

**CHESAPEAKE PARTNERS MANAGEMENT CO., INC.  
C P MANAGEMENT, L.L.C.**

**PART 2A OF FORM ADV  
“FIRM BROCHURE”**

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**December 31, 2012**

This brochure provides information about the qualifications and business practices of Chesapeake Partners Management Co., Inc. and C P Management, L.L.C. (collectively, unless otherwise indicated, “Chesapeake Partners”). If you have any questions about the contents of this brochure, please contact us at the phone number noted above. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

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

Additional information about Chesapeake Partners is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **ITEM 2: MATERIAL CHANGES**

Net assets under management in Item 4.E has been updated as of December 31, 2012, but otherwise no material changes have been made to the Firm Brochure for Chesapeake Partners.

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## **ITEM 4: ADVISORY BUSINESS**

### **A. Description of Advisory Firm**

Chesapeake Partners Management Co., Inc., a Maryland corporation (“CPMC”), was founded in 1991 and manages investment funds that seek to achieve above-average returns through “event specific” investing with a value overlay; this includes investments in issuers which are engaged in or undergoing extraordinary events, such as mergers, acquisitions, recapitalizations, liquidations or other corporate restructuring transactions where there is a perceived differential between the value to be received upon successful consummation of the anticipated transaction or event and the current market price. Other investment opportunities are found in the securities of companies undergoing extraordinary events such as regulatory approval processes, management changes, litigation situations, industry-specific transformations, as well as those emanating from a range of macroeconomic occurrences. C P Management, L.L.C., a Maryland limited liability company (“CPMLLC”), is wholly owned by CPMC and serves as a subadviser to the funds. CPMC and CPMLLC (collectively “Chesapeake Partners”) share the same employees and operate out of the same office as a single advisory business. CPMC (the “Filing Adviser”) and CPMLLC (the “Relying Adviser”) together have filed a single Form ADV Part 1A in reliance on the position expressed in the American Bar Association, Business Law Section (January 18, 2012) no-action letter issued by the Office of Investment Adviser Regulation, Division of Investment Management, Securities and Exchange Commission. Chesapeake Partners manages two funds, Chesapeake Partners Limited Partnership, a Maryland limited partnership (the “Domestic Fund”) for the benefit of U.S. taxable investors and Chesapeake Partners International Ltd., a Cayman Islands exempted company (the “International Fund”) which operates similarly to the Domestic Fund for the benefit of non-U.S. investors and certain tax-exempt U.S. investors. The International Fund currently makes investments indirectly through an investment in Chesapeake Partners Master Fund, Ltd., a Cayman Islands exempted company (the “Master Fund”). Chesapeake Partners is the sole general partner of, and manages, the Domestic Fund and serves as the investment adviser for the International Fund and the Master Fund. The sole shareholders of CPMC are Traci Lerner and Mark Lerner.

The Domestic Fund, the International Fund and the Master Fund are collectively referred to herein as the “Funds.”

### **B. Description of Advisory Services Offered**

Chesapeake Partners is responsible for the investment and management of the assets of the Funds.

### **C. Tailoring of Advisory Services and Imposition of Restrictions on Investing by Clients**

Chesapeake Partners formulates each Fund's investment objective, directs and manages the investment of each Fund's assets, and provides reports to each Fund's investors. Investment advice is provided directly to each Fund according to the Fund's particular investment objective, and is not individually tailored to each Fund's investors.

### **D. Wrap Fee Programs**

Chesapeake Partners does not participate in wrap fee programs and does not manage wrap fee accounts.

### **E. Amount of Assets Under Management**

As of December 31, 2012, the Funds managed by Chesapeake Partners had approximately \$1,029.2 million of net assets under management on a discretionary basis.

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

Compensation received by Chesapeake Partners consists of fees based on a percentage of assets under management and performance-based amounts, as more fully described below. Chesapeake Partners does not manage any accounts/funds that pay only an asset-based fee.

