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**PAULSON**

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**& CO.**

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**INC.**

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**FORM ADV  
PART 2A BROCHURE**

**MARCH 30, 2020**

**This brochure provides information about the qualifications and business practices of Paulson & Co. Inc. If you have any questions about the contents of this brochure, please contact us at 212-956-2221. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Paulson has been registered as an investment adviser with the SEC since 2004. Our registration does not imply a certain level of skill or training.**

**Additional information about Paulson & Co. Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**This Brochure does not constitute an offer to sell or the solicitation of an offer to purchase any securities of any entities described herein. Any such offer or solicitation will be made solely to qualified investors by means of a private placement memorandum and related subscription materials.**

**Pursuant to an exemption from the Commodity Futures Trading Commission in connection with accounts of qualified eligible persons, this brochure or account document is not required to be, and has not been, filed with the commission. The Commodity Futures Trading Commission does not pass upon the merits of participating in a trading program or upon the adequacy or accuracy of commodity trading advisor disclosure. Consequently, the Commodity Futures Trading Commission has not reviewed or approved this trading program or this brochure or account document.**

**Item 2 - Material Changes**

We last revised our brochure on Part 2 of the Form ADV on March 31, 2019. We do not believe that this document differs materially from the Brochure we produced a year ago in this format.

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#### **ITEM 4 – Advisory Business**

Paulson & Co. Inc. (Paulson, the Company, the Firm, we, or us) was established by its founder and President, John Paulson in 1994. John Paulson, the Firm's owner, has served as Portfolio Manager since its founding in 1994. The Firm has since continued to develop its investment capabilities and infrastructure and as of January 1, 2020 has approximately \$10.7 billion dollars in regulatory assets under management (and together with its affiliated investment advisers has approximately \$11.6 billion dollars in regulatory assets under management), all of which is managed on a discretionary basis. Our employees and partners are based in offices located in New York and Dublin. Paulson has been registered with the Securities and Exchange Commission since 2004; our affiliate, Paulson Management LP has been registered with the Securities and Exchange Commission since 2006.

All of our strategies are based upon the same underlying investment philosophy of capital preservation, and low correlation to the broad markets. Paulson employees and partners are currently the largest category of investors in our funds on a firmwide basis. It should be noted that certain of the funds listed below are 100% owned by John Paulson and/or certain of his affiliated entities (Proprietary Funds) which may give rise to certain conflicts of interest. These potential conflicts are described in more detail in Item 6 below, and in the respective fund offering documents.

Paulson conducts investment advisory activities specializing in global merger and event arbitrage as well as financial restructuring, credit opportunities involving a broad range of financial instruments, including equity and debt securities, currencies, commodities, fixed income products, mortgage backed securities, and other derivative securities, and special situations. The Company's products are provided through collective investment vehicles, including both domestic partnerships and offshore private investment companies and exempted partnerships, and separately managed accounts (collectively, the Funds, or the Client Funds) that deploy all or a subset of Paulson's investment strategies. Paulson's advisory process is based on more than thirty years of investment research and implementation conducted by the firm's President, John Paulson.

Interests in the various Client Funds, including the domestic partnerships, offshore private investment companies and exempted partnerships sponsored by the Company are not registered under the Securities Act of 1933, as amended (the "Securities Act"), and the funds are not registered under the Investment Company Act of 1940, as amended (the "Investment Company Act"). Accordingly, interests and shares in the funds are offered exclusively to investors satisfying the applicable eligibility and suitability requirements either in private placement transactions within the United States or in offshore transactions. Interests in the funds are offered in private transactions only to qualified investors and only by means of a private placement memorandum.

#### **The Paulson Funds**

The Company's principal investment objective for the Client Funds is to achieve positive excess returns through trading the securities and/or derivatives thereon of companies that are the subject of proposed changes in corporate structure or control such as tender offers, mergers, spin-offs, proxy contests, liquidations, recapitalizations, restructurings, bankruptcy reorganizations and other corporate events. The Company's objective is to purchase these securities and/or derivatives at a discount to what it believes will be their value on the consummation of the proposed event. A complementary objective is to minimize exposure to the general securities markets by concentrating the portfolio on event-specific investments which act independently of the markets. In addition, certain of the Client Funds seek to achieve their objective through trading the securities and/or derivatives of companies that are the subject of special situations such as spin-offs, litigation, relative value, restructurings, proxy contests, and post-bankruptcy equities, as well as distressed securities and credit related securities and derivatives and gold and gold related securities and/or derivatives. In general, there is no guarantee that these objectives will be met.

