

**March 29, 2023**  
**Form ADV Part 2A**

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

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

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

**Item 2.       Material Changes**

There have been no material changes since the prior annual amendment filing dated March 29, 2022.

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

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

As managing general partner of each Partnership, Baupost is solely responsible for the management and administration of such Partnership, including the making of all investment decisions on behalf of such Partnership and the placing of all orders for the purchase and sale of investments.

Baupost manages each Partnership pursuant to the investment strategy set forth in such Partnership’s limited partnership agreement (“LP Agreement”) and, if applicable, offering memorandum. The Baupost Partnerships invest in a wide range of public and private securities and assets. Baupost does not provide specifically tailored investment advice to investors in the Baupost Partnerships, and investors may not impose investment restrictions on their investments in the Baupost Partnerships.

Contributions to and withdrawals from the Baupost Partnerships are subject to the terms and conditions set forth in the respective LP Agreements of the Baupost Partnerships in which investors are invested. Investors in the Baupost Partnerships are subject to restrictions on their ability to withdraw capital from the Baupost Partnerships. Baupost has the right, in its sole discretion, to waive or alter some or all of the applicable restrictions on capital withdrawals and contributions (for example, notice periods, withdrawal of the portion of capital allocated to restricted investments (which are generally illiquid investments designated as restricted investments in the judgment of Baupost pursuant to certain of the LP Agreements), and other matters) or on transfers of limited partnership interests for investors as set forth in each Partnership’s LP Agreement and, if applicable, offering memorandum, and Baupost generally does waive notice periods for employees and certain former employees.

The Baupost Partnerships indirectly own a platform of affiliated entities located in Luxembourg to facilitate investment in European real estate and related assets (the “European Investment Platform”). In 2019, the European Investment Platform established an entity that will provide accounting, administrative, legal and corporate secretarial support services, and may also provide other support services, to certain Luxembourg investment vehicles in which the Baupost Partnerships indirectly invest.

Investors are urged to review the relevant LP Agreement and, if applicable, offering memorandum for additional information about matters addressed in this and other items throughout this Brochure.

As of December 31, 2022, Baupost’s regulatory assets under management were approximately \$27,384,539,075, all of which are managed on a discretionary basis. Baupost does not manage assets on a non-discretionary basis.

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

As compensation for its advisory services, Baupost receives a management fee from each of the Baupost Partnerships that is required to be paid in advance at the beginning of each quarter. The management fee is assessed based on relevant investor capital account balance as of the first business day of each fiscal quarter, taking into account capital contributions or withdrawals as of such date. Prior to applying the management fee rate, each capital account balance is reduced (but not below zero) by unrealized gains (net of unrealized losses) on any Illiquid Asset (generally as defined in each Partnership’s LP Agreement)<sup>1</sup> and reduced (but not below zero) by any positive adjusted profit sharing obligation allocated to such capital account. The management fee for a fiscal quarter is due and payable upon calculation. The management fee expense is evenly amortized over the quarter and deducted from each relevant investor’s capital account monthly.

In addition, the General Partner(s) are eligible to receive performance-based compensation from the Baupost Partnerships, subject to, if applicable, loss carryforward limitations set forth in each LP Agreement. As a result of the profit sharing obligation, a certain portion of eligible profits initially allocated to each relevant investor in each Partnership is reallocated to the General Partner(s), subject to the limitations set forth in each applicable LP Agreement. The profit sharing obligation is accrued at least quarterly and is reallocated to the General Partner(s) annually. If an investor fully or partially withdraws or transfers its interest during the year, a proportionate amount of the profit sharing obligation may be, or in the case of withdrawals, generally will be reallocated from the capital account of the investor to the capital account of the General Partner(s).

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<sup>1</sup> Certain Partnerships’ LP Agreements use the defined term “Illiquid Investment” – with respect to those Partnerships, the term Illiquid Asset as used herein shall have the meaning given to the term Illiquid Investment in such LP Agreements.