### **A. Compensation**

Chesapeake Partners receives a management fee, in advance and on a quarterly basis, equal to 1.0% per annum with respect to each capital account in the Domestic Fund, although it reserves the right to increase the Domestic Fund management fee at a later date to 2.0% per annum for new investments. Chesapeake Partners also receives a management fee on Class A shares, in advance and on a quarterly basis, equal to 1.0% per annum with respect to the International Fund's Series B shares, which pay the management fee through a deduction from such shares' net asset value, and the International Fund Series A shares, which investors pay the management fee directly to Chesapeake Partners. Chesapeake Partners reserves the right to issue Class B shares with a management fee of 2.0% per annum. Chesapeake Partners, in its sole discretion, may waive or reduce the Domestic Fund management fee and the International Fund management fee with respect to any investor or permit any investor to pay the management fee directly to Chesapeake Partners.

If the International Fund invests its assets in the Master Fund, no management fee will be charged at the International Fund level, but the Master Fund will pay a management fee to Chesapeake Partners in the same manner as set forth above with respect to the International Fund.

Chesapeake Partners (and its affiliate) receives a performance-based allocation equal to 20% of net profits (as described in the Domestic Fund's limited partnership agreement) allocated to each Domestic Fund limited partner at the end of each fiscal year and upon withdrawal, subject to high water marks. An affiliate of CPMC also receives an annual performance-based allocation from the Master Fund equal to 20% of the increase in the net asset value (as described in the International Fund's offering memorandum) of each Master Fund Sub-Series of shares held by the International Fund (which generally correspond to those Sub-Series of shares issued by the International Fund), subject to high water marks and aggregation of multiple Sub-Series of shares owned by a single International Fund shareholder to ensure such shareholder is not subject to a performance allocation if its overall investment in the International Fund is subject to a high water mark. International Fund intra-year partial redemptions will be subject to a Master Fund level performance allocation as though it were being made at the end of a fiscal year and the high water mark for the Master Fund Sub-Series of shares will be reduced in proportion to the percentage of shares redeemed.

With respect to the International Fund, if the advisory agreement is terminated at any time other than at the end of a fiscal year, the management fee will be prorated and paid for the period from the end of the preceding quarter to the termination of the advisory agreement in accordance with the number of days in the period. It is the policy of Chesapeake Partners that upon a winding up of the Domestic Fund, the management fee for the Domestic Fund's last quarter will be prorated and paid for the period from the end of the preceding quarter to the termination of the limited partnership agreement in accordance with the number of days in the period.

#### **B. Additional Fees and Expenses Paid In Connection with Advisory Services**

The Domestic Fund and the International Fund will each bear its own operating and other expenses, including but not limited to, taxes, offering and investment expenses (e.g., expenses related to the investment of assets, such as brokerage commissions), administrative expenses, director's fees (if applicable), legal expenses, external accounting, audit and tax preparation expenses, corporate licensing, interest, custodial fees and other expenses associated with its operation. In the case of the International Fund, the International Fund will also bear its *pro rata* share of the Master Fund's operating and other expenses. Please also see "Brokerage Practices" in Item 12 below.

From time to time, the Funds may invest in securities of investment companies that are not managed by Chesapeake Partners, such as exchange traded funds, as part of the Funds' hedging, trading and investment strategies. To the extent that the Funds invest in such securities, the Funds incur layered fees; that is, it not only pays fees directly to Chesapeake Partners but also pays fees charged by the entities that manage the investment company's securities. Such fees may include custodial fees, management fees, early termination fees and other fees and expenses assessed by the sponsor, custodian, transfer agent or other service providers of an investment company.

Expenses incurred by Chesapeake Partners in the operation of its business (*e.g.*, salaries, office space and utilities, telephone, and computer equipment) are borne by Chesapeake Partners.

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

As described above in Item 5, Chesapeake Partners receives both performance-based compensation and asset-based fees with respect to both the Domestic Fund and the International Fund. Such performance-based compensation is based on a share of net investment income and capital gains on or capital appreciation of the Funds' assets. The fact that Chesapeake Partners is compensated based on profits derived from trading activities could create an incentive for Chesapeake Partners to make investments on behalf of the Funds that are riskier or more speculative than would be the case if Chesapeake Partners were only compensated based on a flat percentage of capital, because these investments could allow Chesapeake Partners to collect larger performance-based compensation. In addition, Chesapeake Partners, subject to review by the Funds' auditors, determines the fair value of the Funds' net assets which impact the value of the Funds and compensation paid to Chesapeake Partners. Further, a significant portion of the performance-based fee received by Chesapeake Partners is based on realized and unrealized gains and losses. As a result, the performance-based compensation earned could be based on unrealized gains that the Funds may never realize.