In furtherance of its investment program, the Investment Manager focuses on trading in common stock, but may also trade in other equities, debt instruments, options relating to any of the foregoing, forward contract, futures contracts, warrants, convertible and other derivative securities, and other securities and investment interests. It should be noted that the merger arbitrage, credit, special situations, and gold sub-strategies of the event-driven (Paulson Advantage) portfolios will not, in all cases, be managed pari-passu with the respective portfolios. Similarly, the distressed debt sub-strategy may not be managed pari passu with the credit portfolios. Furthermore, the portfolio of the Pure Spread funds will not be managed pari passu with the merger strategy of the Merger Arbitrage funds. In some instances, the percentages of certain securities transactions invested in each strategy will differ, and some transactions may be placed only in the strategy specific portfolios and not in other eligible portfolios at the applicable portfolio manager's discretion. Additional important information regarding allocation of investment opportunities can be found in Item 6 herein.

Paulson may add to or change its trading strategies over time. The Company may consider implementing additional strategies at the Company's discretion.

The Paulson Funds (managed by Paulson and/or its affiliates) and strategies are as follows:

**Merger Arbitrage**

Paulson Partners L.P. – Proprietary Fund  
Paulson International Ltd.

**Merger Arbitrage (2x Exposure)**

Paulson Enhanced Ltd.  
Paulson Partners Enhanced L.P.

**Event Arbitrage**

Paulson Advantage Master Ltd. – Proprietary Fund

**Event Arbitrage (1.5x Exposure)**

Paulson Advantage Plus Master Ltd. – Proprietary Fund

**Credit Fund**

Paulson Credit Opportunities Master Ltd – Proprietary Fund

Paulson Credit Opportunities Master II Ltd

**Special Situations Fund**

Paulson Special Situations Master Fund Ltd. – Proprietary Fund

**Gold Fund**

PFR Gold Master Fund Ltd. – Proprietary Fund

**Pure Spread**

Paulson Pure Spread Fund, L.P.

Paulson Pure Spread Fund Ltd.

Paulson Pure Spread Enhanced Fund Ltd.

**Private Equity and Co-Investment Vehicles**

Paulson Strategic Partners Fund LP

Paulson Strategic Partners Fund (Offshore), L.P.

PSP MM (Offshore), L.P.

Paulson Investment Company I LP

Paulson Investment Company II LP

**Separate Accounts**

Additionally, Paulson manages separate accounts employing strategies similar to those of the Paulson Funds for institutional investors. Terms applicable to these client accounts (including any investment restrictions) are subject to negotiation and vary from those applicable to the Paulson Funds.

## **Item 5 – Fees and Compensation**

### **Performance and Management Fees**

Our primary current fee structures for hedge fund clients are summarized below and are designed to incent longer-term investments to improve the stability of the funds' asset bases.

- Paulson withdraws from each fund monthly or quarterly management fees at the beginning of each accounting period based on that portion of its net asset value attributable to management fee bearing investors. An allocable portion of the management fee is automatically deducted from each relevant investor's account at the beginning of the relevant accounting period.
- Certain management company officers, employees, and/or agents are permitted to receive fees for serving on Boards. These individuals will retain those fees, and such retention will not result in any offset to management fees.
- Investors are generally subject to a performance fee calculated on the investment performance of each fund, as described in the relevant private offering memoranda. Performance fees, if applicable to an investor's investment, are charged and automatically deducted from an investor's account at the end of each fiscal year and on any interim withdrawal of capital by, or other distribution of funds to, an investor, subject to a “high water mark” loss carry-forward provision. Performance fees charged are intended to comply with the requirements of Section 205 of the Investment Advisers Act of 1940 (the Advisers Act) and its applicable rules.