The profit sharing obligation of each relevant investor in the Baupost Partnerships is 20% of eligible profits, as described in detail in each respective LP Agreement and, if applicable, offering memorandum. Any profit sharing obligation generated from unrealized gains (net of unrealized losses) on any Illiquid Asset will be deferred for reallocation to the General Partner(s) until gains are realized except in the case of a full withdrawal of an investor's capital balance.

Management fees and profit sharing obligations are non-negotiable and non-refundable; however, Baupost may, in its sole discretion, waive these fees and/or obligations for certain investors in whole or in part. Baupost generally waives management fees and/or profit sharing obligations for current employees, certain former employees, founders and certain related parties of the foregoing, including foundations related to such persons. Baupost may discontinue fee and/or profit sharing obligation waivers at any time, and Baupost generally discontinues fee and profit sharing obligation waivers for most departing employees. However, Baupost does not expect to discontinue fee or profit sharing obligation waivers for foundations of employees.

The aforementioned compensation of the General Partners is based upon the value of the Baupost Partnerships' assets, which Baupost is responsible for determining. To mitigate this conflict, Baupost does not collect management fees on unrealized gains (net of unrealized losses) on any Illiquid Asset and does not impose a profit sharing obligation on unrealized gains (net of unrealized losses) on any Illiquid Asset except in the case of a full withdrawal of an investor's capital balance. Additionally, Baupost engages independent third parties to assist with valuing certain Illiquid Assets. Baupost also engages an independent auditor to perform an annual audit of the Baupost Partnerships in conformity with accounting principles generally accepted in the United States ("GAAP") at each calendar year-end.

## **Expenses**

Baupost will, in consideration for management fees, bear its own overhead expenses incurred in connection with managing the affairs and business of the Baupost Partnerships, including expenses related to its office space, utilities, and employees (i.e., those persons participating in its payroll and those Baupost deems to be its employees), and all costs and expenses of travel undertaken by Baupost employees, including travel to perform due diligence related to acquiring prospective investments or to perform ongoing supervision of the Baupost Partnerships' assets.

The Baupost Partnerships will bear, or reimburse Baupost for, all organizational, restructuring and offering expenses and all ordinary and extraordinary expenses incurred or advanced in the operation or management of the Baupost Partnerships and their investment activities as Baupost deems to be reasonable and necessary. The costs and expenses borne directly or indirectly through affiliated entities (e.g., special purpose vehicles) by the Baupost Partnerships (of which the investors bear their allocable share) include, without limitation:

- (i) Investment-related expenses, such as expenses related to sourcing investments, performing due diligence related to prospective investments or areas of investment, structuring, negotiating and executing acquisitions and dispositions of investments and performing ongoing supervision and maintenance of investments, including but not limited to the following:
- a) brokerage fees and commissions;
  - b) clearing and settlement charges and custodial and sub-custodial fees;
  - c) fees and expenses (including travel expenses) charged by professional service providers (some of whom may be former employees of, or current or former consultants to, Baupost), such as legal, accounting, auditing, consulting (which may include the cost of consultants onsite at Baupost's offices), investment banking, research (including expert network services and research provided by providers of brokerage services), class action monitoring and recovery (which may be in the form of a fixed fee or based on a percentage of the amount recovered by a Partnership in respect of such litigation, or a combination of both), advisory, lobbyist and other professional service providers;
  - d) costs of retainers and transaction-based compensation or success fees, some of which may be discretionary, charged by third party consultants, operating partners, brokers, market participants and advisers (some of whom may be former employees of, or current or former consultants to, Baupost) in connection with sourcing or evaluating investments, any of which may be fixed or based on a percentage of the proceeds of sourced investments, a percentage of the amount invested, or a combination of the foregoing;
  - e) management, development, profit-sharing or other fees or expenses (including, in certain instances, an operating partner's operational and overhead expenses) charged by operating partners or third parties (some of whom may be former employees of, or current or former consultants to, Baupost) who manage certain investments (including joint ventures, investment companies, partnerships and other pooled investment vehicles), any of which such fees or expenses may be fixed or based on a percentage of the proceeds of managed investments or a percentage of the amount invested, or a combination of the foregoing;
  - f) fees and expenses associated with the organization, operation and maintenance of special-purpose and other investment vehicles, including aggregating vehicles and service-providing vehicles including the European Investment Platform, used in connection with the Baupost Partnerships' investments, including (w) operational and overhead expenses such as office rent, furniture, build-out costs, personnel costs and information technology costs, (x) fees and expenses associated with developing, structuring, and winding up such entities, (y) costs of management of assets, including real property investments, owned by the Baupost Partnerships and (z) legal, accounting, and operational support;