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

The sole clients of Chesapeake Partners are the Funds. Investors in the Funds are typically high net worth individuals and families; pension and profit-sharing plans; trusts, estates or charitable or religious organizations and other corporations or business entities. The minimum investment as stated in the offering memoranda for the International Fund and in the limited partnership agreement for the Domestic Fund is \$10 million, although Chesapeake Partners, in its sole discretion, may accept subscriptions of a lesser amount.

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

##### **A. Investment Strategies**

Chesapeake Partners, on behalf of the Funds, engages in "event specific" investing with a value overlay; this includes investments in issuers which are engaged in or undergoing extraordinary events, such as mergers, acquisitions, bankruptcies, reorganizations, recapitalizations, liquidations or other corporate restructuring transactions where there is a perceived differential between the value to be received upon successful consummation of the anticipated transaction or event and the current market price. Other investment opportunities are found in the securities of companies undergoing extraordinary events such as regulatory approval processes, management

changes, litigation situations, industry-specific transformations, as well as those emanating from a range of macroeconomic occurrences. The Funds invest in a broad range of securities and other instruments, including equities, equity-related securities, bonds, other fixed income securities, options, futures, other derivatives and currencies. The types of investments made by Chesapeake Partners may be modified from time to time, and the description herein is not exhaustive.

Chesapeake Partners manages the Funds' portfolios of securities and other investments through extensive research and quantitative and qualitative analyses performed by gathering information from a number of sources including internally prepared analysis complemented by external, written research (both brokerage sponsored and independent), public press releases, industry conferences and publications, quantitative screening, meetings with management, and discussions with industry and academic experts. Chesapeake Partners analyzes qualitative factors to determine a company's ability to meet growth and profitability estimates within certain financial risk metrics and typically prepares a quantitative valuation on the companies being analyzed. Event specific investing often includes a broad scope of trading activities that contemplate investments undertaken with the expectation of a certain event transpiring within a given time frame such that it will yield a predetermined rate of return. The risk component of the investment is evaluated by diligently researching intrinsic and exogenous factors including legal and regulatory constraints, financing issues, strategic considerations and general economic conditions. A risk/reward analysis is then undertaken to determine the appropriateness of an investment in a given situation. Because of the dynamic nature of the capital and securities markets, as well as the events specific to each potential investment situation, opportunities are continuously under review.

Chesapeake Partners may determine to sell securities in the Funds' portfolios based on the following, among other considerations: (1) the achievement of Chesapeake Partners' expectation for the investment; (2) a change in the attractiveness of the stock when subjected to Chesapeake Partners' analytical process; (3) a change in the stock price, making valuation unattractive; or (4) the availability of a superior investment opportunity.

Chesapeake Partners may implement various option strategies either to enhance portfolio returns or to decrease portfolio volatility or risk. These strategies will be driven by the fundamental analysis conducted on securities, and structured based on valuations generated by such fundamental analysis. Investments may include covered call writing and select purchases and sales of both puts and calls. Specific option strategies may be structured after reviewing metrics associated with option pricing including but not limited to volatility and time to expiration.

## **B. Material Risks of Investment Strategy**

The following is a summary of some of the material risks associated with trading on behalf of the Funds. This summary does not attempt to describe all of the risks



associated with an investment in the Funds including the general business and regulatory risks of investment in private investment funds, operational risks, general market risks, general credit risks, liquidity risks or all risks associated with the Funds' strategies. Investing in securities involves risk of loss that clients and investors should be prepared to bear. Although no summary can fully describe all of the risks associated with an investment in the Funds, the confidential offering memorandum for the International Fund and the limited partnership agreement for the Domestic Fund contain a more complete description of the potential risks associated with an investment in the Funds.

***Risks of Arbitrage Transactions.*** Because of the nature of event-specific investing, the results of the Funds' operations may fluctuate from month to month and from period to period. Accordingly, investors should understand that the results of a particular period will not necessarily be indicative of results which may be expected in future periods.

***Correlated Investment Outcomes.*** The Funds focus on event-driven strategies. Although the range of different opportunities is broad, structural economic and regulatory changes could adversely affect the Funds' investment strategies as a group, as could certain general market conditions.