Investors in any fund that we may advise in the future or in additional classes of interests of existing funds may bear different fees than those described herein. Furthermore, the Proprietary Funds are not charged Management Fees or Performance Fees.

	<b><u>Management Fee</u></b>	<b><u>Performance Fee</u></b>
<b>Merger Arbitrage</b>		
Paulson Partners L.P.		
Paulson International Ltd.	1.0%	20%
<b>Merger Arbitrage (2x Exposure)</b>		
Paulson Enhanced Ltd.	2.0%	20%
Paulson Partners Enhanced L.P.	2.0%	20%
<b>Event Arbitrage</b>		
Paulson Advantage Master Ltd.		
<b>Event Arbitrage (1.5x Exposure)</b>		
Paulson Advantage Plus Master Ltd.		
<b>Credit Fund</b>		
Paulson Credit Opportunities Master Ltd.		
Paulson Credit Opportunities Master II Ltd	1.5%	20%
<b>Special Situations Fund</b>		
Paulson Special Situations Master Fund Ltd.		
<b>Gold Fund</b>		
PFR Gold Master Fund Ltd.		

**Pure Spread**

Paulson Pure Spread Fund, L.P.	1.0%	20%
Paulson Pure Spread Fund Ltd.	1.0%	20%
Paulson Pure Spread Enhanced Fund Ltd.	1.0%	20%

**Co-Investment Vehicles**

Paulson Investment Company I LP	1.0%	20%
Paulson Investment Company II LP	1.0%	20%

**Expenses**

Investors in the funds will bear not only Paulson's fees, but also other fees and expenses of the funds. Such expenses include, but are not limited to (i) brokerage and prime brokerage fees, commissions and charges (including, without limitation, the costs of negotiating, documenting and/or amending agreements with prime brokers, ISDAs and other agreements with trading and financing counterparties), (ii) fees and charges of custodians and clearing agencies, (iii) interest and commitment fees on loans and debit balances, and other borrowing costs, (iv) income taxes, withholding taxes, transfer taxes and other governmental charges and duties, (v) fees of the Investment Manager, legal advisers (including any legal fees in connection with any litigation and regulatory matters, including amounts paid in settlements thereof and attorneys' fees, litigation expenses, the cost of settlements and indemnification expenses (including advances thereof)), administrators, net asset value calculation agents, accountants and independent auditors (including third-party accounting services and fees and expenses incurred in connection with any tax audit by any U.S. federal, state or local authority, including, without limitation, any related administrative settlement and judicial review), and fees of other service providers, (vi) Directors' fees and expenses, (vii) the costs of maintaining the respective fund's registered offices, (viii) the costs of updating, printing and distributing any Memorandum and subscription materials, any other governing documents, and any reports and notices to shareholders or prospective investors, (ix) research, database and due diligence costs and expenses, third-party investment sourcing fees, consulting and appraisal fees and expenses, any outsourced trading provider fees, bank service fees, fees and expenses of proxy research and voting services and fees and expenses of third-party professionals, including, without limitation, consultants, investment bankers, attorneys and accountants, technology and other software costs and expenses (including, without limitation, data subscriptions (such as Bloomberg) and any information technology hardware and software, (x) blue sky and other regulatory filing fees, including, without limitation, regulatory and statutory filings (such as filings for FATCA, AEOL, Form D, Form PF, Section 13 filings, Section 16 filings, and other similar regulatory filings, (xi) insurance costs (including D&O and cybersecurity insurance costs), and (xii) consulting fees and expenses, other operating expenses, and fees of other service providers. Each fund will also bear its organizational fees and expenses, which may be amortized by the Fund for financial reporting purposes over a period of up to five (5) years, unless such treatment results in adverse regulatory consequences in which case the fund shall be entitled to expense such items on a current basis for financial statement purposes.

Clients will incur brokerage and transaction costs. See Item 12 – Brokerage Practices.



## **Item 6 – Performance-Based Fees and Side-by-Side Management**

Paulson currently and may in the future charge performance-based fees to all of its funds and other accounts. A performance fee arrangement may create an incentive for Paulson to make investments that are riskier or more speculative than would be the case in the absence of a performance fee. Furthermore, Paulson has developed and maintains policies and procedures that provide an allocation methodology for investment opportunities that it considers reasonable and consistent with its fiduciary obligations, good-faith assessments, and any client specific limitations, as described in each client's offering documents or other agreements. In addition, Paulson may receive such compensation with regard to unrealized as well as realized gains in a client's account.