- g) fees and expenses associated with any advisory board or committee required or advisable in certain non-U.S. jurisdictions in connection with investments;
  - h) interest and fees (including, without limitation, commitment, structuring, and underwriting fees) on margin loans, loan facilities, total return swaps and other indebtedness or other types of instruments, and related fees and expenses;
  - i) any of the foregoing to the extent related to potential investments that were not consummated; and
  - j) any other expenses related to a prospective investment, an existing investment or a type of investment;
- (ii) fees and expenses of professional service providers, including, without limitation, consultants and attorneys, including expenses for legal work related to Baupost Partnerships' amendments, costs and expenses incurred in connection with the dissolution, winding up, termination and liquidation of the Baupost Partnerships and the costs of any litigation or investigation involving activities of the Baupost Partnerships;
- (iii) expenses related to (x) the Baupost Partnerships' indemnification obligations under the LP Agreements, (y) director and officer liability insurance and errors and omissions liability insurance, including, without limitation, insurance that also provides coverage to the General Partners and their affiliates, officers and employees, for indemnifiable and non-indemnifiable fees, expenses and losses and (z) other insurance costs including insurance of which the General Partners and their affiliates are beneficiaries (including, for example, costs associated with fund management and employment practices liability insurance, cyber risk insurance and financial institution bond and STAMP bond coverage);
- (iv) administration fees and other expenses charged by or relating to the services of third-party providers of administration services;
- (v) expenses associated with pricing and investment valuation services, including the costs of third-party vendors such as valuation and pricing vendors (e.g., Bloomberg, Markit, etc.);
- (vi) audit, accountant and tax preparation expenses;
- (vii) fees and expenses related to compliance with the rules of any self-regulatory organization or applicable law or regulation in connection with the activities of the Partnership, including, without limitation, any governmental, regulatory, licensing, filing or registration fees or taxes (including, without limitation, fees and expenses incurred in connection with the preparation and filing of Section 13 filings, Section 16 filings and other similar regulatory filings);
- (viii) costs associated with compliance with (x) anti-money laundering regulations, (y) know your customer and anti-money laundering requirements of service providers and other counterparties and (z) the Baupost Partnerships' know your customer review of prospective and existing investors, service providers and other counterparties; and



- (ix) other expenses associated with the operation of the Baupost Partnerships (these may include, for example, although not historically borne by the Baupost Partnerships, expenses associated with organizing and conducting investor meetings).

As stated above, the Baupost Partnerships will incur brokerage and other transactions costs when a broker-dealer is used in connection with an investment. For additional information regarding brokerage practices, please see Item 12 below.

When a Baupost Partnership invests in joint ventures, including those with operating partners, or pooled investment vehicles, investors bear the cost of any management and performance fees of such third parties in addition to the fees of the General Partners.

Under the circumstances set forth in the LP Agreements, certain tax-related expenses or regulatory expenses may be specially allocated by Baupost to the accounts of those investors to which the relevant expenses are attributable.