***Changing Structural, Economic and Regulatory Market Environments.*** Major changes in the structure, economics and regulation of the markets in which the Funds trade have recently been effected or are currently in progress. These changes and other factors may result in conditions in the future differing materially in a number of respects from those in which the Funds have traded to date. The performance of the Funds in the past may not be representative of how the Funds will perform in the future.

***Leverage; Interest Rates.*** The Funds borrow in order to be able to increase the amount of capital available for investments. The amount of borrowings which the Funds may have outstanding at any time may be significant in relation to its capital. Consequently, the level of interest rates, generally, and the rates at which the Funds can borrow, in particular, will affect the operating results of the Funds.

***Short Positions.*** The Funds may engage in the selling of securities short. Since securities sold short must later be replaced or offset by market purchases, any appreciation in the market price of these securities results in a loss. Purchasing securities to close out a short position can itself cause their market price to rise further, increasing losses. Furthermore, in the case of short sales of borrowed securities, the Funds may prematurely be forced to close out a short position if a counterparty demands the return of such borrowed securities. In addition, there can be no assurance that the securities necessary to cover a short position will be available for purchase.

***Non-U.S. Investments.*** The Funds may invest in non-U.S. or U.S. securities denominated in non-U.S. currencies and/or traded outside of the United States. Such investments require consideration of certain risks not typically associated with investing in United States securities or property.

***Over-the-Counter Derivative Contracts.*** The Funds may enter into swap agreements, forward contracts or other over-the-counter derivative transactions involving or relating to, among other things, interest rates, currencies, or securities.

***Illiquid Investments.*** The Funds may make investments that are illiquid and/or difficult to value, including but not limited to those designated as “Designated Investments.” Designated Investments are limited, in the aggregate, to 20% of each Fund’s net asset value (measured on the date of investment).

***Financial and Market Risks of Bankrupt or Special Situation Companies.*** The Funds may invest in securities of domestic and foreign issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, or that are involved in bankruptcy or reorganization proceedings. Investments of this type involve substantial financial risks that can result in substantial or at times even total losses.

***Volatility.*** The prices of the securities expected to be traded by the Funds have been subject to periods of excessive volatility in the past, and such periods can be expected to recur. Price movements are influenced by many unpredictable factors, such as market sentiment, inflation rates, interest rate movements, commodities, event probability, credit spreads and general economic and political conditions. The investment strategies utilized by the Fund may not employ adequate hedging techniques, and may employ leverage, both of which may lead to increased volatility of the Fund’s net asset value given the volatility of the Fund’s holdings.

## **ITEM 9: DISCIPLINARY INFORMATION**

Neither Chesapeake Partners nor, to the best knowledge, its principals, officers or other management persons, have been the subject of any legal or disciplinary events that are material to a client’s or prospective client’s evaluation of Chesapeake Partners advisory business or the integrity of its management.

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

### **A. Registration as a Broker-Dealer**

Neither Chesapeake Partners nor any of its management persons are registered or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

### **B. Registration as a Futures Commission Merchant, Commodity Pool Operator, or Commodity Trading Adviser**

CPMC is registered with the Commodity Futures Trading Commission as a Commodity Pool Operator and a Commodity Trading Adviser and is a member of the National Futures Association. Traci Lerner, Mark Lerner and Louis Sarkes, Jr. are

registered with the National Futures Association as principals and associated persons of Chesapeake Partners.

### **C. Material Relationships with Related Persons**

A wholly owned subsidiary of CPMC is the Special Shareholder of the Master Fund, and such Special Shareholder may have different tax considerations than the International Fund's shareholders with respect to certain transactions. Chesapeake Partners will be responsible for resolving any conflicts that may result. Such resolution may reflect the tax considerations of CPMC's affiliate so long as such resolution does not have a material adverse effect on the International Fund's shareholders.

CPMC has engaged CPMLLC, a wholly owned subsidiary, to perform substantially all of the duties of CPMC with respect to the Domestic Fund as set forth in the limited partnership agreement and to perform certain management responsibilities of CPMC with respect to the International Fund. CPMC is responsible for compensation payable to CPMLLC.

### **D. Relationships with other Advisers**

None.

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

Chesapeake Partners has adopted a Code of Ethics predicated on the principle that Chesapeake Partners owes a fiduciary duty to the Funds, and that its management and employees will conduct themselves in accordance with certain guiding principles and standards of conduct including acting with competence, dignity, integrity, and in an ethical manner. Management and employees of Chesapeake Partners are expected to place the integrity of the investment profession above their own personal interest and to avoid any actual or potential conflicts of interest.