Certain inherent conflicts of interest may arise from the Investment Manager, the Adviser(s) to various funds and/or their respective principal carrying on similar investment activities both for themselves, their affiliates, and for the Paulson Funds.

The principal of the Investment Manager, Mr. Paulson, is also the principal of the general partner and/or investment manager of other private investment funds and accounts (the "Paulson Funds"). As such, the principal of the Investment Manager and the Adviser, and also the employees of Paulson, are required to allocate their time and attention among the various Paulson Funds.

In addition, Paulson provides advice to other Paulson Funds, some of which may follow similar trading programs. The Paulson Funds are subject to different fees and expenses, and Paulson may own different levels of interests in some of such other Paulson Funds (including up to 100% of the fund – "Proprietary Funds") which may give rise to other conflicts of interest. Paulson may give advice and recommend investments with respect to each of the Paulson Funds, which advice or investments may be identical to, or differ from, advice given to, or investments recommended or bought or sold for, other Paulson Funds, even though their trading objectives may be the same or similar. The performance of each of the Funds will vary.

In the ordinary course of its activities, Paulson may, from time to time, buy or sell the same positions for various Paulson Funds. Paulson will determine how trading opportunities are allocated among the Paulson Funds, even though Paulson may face potential conflicts of interest in making such allocations, especially between the Paulson Funds and Proprietary Funds. Participation in such opportunities may be allocated on the basis of the relative amounts of capital available for new positions, other guidelines established by the particular Fund, and applicable tax and regulatory considerations. Additionally, certain Paulson Funds may have allocation priority over others (and vice versa) if such fund(s) has a trading program targeted more specifically at a particular opportunity. It is expected, however, that when Paulson determines at the same time that a certain investment opportunity should be allocated to several Paulson Funds such opportunity will be allocated to the Funds on a *pari passu* basis and at an average price.

The Proprietary Funds may amend their trading program and/or otherwise trade in assets that may not be consistent with the trading program of the Paulson Funds. In addition to these

differences in trading strategy, the Proprietary Funds may have more capital available to invest than the other Paulson Funds and therefore may have the ability to participate in more and/or different opportunities. The Funds may also make different investments because of tax and regulatory considerations, as well as differences in the terms applicable to each entity. The Proprietary Funds will have the ability to redeem all or a portion of their capital at any time and with more frequency than the other Paulson Funds. Paulson may therefore withdraw from investments in the Proprietary Funds (while maintaining and/or adding to parallel investments on behalf of the other Funds), which could have an adverse impact on the value of the Funds' investments at such time and/or when it later disposes of the same position.

Paulson may aggregate purchase or sale orders of the Proprietary Funds with orders for other Paulson Funds and allocate the financial instruments or other assets so purchased or sold, in general, on an average price basis, among the Proprietary Fund and such other Paulson Funds. Such aggregation of orders may not always be to the benefit of the other Funds with regard to the price or quantity executed. It may not always be possible or consistent with the trading objectives of the other Paulson Funds for the same positions to be taken or liquidated at the same time or at the same price. Paulson may purchase on behalf of the other Paulson Funds and the Proprietary Funds different classes of debt and/or equity of the same borrower or issuer. These and other investments may be deemed to create a conflict of interest. Paulson may be required to take certain actions with respect to one class of debt or equity that may be adverse to other Funds if it holds other classes of debt or equity of the same borrower or issuer.

Paulson and its' principals will not be required to refrain from any other activity, and will not be required to devote all or any particular part of their time and effort to any individual Fund or strategy.

From time to time Paulson, in its sole and absolute discretion, may offer certain parties opportunities to co-invest in certain investments alongside the various Funds. Paulson will not be obligated to offer any particular co-investment opportunity (or portion thereof) to any particular shareholder. The amount of each co-investment opportunity allocated to participating co-investors will be determined by Paulson in its sole discretion. Paulson may charge management fees and/or performance-based compensation on any such co-investment offered or it may, in its sole discretion, elect to offer any such co-investment on a reduced or no fee basis.