Certain expenses may be borne in part by the Baupost Partnerships and in part by Baupost, such as in circumstances when a consultant provides services for the benefit of Baupost and other services for the benefit of the Baupost Partnerships or a specific Partnership investment.

The organizational and operating expenses of the European Investment Platform are borne by investors who participate in restricted investments.

To the extent that any expenses or fees relate to all or some of the Baupost Partnerships (or to investments thereof), such expenses or fees are allocated on a pro rata basis across the Baupost Partnerships to align, as closely as practicable, the expense burden with the beneficiaries of the service or investment activity. To make such allocation determinations, Baupost exercises its judgment based on the information available at that time; Baupost may, in its sole discretion, reassess such determinations and reallocate certain expenses if circumstances warrant.

The Baupost Partnerships that would have participated in a terminated or abandoned transaction also bear expenses in connection with such terminated or abandoned transaction.

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

As described in Item 5 (“Fees and Compensation”), the General Partner(s) are eligible to receive performance-based compensation from the Baupost Partnerships. Baupost recognizes that managing partnerships with differing terms relating to performance-based fees (such as different loss carryforward limitations) presents potential conflicts of interest, including that Baupost may have an incentive to favor one Partnership over another when allocating investment opportunities. To mitigate these conflicts, Baupost’s policies and procedures seek to provide that investment personnel make decisions based on the best interests of the Baupost Partnerships, without consideration of Baupost’s financial interests. Baupost’s Trade Allocation Policy seeks to allocate

investments to the Baupost Partnerships in a fair and equitable manner. Please see Item 11 for additional detail on Baupost's Trade Allocation Policy.

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

Baupost's clients are the Baupost Partnerships. Baupost manages one Partnership exempt from registration under Section 3(c)(1) of the 1940 Act and ten Partnerships exempt from registration under Section 3(c)(7) of the 1940 Act. Investors, which generally include high-net-worth individuals, corporations, charitable institutions, pension and profit sharing plans, trusts, individual retirement accounts and other entities, are admitted to the Baupost Partnerships at the discretion of Baupost, and contributions by investors to the Baupost Partnerships are accepted solely at the discretion of Baupost. Baupost also allows certain of its employees to invest in certain Baupost Partnerships. Certain Baupost Partnerships impose a minimum initial investment requirement of up to \$10 million, which may be waived at the discretion of Baupost.

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

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

The Baupost Partnerships have a broad investment mandate that contemplates investing in a range of financial instruments, asset classes and geographic regions, including those with respect to which Baupost initially may have limited experience. An investment in the Baupost Partnerships entails various risks, including the speculative nature of the Baupost Partnerships' activities; the illiquidity of interests in the Baupost Partnerships; the illiquidity of certain investments the Baupost Partnerships may make and the risk that the securities markets may continue indefinitely to undervalue the Baupost Partnerships' investments or that the investments may fail to appreciate as anticipated by Baupost.

The Baupost Partnerships may invest in, subscribe for, purchase or otherwise acquire and/or sell (including short sales) or otherwise dispose of securities and assets of all types, including, without limitation, stock (including preferred and convertible stock as well as common stock of any type), warrants, options, swaps, trade claims, bank debt (including undrawn revolvers), bonds, other debt

instruments including self-originated loans, currency, cryptocurrency and other digital assets, futures, derivatives, commodities, contract rights of any kind, royalty interests, non-U.S. securities and other assets (including assets in emerging markets), structured investment vehicles, secured and unsecured instruments, asset-backed securities, commercial and residential mortgage-backed securities, real estate and related instruments, other complex financial instruments and rights and distressed assets. The securities in which the Baupost Partnerships invest include securities that are listed or traded on domestic or non-U.S. exchanges or other trading networks (including over the counter markets), as well as securities that are unlisted and trade infrequently or not at all.

