funds' securities are, however, held by qualified custodians who are permitted to "rehypothecate", or loan, the securities to third parties. When a Basso Fund's securities are loaned, it may be unable to exercise voting or other rights associated with the securities. In addition, a Basso Fund may experience substantial losses if its qualified custodian defaults on its obligations to return loaned 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. The firm 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.* The Funds trade on a leveraged basis by purchasing securities on margin, selling securities short and using options and swaps. Leverage increases the magnitude of the Funds' 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. The firm 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 Funds' 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 for the Funds 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. When a Fund purchases a put or a call option, it may lose the entire premium paid. If 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 is subject to 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 based on price movements. A Fund's futures trading could also be adversely affected by speculative position limits.

*Sub-Advised Funds.* The Sub-Advised Funds each have investment mandates different from, and more restrictive than, those guiding the Basso Funds. Regulations enacted by the relevant governing jurisdiction impose many of these restrictions. The management companies of the Sub-Advised Funds impose other restrictions. These restrictions, which seek in substantial measure to ensure liquidity, are set out in the offering materials of the Sub-Advised Funds.

#### **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 Basso Funds domiciled in the United States. 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 Basso subsidiary. BAUK is authorized and regulated by the United Kingdom regulator, the Financial Conduct Authority, under Part 4a 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 by BAUK to its personnel, 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 adviser 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 its 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 these transactions. Basso's policy generally requires 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" and whether any Basso Fund holds a position in the security. Pre-clearance also includes a check to determine if the person has traded the same security in a contrary direction within the prior 30 days. This period is imposed to discourage personnel from frequent trading activity that would divert their attention from work-related duties.

Basso reviews the monthly personal trading records of firm personnel 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 determine if 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 and also 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 offering materials for each Basso Fund contain a more complete description of the most significant conflicts of interest associated with an investment in the relevant entity, 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 Basso Funds, ii) other accounts and funds that Basso may open or manage (such as the Sub-Advised Funds) which may have differing features and rights than those of the Basso Funds and iii) allocation issues between Funds and such other accounts and funds, which are discussed in Items 6 and 12. In addition, although Basso devotes a significant amount of time to the Basso Funds in order to carry out its responsibilities to them, Basso is required to devote only such time and attention to the business and affairs of these entities 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 Basso Funds will not share in the risks or rewards of these other ventures.

Conflicts of interest specific to the Sub-Advised Funds are discussed in their respective offering materials.

## **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, quality of investment research, broker reputation, trade execution and liquidity provision capabilities, market knowledge and the other services provided by the broker. Best execution does not always mean getting the lowest possible price for a particular trade.

Basso currently uses two principal electronic communications networks for trading common stock and options. In selecting these networks, Basso considered their ease of use, speed and routing of trades, trade execution and fullness of market price disclosure. "Soft dollar" commissions are paid when Basso uses one of these networks – this means the Basso Funds (and where eligible, the Sub-Advised Funds) pay commissions somewhat higher than would ordinarily accompany equity and option trading because this network provides the connectivity, communication of allocation instructions and routing necessary for efficient trading

as well as 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 Basso Funds. At such times as the assets of a given Basso Fund are considered to be “plan assets” under ERISA, Basso ensures that all related 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 relevant 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. This may result in one Fund receiving a disproportional benefit to the costs incurred.

### **Directed Brokerage**

Basso does not 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 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 to the appropriate Funds. As discussed above in Item 6, Basso has designed and implemented a policy that seeks to fairly and equitably allocate trades among the Funds by considering such factors as cash availability, current Fund asset mix and hedges, Fund



investment objectives and restrictions and existing position sizes. With all factors being equal, Basso allocates trades on a pro rata basis.

## **Trade Errors**

In the course of trading and investing for the Basso Funds (and the Sub-Advised 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 Basso Fund, Basso reimburses the entity for the amount due. Netting is done exclusively on a Fund-by-Fund basis, and not between different Basso Funds. Material trading error losses are immediately reimbursed by Basso. Any Basso Fund for which quarterly netting is not applied due to ERISA considerations is reimbursed by Basso for trade errors resulting in losses as they occur – this is currently true with respect to the firm’s main convertible Fund.

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

Basso’s Investment Committee oversees strategy allocation and risk management for all Funds on an active basis. The committee’s members are Basso’s Founding Managing Partners. The committee generally meets weekly, typically with other members of the firm’s investment team, 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 and allocations are to be made.

Beyond direct investment activities, various personnel perform a range of account reviews on an ongoing basis for the Basso Funds (and to a lesser degree, for the Sub-Advised Funds). Basso’s Operations team, in conjunction with the Funds’ prime brokers, banks, counterparties and administrator, focuses on cash management, cash reconciliation, trade confirmation and reconciliation, portfolio valuation and corporate actions. Basso’s General Counsel/Chief Compliance Officer, with certain designees, performs reviews covering such areas as the Firm’s restricted trading list, personal trading, beneficial ownership levels and reporting obligations, trade errors, short selling and proxy voting. Basso’s Chief Financial Officer’s reviews 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 Basso Fund investors receive account statements and reports of estimated investment performance on a monthly basis. The convertible-focused Basso 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. Management of the Sub-Advised Funds, rather than Basso, is responsible for such matters for these funds.

#### **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.

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

Basso is deemed to have custody of client funds or securities, with respect to the Basso Funds, because it acts as their investment adviser 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.

Basso does not have custody of client funds or securities with respect to the Sub-Advised Funds.

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

Basso generally has full discretionary authority to manage client accounts. The authority is discussed in the offering materials of each Fund, and is set out in certain documents such as the Limited Partnership Agreements or Investment Management Agreements governing the Basso Funds or the Sub-Advisory or similar agreements governing the Sub-Advised 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 (though, as stated above, there are certain restrictions imposed in these areas by the Sub-Advised Funds).

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 Basso Funds, and some of the Sub-Advised 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 and implemented 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.