**Item 7 – Types of Clients**

Paulson provides advisory services to hedge funds, co-investment vehicles, and institutional investors. The underlying investors in the hedge funds may include financial institutions, foundations and family offices, public and corporate pension funds, endowments, and high net worth individuals.

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

Paulson performs fundamental and legal (when necessary and appropriate) analysis on investments in the Client Funds, including reviews of company financials, and review of legal documentation related to proposed investment opportunities. Furthermore, the portfolio managers and Paulson's research analysts participate in company and analyst conference calls, and monitor the circumstances of each deal. In addition, external data (*i.e.*, Reuters, Bloomberg and other externally provided services) is used by Paulson in analyzing various aspects of each investment opportunity.

Paulson's principal investment objective for the Client Funds is to achieve positive excess returns through trading the securities and/or derivatives thereon of companies that are the subject of proposed changes in corporate structure or control such as tender offers, mergers, spin-offs, proxy contests, liquidations, recapitalizations, restructurings and bankruptcy reorganizations. Paulson's objective is to purchase these securities and/or derivatives at a discount to what it believes will be their value on the consummation of the proposed event. A complementary objective is to minimize exposure to the general securities markets by concentrating the portfolio on event-specific investments which act independently of the markets. In addition, certain of the Funds seek to achieve their objective through trading the securities and/or derivatives of companies that are the subject of special situations such as spin-offs, litigation, relative value, restructurings, proxy contests, and post-bankruptcy equities, as well as distressed securities and credit related securities and derivatives, gold and gold related securities and/or derivatives, healthcare and related technological and consumer sector securities. In general, there is no guarantee that these objectives will be met.

In furtherance of its investment program, Paulson focuses on trading in common stock, but also trades in other equities, debt instruments, options relating to any of the foregoing, forward contracts, futures contracts, warrants, convertible and other derivative securities, and other securities and investment interests including credit derivative swaps, commodities such as gold and/or forwards, options or futures contracts thereon. It should be noted that the merger arbitrage, credit, special situations, and gold sub-strategies of the event-driven (Paulson Advantage) portfolios will not, in all cases, be managed *pari-passu* with the respective portfolios. Similarly, the distressed debt sub-strategy may not be managed *pari passu* with the credit portfolios. Furthermore, the portfolio of the Pure Spread funds will not be managed *pari passu* with the merger strategy of the Merger Arbitrage funds. In some instances, the percentages of certain securities transactions invested in each strategy will differ, and some transactions may be placed only in the strategy specific portfolios and not in other eligible portfolios at the applicable portfolio manager's sole discretion. The risks inherent to the strategies employed by Paulson, including but not limited to those listed above, are described in further detail in the respective Client Fund's offering documents, and in Item 6 above.

On behalf of the Client Funds, Paulson may engage in swap and other derivatives transactions. In general, a derivative contract (including options) typically involves leverage, *i.e.*, it provides exposure to potential gain or loss from a change in the level of the market price of a security, currency or commodity (or a basket or index) in a notional amount that exceeds the amount of cash or assets required to establish or maintain the derivative contract.

Consequently, an adverse change in the relevant price level can result in a loss of capital that is more exaggerated than would have resulted from an investment that did not involve the use of leverage inherent in the derivative contract. These contracts also involve exposure to credit risk, since contract performance depends in part on the financial condition of the counterparty. These transactions are also expected to involve significant transaction costs. Investing in the Paulson Funds involves a risk of loss that investors must be prepared to bear. The risks inherent to the strategies employed by Paulson, including but not limited to those listed above, are described in further detail in the respective Client Fund's offering documents, and in Item 6 above.

**Item 9 – Disciplinary Information**

Paulson does not believe that there have been any legal or disciplinary events that are material to our advisory business or the integrity of our management.