The Code of Ethics sets forth Chesapeake Partners' policy relating to personal investment and trading by management and employees, and includes a requirement that personal securities transactions, specifically those related to equity securities that also may be traded by or are held at the time by the Funds, to be subject to a pre-clearance process by various personnel of Chesapeake Partners, including the Chief Compliance Officer. The pre-clearance process of the personal trading activities of Chesapeake Partners management and employees includes an assessment of whether such transactions pose any actual or potential conflicts of interest with respect to transactions executed for the Funds.

The proper handling of confidential information by management and employees of Chesapeake Partners is critical to the integrity of Chesapeake Partners. The Code of Ethics provides for the proper handling of material non-public information and sets forth policies and procedures to detect and prevent insider trading. Chesapeake Partners

forbids trading, either for oneself or for others on material non-public information and from sharing such information in violation of law.

All principals and employees of Chesapeake Partners must acknowledge their understanding and agree to comply with the Code of Ethics initially upon employment and must certify on an annual basis that they have read and understand the code and have complied with it.

Chesapeake Partners' Code of Ethics shall be provided to any client or prospective client upon request.

## **ITEM 12: BROKERAGE PRACTICES**

### **A. Selection of Broker-Dealers and Determination of Reasonableness of Compensation**

Chesapeake Partners' selection of brokers to effect securities transactions for the Funds is guided by the principal objective of seeking to obtain best execution for the Funds. Included in "best execution" are several factors that may include, *e.g.*: price including commissions; risks taken in positioning a block of securities; broad market coverage resulting in a continuous flow of information regarding bids and offers; the full range of brokerage services provided by the broker; the broker's capital strength, creditworthiness, stability and reputation; the quality of the investment research and the investment strategies provided; special execution capabilities; clearance; settlement; custody; recordkeeping; and other services provided by such broker. "Best execution" does not necessarily mean obtaining the lowest possible price for any particular transaction. Accordingly, if Chesapeake Partners determines in good faith that the amount of commissions charged by a broker is reasonable in relation to the value of the brokerage and research products or services provided by such broker, the Funds may pay commissions to such broker in an amount greater than the amount another firm might charge. Research products or services provided to the Funds may include both proprietary and third party research reports on particular industries and companies, economic surveys and analyses, recommendations as to specific securities and other products or services (*e.g.*, data feeds, legal expenses in connection with specific transactions contemplated by the Funds) providing lawful and appropriate assistance to Chesapeake Partners in the performance of its investment decision-making responsibilities.

Chesapeake Partners aims to make well-informed trade execution decisions that maximize the value of the Funds' portfolios. Chesapeake Partners has access to a variety of execution methods, including electronic communication networks ("ECNs") that automatically match buy and sell trade orders at specified prices, and chooses a method in a given situation to help achieve attractive economics for the Funds. Chesapeake Partners generally seeks competitive trade execution cost.

When Chesapeake Partners uses brokerage commissions to obtain research or other products or services, Chesapeake Partners receives a benefit because Chesapeake

Partners does not have to produce and/or pay for the research, products or services. Chesapeake Partners could have an incentive to select or recommend a broker based on its interest in receiving research or other products or services, rather than on the Funds' interest in receiving the most favorable execution.

### **1. Research and Other Soft Dollar Benefits**

Section 28(e) of the Securities Exchange Act of 1934, as amended ("Section 28(e)") is a "safe harbor" that permits an investment adviser to use commissions or "soft dollars" to obtain certain research and brokerage services in connection with the investment decision-making process. Research services within Section 28(e) may include, but are not limited to, research reports (including market research); certain financial newsletters and trade journals; software providing analysis of securities portfolios; corporate governance research and rating services; attendance at certain seminars and conferences; discussions with research analysts; meetings with corporate executives; consultants' advice on portfolio strategy; data services (including services providing market data, company financial data and economic data); advice from brokers on order execution; and certain proxy services. Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (*i.e.*, connectivity services between an investment adviser and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services required by the SEC or a self regulatory organization such as comparison services, electronic confirms or trade affirmations. Chesapeake Partners intends to use commissions or "soft dollars" in compliance with the requirements of Section 28(e).