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

Paulson has material business relations with the following entities:

- Paulson Management LP (SEC registered investment adviser, file number 801-66030); Paulson Management II LP; Paulson Management III LP; Paulson Management IV LLC; Paulson Management VI LP. These companies have overlapping, but not identical, ownership with Paulson. They perform services relating to the investment management business and are compensated under the terms of agreements directly or indirectly with Paulson and the respective Funds. These affiliated entities also receive certain research and other benefits described in Item 12.
- Plus Securities LLC (CRD Number 138299) is an affiliated limited purpose broker dealer formed for the purpose of facilitating the introduction of prospective investors to Paulson's Funds.
- Paulson Management Ireland Limited is an affiliated entity that performs back-office functions in Dublin.

These entities have been created for reasons not directly related to our clients and generally perform functions that would be performed by Paulson itself if they did not exist. We do not believe that our relationships with these entities cause a conflict of interest with our clients.

As discussed in response to Item 7, we are the investment manager to certain hedge funds and institutional clients. We do not believe that the contemporaneous management of the Paulson Funds and our institutional clients causes a conflict because they share similar investment strategies, and allocations are made based on principles described in response to Item 4.

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

As investment manager for various clients, Paulson may give advice, take action, and refrain from taking action, any of which may differ from advice given, action taken or not, or the timing of any action, for any other client. Further, Paulson may recommend or effect transactions on behalf of its clients in securities which it or any of its affiliated persons may buy or sell for its or their own accounts.

From time to time, we or our affiliated persons may come into possession of material nonpublic information which, if disclosed, might affect an investor's decision to buy, sell or hold a security or other instrument. This may occur, for example, where an affiliated person is a director or officer of a company, the stock of which may be held by a client. In the event that we or an affiliated person are in possession of material nonpublic information, we will be unable to use such information for the benefit of any client. Thus, Paulson's possession of such information may cause a client to be frozen in a security position or unable to engage in a transaction in that position until such time that the information is made public.

Paulson's Code of Ethics (Code) was adopted in an effort to, among others, avoid possible conflicts of interest, avoid the inappropriate use of material, nonpublic information and ensure the propriety of its employees' and partners' trading activity. Our Code is distributed to each employee at the time of hire, annually during the annual certification period, as well as any other time the Code has a material change. We also supplement the Code with training upon hire and periodically thereafter, and each employee certifies their compliance with the Code on an annual basis.

Paulson has adopted a policy with respect to buying and selling securities by Paulson's employees. The policy includes any securities account in which the employee (or their spouse or children living in the same household) has direct or indirect beneficial interest: (a) exercises investment discretion; (b) is listed on the account; or (c) is a current beneficiary. Personal securities trades must be pre-cleared with the Compliance Department with certain limited exceptions. In general, trades for the personal account of any employee of Paulson will not be approved within three days after any client of Paulson has purchased or sold that security.

Company personnel (and members of their immediate households) may not acquire securities for their own account in an initial public offering. Paulson's employees must also obtain prior approval for an investment in private placements. Further, an investment professional must identify any potential conflicts of interest to the Compliance Department when recommending a subsequent investment in the same company's public or private securities. In addition, any security acquired by an employee, with certain limited exceptions such as open-end mutual funds and other similar securities, must be held in the employees' portfolio for a minimum of ninety days from the date of purchase.

All Paulson employees must maintain any brokerage accounts covered by the Code at brokers designated by Paulson, and ensure that duplicate copies of trade confirmations and periodic



account statements are being received either electronically or in hard copy by the Compliance Department. These records are used to monitor compliance with the foregoing policies.

These policies apply to any personal transaction involving equity or debt securities (or derivative products related to these securities). The policy does not apply to transactions involving, among other limited exceptions, open-end mutual funds or accounts which afford the employee no discretion over individual security selection (“managed accounts”). Paulson’s employees and certain immediate family members may invest directly in certain of the limited partnerships or other private funds managed by Paulson without management or performance fees.

In addition, as part of the Code, Paulson has adopted policies and procedures related to political contributions, gifts and entertainment, and the use of social media.

Affiliated persons may not engage in the following activities without prior approval from Paulson’s Compliance Department: (i) a position that provides for direct or indirect compensation; (ii) a position with any for-profit enterprise; and (iii) a position in an authoritative capacity such as director, officer, board member, trustee, etc.

Paulson does not recommend or solicit investment by clients in Paulson managed or sponsored entities that would result in creation of a conflict of interest between Paulson and the client. In compliance with the Advisers Act, Paulson would not buy securities from or sell securities to a Paulson client without making appropriate disclosures to the client and where required, obtaining the client's consent. For purposes of this paragraph, references to Paulson include any Paulson related person.

Clients and prospective clients may obtain a copy of the Code by addressing a request for such Code to Paulson’s Chief Compliance Officer, 1133 Avenue of the Americas, New York, New York 10036.

## **Item 12 – Brokerage Practices**

The securities transactions of the Paulson Funds and other institutional clients are expected to generate a substantial amount of brokerage commissions and other transaction based compensation, all of which will be paid by the clients. Paulson will have complete discretion in deciding what brokers and dealers the clients will use and in negotiating the rates of compensation the clients will pay. In addition to paying commissions to brokers acting as agents, the clients may buy or sell securities directly from or to dealers acting as principals at prices that include dealer markups or markdowns, and may buy securities from underwriters or dealers in public offerings at prices that include compensation to the underwriters and dealers. In selecting brokers to effect portfolio transactions for our clients, we will consider such factors as price and transaction costs, the ability of the brokers to effect the transactions (taking into account their size and difficulty), the brokers' facilities, reliability and financial responsibility, confidentiality of trading activity, any products or services provided by such brokers, access to particular markets and access to credit or favorable terms. We need not solicit competitive bids and do not have an obligation to seek the lowest available commission cost. Accordingly, in any transaction or series of transactions, our clients may pay commissions to a broker in an amount greater than the amount another broker might charge.

Subject to seeking best execution, we may also consider other relationships as factors in the selection of securities dealers or brokers. For example, brokers to our clients have in the past, and may in the future, refer investors to Paulson-managed funds or engage in other transactions with us. Provision of services, including client referrals, could provide us with an incentive to select the respective broker-dealer for client transactions without regard to best execution. We will, however, provide compensation that we consider to be arm's length in any case in which such services have material value and will endeavor not to allocate brokerage transactions to a provider of such services as compensation for client referrals or other services or otherwise in violation of our duties to our clients. In addition, we may establish relationships with full service brokers that provide us with bundled services which may include execution as well as research services, only to the extent we determines that such arrangements would benefit our clients. We will not, however, engage in a relationship where we accumulate credits in an account to be used for soft dollar research payments to third parties. Such full service brokers may charge commissions in an amount greater than the amount another broker might charge, but we will engage in such relationships only if we determine in good faith that the amount of commissions charged is reasonable in relation to the value of the brokerage and other services provided by such brokers. In certain instances, commissions generated by some clients may be used to subsidize services provided to other clients that may not have generated such commissions.

We strive to allocate investment opportunities among our clients in a fair and equitable manner to provide, over time, meaningful investments for all clients. Paulson employs various investment strategies that are managed by Portfolio Managers ("PMs") managing separate portfolios. When independent PMs participate in the same investment idea for client(s) accounts they independently manage, to the extent practicable, such orders get aggregated and split equally until order of one PM is filled. The potential exists for one PM to manage various investment strategies with overlapping mandates. Investment strategies can consist of one or more client accounts. If PM determines that the investment opportunity is appropriate for more

than one client, he/she will allocate such opportunity to client accounts exercising good faith and after taking into consideration the relevant allocation factors. In the absence of legal or other limitations, investment opportunities for our clients are typically, and to the extent practicable and in the best interest of participating clients, aggregated and allocated among the clients based on the initial order size to each strategy PM manages and pro-rata in a manner intended to cause the holdings of the related security to be proportional to net asset value and consistent with the targeted mandates and parameters of each client within the strategy, including those related to market exposures, leverage and other risk factors. To the extent practicable, each of our clients will bear any burdens or costs associated with special limitations (e.g., investment or trading restrictions) associated with that client.