Chesapeake Partners may enter into commission sharing arrangements ("CSAs"), a process through which Chesapeake Partners directs part of the commission monies paid to one or more third parties in return for research services provided to Chesapeake Partners.

Chesapeake Partners will continue a soft dollar arrangement or CSA only for so long as Chesapeake Partners determines in good faith that the commissions charged by such broker are reasonable in relation to the value of the brokerage, research and other services provided.

Research and brokerage services obtained in soft dollar arrangements or CSAs by the use of commissions arising from a Fund's portfolio transactions could be used by Chesapeake Partners in its other investment activities and thus, in any particular instance, the particular Fund may not necessarily be the direct or indirect beneficiary of the research or brokerage services provided.

All products and services received from broker-dealers (including proprietary research from full service broker-dealers, and not confined to specific soft dollar arrangements or CSAs) are evaluated in light of the following principles:

- Chesapeake Partners is a fiduciary and, as such, must disclose relevant aspects concerning the benefits Chesapeake Partners receives through the Funds' brokerage;
- Research should be purchased with the Funds' brokerage only if the primary use of the research, whether a product or service, assists Chesapeake Partners in its investment decision-making process and not in the management of Chesapeake Partners; and
- When in doubt, the research will be paid for with Chesapeake Partners' assets, not the Funds' brokerage.

Chesapeake Partners will not obligate itself to generate a certain minimum level of commission revenue for a broker-dealer in return for soft dollar or CSA services.

## **2. Brokerage for Client Referrals**

Chesapeake Partners may effect transactions with broker-dealers that have, or whose affiliates have, provided Chesapeake Partners with the opportunity to participate in capital introduction events sponsored by the broker-dealer or referred investors to a Fund if otherwise consistent with seeking best execution. Although Chesapeake Partners does not select the broker-dealer in recognition of the opportunity to participate in such capital introduction events or the referral of investors, the existence of these relationships could give rise to conflicts of interest as it creates an incentive for Chesapeake Partners to direct more business to these broker-dealers in order to continue receiving such services rather than selecting broker-dealers based on the Funds' interest in receiving most favorable execution. To address these conflicts of interest, Chesapeake Partners only utilizes a broker-dealer if it has determined in advance that the transaction would be in the Funds' interests.

## **3. Directed Brokerage**

Chesapeake Partners does not permit investors in the Funds to direct brokerage.

### **B. Aggregation of Purchase or Sale Orders**

Orders for the purchase or sale of securities on behalf of the Funds are generally aggregated and then allocated between the International Fund and the Domestic Fund as described below.

Allocations of securities will typically be made between the Funds *pro rata* based on the total leveraged or unleveraged equity investment in each Fund, or on any other measure that Chesapeake Partners deems to be fair and equitable. If an order is not completely filled, it will typically be allocated on a *pro rata* basis to the Funds in the

order promptly following execution. Where an order is executed at more than one price over the course of a day, the executed transactions will be allocated so that each Fund receives the average unit price and bears that Fund's *pro rata* share of the transaction costs, to the extent reasonably practicable.

In certain cases, Chesapeake Partners may determine that *pro rata* allocation is not appropriate under the particular circumstances. In such cases, Chesapeake Partners will increase or decrease the amount of securities that would otherwise be allocated to each Fund by allocating the securities in a manner it deems fair and appropriate to the Funds.

### **C. Agency Cross Trades**

It is the general policy of Chesapeake Partners not to engage in agency cross trades.

### **D. Cross Trades between Clients**

Chesapeake Partners may cause the Funds to purchase or sell securities or other assets from or to other clients or vehicles managed by Chesapeake Partners or its affiliates if Chesapeake Partners believes such transactions are appropriate and in the best interests of the relevant Funds.

### **E. Allocation of Investment Opportunities**

Although it is contemplated that the Domestic Fund and the International Fund shall invest *pro rata* in opportunities, Chesapeake Partners may give advice or recommend securities to, or buy securities for a Fund, which advice or securities may differ from advice given to, or securities recommended or bought for other Funds, even though their investment objectives may be the same or similar. Transactions will be allocated between the Domestic Fund and the International Fund as equitably as possible, taking into account their various investment programs and relative capital available for investment, but they may not necessarily invest in the same securities. Factors which may be contemplated when allocating on a non- *pro rata* basis may include, but are not limited to, odd lot or *de minimus* purchases or sales, the level of indebtedness in the Funds, known near term upcoming events which will generate or use available equity (such as pending deal closings) and anticipated subscriptions and redemptions. Chesapeake Partners reserves the right to allocate on a non- *pro rata* basis to the extent allocation of a security or investment to a Fund would result in non-compliance with tax or regulatory rules and/or result in the creation of any adverse circumstances.