On occasion, where appropriate, and generally early in each month in order to rebalance the client funds as a result of capital flows, Paulson may effect market rebalancing transactions through unaffiliated, independent broker-dealers. In this scenario, the potential exist for one client fund to purchase securities held by another client fund. Paulson may also affect direct rebalancing trades between Paulson clients causing the purchase and sale of a particular security directly between two or more client accounts. Paulson enters into such transactions only when they are in compliance with the Investment Advisers Act and other applicable law, when Paulson deems the transaction to be in the best interests of both client funds and, when available, at an independently established price, and when Paulson believes such transactions to constitute “best execution” for both parties. Neither Paulson nor any related party receives any compensation in connection with such rebalancing transactions. In addition to rebalancing cross transactions, Paulson may also engage in other types of cross transactions in order to reduce or eliminate market impact or transaction costs, facilitate client trades in situations where a particular client needs liquidity and the other client seeks investment opportunities, or when the objectives of the clients differ. Additionally, Paulson may on occasion enter into principal transactions with its clients, but will do so only upon determination that the transaction is in the best interests of its clients and is done in compliance with section 206(3) of the Advisers Act.

### **Item 13 – Review of Accounts**

Paulson conducts periodic reviews of client accounts from an investment, risk and compliance perspective. These reviews include but are not limited to risk assessment and review of various portfolio exposures and compliance with any investment guidelines, and compliance review of activities in the client accounts to ensure compliance with internal policies, procedures and regulatory limitations. In addition, there is direct regular management of all client accounts by our Portfolio Manager(s). The financial statements of the funds are audited annually by independent public accountants.

We typically provide periodic written reports to clients and investors in the Paulson Funds which set forth various financial data and information. Investors in the Paulson Funds receive monthly statements directly from the Funds' independent Administrator, as well as each fund's audited financial report (performed by the Funds' independent Auditors) and, if applicable, the information necessary for the investor to complete its annual federal income tax return.

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

The Company has entered into, and in the future may enter into, contractual agreements with individuals and organizations (hereafter referred to as “agents”) who solicit clients for the Company or for the Client Funds sponsored by the Company. While the specific terms of each arrangement may differ, generally, an agent’s compensation is based upon the value of assets of the referred client(s) managed by the Company. The agent’s compensation does not increase the referred client’s fees beyond that which the Company would otherwise charge the referred client for its investment management services. The cost of these referral fees is paid entirely by the Company and is not borne by the referred client. We may also receive client referrals from brokers providing services to our clients. See Item 12 above.

## **Item 15 – Custody**

Paulson is deemed to have custody of client funds and securities. Each of the Paulson funds is subject to audit by independent accountants and all clients invested in Paulson funds receive copies of audited financials within 120 days of the applicable fiscal year-end. Funds and securities of the Paulson Funds, other than certain privately offered, non-certificated investments, are held by qualified custodians within the meaning of the applicable rules under the Advisers Act. Investors in the Paulson funds receive monthly account statements directly from the funds' independent Administrator. Investors in the Paulson funds should carefully review those statements.

**Item 16 – Investment Discretion**

Paulson has been granted discretionary authority to manage the securities accounts of its clients pursuant to investment management agreements entered into with such clients. Paulson endeavors to buy and sell securities and other instruments for its clients on a discretionary basis in a manner consistent with each client's stated investment objectives and restrictions. The Paulson Funds typically place no restrictions on Paulson's authority. Separate accounts may negotiate restrictions relevant to their particular circumstances.

### **Item 17 – Voting Client Securities**

Paulson's investment management agreements with its fund clients grant us the authority to cast all proxy votes. Paulson has adopted a proxy voting policy, as required by the Advisers Act. The policy provides that we will act in the best interests of our client funds in determining whether and how to vote on any proxy voting matter.

The proxy voting policy includes guidelines for the General Counsel and Chief Compliance Officer to follow if a material conflict of interest arises between Paulson and/or its employees and its clients to ensure any material conflict is resolved in the best interest of its clients.

Clients may obtain a copy of the policy and information on how Paulson voted client securities by addressing a request for such policy or information to Paulson's Chief Compliance Officer, 1133 Avenue of the Americas, New York, New York 10036.



**Item 18 – Financial Information**

Paulson does not charge or solicit pre-payment of \$1200 in fees per client six or more months in advance.

Paulson does not believe that there are any financial conditions reasonably likely to impair our ability to meet our contractual commitments to our clients.

**Item 19 – Requirements for State-Registered Advisers**

Not applicable.