### **F. Trade Errors**

Chesapeake Partners may, from time to time, make trade errors. Trade errors are not errors in judgment, strategy, market analysis or economic outlook, but rather errors in implementing specific trades that Chesapeake Partners has determined (rightly or wrongly) to make. Trade errors can result from clerical mistakes, miscommunications

between Chesapeake Partners' personnel and other reasons. Importantly, however, trade errors are not the function of poor strategies, valuation models, economic expectations, undue speculation or unauthorized trades, but rather of the physical implementation of specific trades on which Chesapeake Partners had decided.

All losses attributable to trade errors will be borne by the relevant Fund unless Chesapeake Partners determines that the trade error was the result of the willful misconduct, gross negligence or bad faith of Chesapeake Partners.

Chesapeake Partners has a conflict of interest in determining whether a trade error should be for the account of the Fund(s) or itself because Chesapeake Partners will make the determination as to whether Chesapeake Partners acted in violation of the applicable standard of care.

Any gains recognized on trade errors will be for the benefit of the Fund(s); none shall be retained by Chesapeake Partners.

Chesapeake Partners will not be responsible for any acts, omissions or errors of custodians or other brokers, dealers or banks in executing its trading instructions or otherwise, provided that such custodians, brokers, dealers and banks were chosen in good faith.

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

Chesapeake Partners' portfolio managers and senior analysts are responsible for evaluating investment opportunities, making investment decisions, reviewing the Funds' portfolios and ensuring that transactions are properly executed.

The key aspects of Chesapeake Partners' fund management process are as follows:

- Chesapeake Partners reviews international and domestic events on a daily basis to consider the effect on positions held in the Funds.
- Chesapeake Partners generally maintains research/investment data on most securities in which the Funds hold an investment.
- Chesapeake Partners conducts daily meetings to discuss, among other things, investment ideas, economic developments, current events, investment strategies, and issues related to the Funds' holdings.
- Chesapeake Partners reviews the Funds' exposure levels and other criteria on a daily basis in an effort to ensure that it is operating within allowable internal risk parameters.
- Chesapeake Partners maintains a daily list of securities to be purchased or sold based on levels set by Chesapeake Partners.



- Chesapeake Partners reviews buy and sell levels at least weekly and more frequently, as warranted, due to market conditions.

Chesapeake Partners provides regular written reports regarding the performance of the Funds to each of the Funds' investors on a monthly and quarterly basis. Annual financial statements audited by the Funds' auditors are provided to the Funds' investors. Investors in the Domestic Fund also receive Schedule K-1s.

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

##### **A. Economic Benefit for Investment Advice**

Except as described above in Item 12, Chesapeake Partners does not receive any form of economic benefit from non-clients for investment advice or other advisory services.

##### **B. Compensation for Client Referrals**

Except as described above in Item 12(2), neither Chesapeake Partners nor any related person directly or indirectly compensates any person who is not a supervised person of Chesapeake Partners for client referrals.

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

Chesapeake Partners is presently deemed to have custody of the Funds' assets because Chesapeake Partners acts as general partner or as the investment manager to the Funds with the authority to dispose of funds and securities in the Funds' accounts. The Funds' assets are held in custody by unaffiliated broker/dealers or banks. Investors in the Funds do not receive statements from such custodians. Instead, the Funds are subject to an annual audit and the audited financial statements are distributed to each investor. The audited financial statements are prepared in accordance with U.S. generally accepted accounting principles and distributed within 120 days of the respective Fund's fiscal year end.

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

Chesapeake Partners has full discretionary authority to conduct the trading activities of the Funds and to manage the assets of the Funds within the parameters of the investment objectives and strategies of the Funds, which may evolve over time, pursuant to the limited partnership agreement of the Domestic Fund and investment management agreements with the International Fund and the Master Fund. There are no material limitations on the markets and strategies that the Funds may implement or the instruments which it may trade, other than that (i) the leverage utilized by the Domestic Fund may not exceed 60% of the total equity of the Domestic Fund; (ii) the leverage utilized by the International Fund may not exceed 100% of the total equity of the International Fund (though its practice has been not to exceed 60% of the total equity of the International Fund); (iii) no more than approximately 10% of each Fund's assets will

generally be invested in any particular security; (iv) except in exceptional circumstances (as determined by Chesapeake Partners in its sole discretion), each Fund will not invest more than approximately 20% of such Fund's total equity in any particular security; and (v) Designated Investments are limited, in the aggregate, to 20% of each Fund's net asset value. These limits are measured on the date of investment.

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

Chesapeake Partners has full discretionary authority to vote client securities. In voting proxies, Chesapeake Partners is guided by general fiduciary principles. Chesapeake Partners votes proxies in the manner that it believes are consistent with efforts to achieve the Funds' stated investment objectives, including maximizing the value of the Funds' portfolio. Decisions will not be made on social, ethical, moral or other non-economic grounds. Consideration will be given to both the short and long-term implications of the proposal to be voted on when considering the optimal vote.

Chesapeake Partners' general policy is to vote in accordance with the recommendation of an issuer's management on routine and administrative matters, unless Chesapeake Partners has a particular reason to vote to the contrary. This general policy should not be interpreted as a pre-determination, however, to vote in favor of the issuer's management, as Chesapeake Partners will review all proxies in accordance with the general fiduciary principles noted above. With respect to non-recurring or extraordinary matters, Chesapeake Partners will vote on a case-by-case basis in accordance with the goals of achieving the Funds' stated objectives.

Chesapeake Partners analyzes each proxy individually. The policy guidelines herein represent Chesapeake Partners' usual voting position on certain recurring proxy issues that do not involve unusual circumstances. These guidelines can be superseded, subject to the duty to act solely in the best interest of the Funds, by the investment management professionals responsible for the Funds.

Chesapeake Partners at times may determine that refraining from voting a proxy is in the Funds' best interest, such as when Chesapeake Partners' analysis of a particular proxy indicates that the cost of voting the proxy may exceed the expected benefit to the Funds. Chesapeake Partners' Chief Compliance Officer is responsible for conducting or supervising an appropriate cost-benefit analysis when there is reason to believe that voting a particular proxy may not be in the Funds' best interest. The Chief Compliance Officer will maintain documentation of any cost-benefit analysis with respect to any Fund's proxy that is not voted by Chesapeake Partners.

### **A. Conflicts of Interest**

Chesapeake Partners' Chief Compliance Officer will monitor the potential for conflicts of interest on the part of Chesapeake Partners with respect to proxy voting as a result of personal relationships or any special circumstances that may arise during the conduct of Chesapeake Partners' business. If a conflict of interest is identified, Chesapeake Partners will not make related proxy voting decisions until it has been

determined that the conflict of interest is not material or a method for resolving the conflict of interest has been agreed upon and implemented.

Chesapeake Partners' Chief Compliance Officer will determine whether a conflict of interest is material. Materiality determinations will be based on an assessment of the particular facts and circumstances. Chesapeake Partners' Chief Compliance Officer will maintain a written record of all materiality determinations.

If it is determined that a conflict of interest is not material, Chesapeake Partners may vote the proxy, notwithstanding the existence of the conflict.

If it is determined that a conflict of interest is material, one or more methods may be used to resolve the conflict, including:

- disclosing the conflict to the investors of the Funds and obtaining their consent before voting;
- engaging a third party to recommend a vote with respect to the proxy; or
- such other method as is deemed appropriate under the circumstances given the nature of the conflict.

#### **B. Disclosure to Investors**

The Funds' investors may, upon request, review the proxy voting policy and procedures, as well as relevant proxy voting records, in the principal office of Chesapeake Partners.

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

#### **A. Prepayment of Fees of more than \$1,200**

Chesapeake Partners does not require or solicit prepayment of fees from the Funds or any of the Funds' investors in excess of \$1,200 more than six months in advance.

#### **B. Financial Conditions Reasonably Likely to Impair Ability to Meet Contractual Commitments to Clients**

Chesapeake Partners has never been the subject of a bankruptcy petition at any time, and there are no known financial conditions with respect to Chesapeake Partners that are likely to impair its ability to meet contractual commitments to clients.