At times a significant amount of the Baupost Partnerships' investments may be in securities or other assets that are not freely tradable or are otherwise illiquid. Such investments include interests in private equity investments, venture capital investments, real estate, litigation investments, leveraged buy-out vehicles and joint ventures, which are typically organized as limited partnerships or limited liability companies, and are managed by third-party asset managers that specialize in the particular class of assets under management.

The Baupost Partnerships may also invest in private investments in public equity ("PIPEs"), which generally are not registered with the SEC until after a certain time period from the date the private sale is completed, special purpose acquisition companies, Rule 144A securities and direct assets such as car loans, consumer loans, commodities or non-performing assets.

Prospective investors should also consider the risks associated with the loss of key personnel of Baupost. Prospective investors should consult with their own advisers in order to understand the consequences of an investment in the Baupost Partnerships. Any investor not able to bear the risk of loss of his or her investment should not participate in the Baupost Partnerships.

Baupost selects investments according to many criteria, which may include book value, estimated underlying economic value, current and projected future earnings, cash flow, yield, skills of management, future prospects of the business and current market price of the investment. Baupost utilizes several analytical techniques, which may include fundamental analysis, analysis of historical relationships, economic analysis, business cycle analysis, interest rate analysis and industry analysis to make its investment decisions.

## **Investment Risks**

The types of investments made by the Baupost Partnerships are subject to certain risks. The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the Baupost Partnerships. Investors are advised to review the applicable Partnership's offering materials for a more extensive description of the risks of an investment in the Baupost Partnerships.

### Speculative Investment Strategy

By its nature, all investing, including by the Baupost Partnerships, is speculative. Despite the Baupost Partnerships' operating history, there is no assurance that the Baupost Partnerships will achieve their investment objective. Baupost's assessment of the short-term or long-term prospects of investments may not prove accurate. No assurance can be given that any investment strategy implemented by Baupost on behalf of the Baupost Partnerships will be successful, and investors may suffer a significant loss of their invested capital. Past performance of the Baupost Partnerships is not indicative of future results, which may vary.

### Broad Discretion

The Baupost Partnerships have a broad investment mandate that contemplates investing in a range of financial instruments, asset classes, and geographic regions, including those with respect to which Baupost initially may have limited experience.

### Value Style

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

The Baupost Partnerships frequently invest in securities, industries and asset classes that are out of favor or ignored by other investors. Investors incur the risk that such a contrarian strategy may not succeed and, to the extent that adverse economic and investment trends continue for an extended time, that the Baupost Partnerships may not achieve their goals. Even if a Partnership's value-investment strategy is successful, there may be significant portfolio turnover and, consequently, high transaction costs.

### Investment and Due Diligence Process

Before making investments, Baupost conducts due diligence that it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. Such due diligence often includes complex business, financial, tax, accounting and legal issues. When conducting due diligence and making an assessment regarding an investment, Baupost will rely on the resources reasonably available to it, which in some circumstances, whether or not known to Baupost at the time, may not be sufficient, accurate, complete or reliable. Due diligence may not reveal or highlight matters that could have a material adverse effect on the value of an investment.

## Control of Portfolio Investments

The Baupost Partnerships may seek to influence or control management of various issuers. This activity may include investing in a potential takeover, leveraged buy-out or reorganization or otherwise by investing in public or private companies, including other entities that were organized in order to purchase securities for the purpose of influencing or controlling management. In addition, such investments may be structured in a manner that permits the Baupost Partnerships to have some input into the management of the vehicle by an operating partner or third party asset manager.

For example, when making investments in companies, the Baupost Partnerships may also seek to influence or control management by, for example, discussing formally or informally with management different operating strategies, proposing shareholder resolutions, engaging in a proxy contest, serving on a board of directors, holding board of directors observer rights or serving on a creditors' committee established in connection with a company's insolvency. The success of an investment predicated on the ability of the Baupost Partnerships to influence or control management depends upon, among other things, (i) Baupost's ability to properly identify companies whose securities' prices can be improved through corporate and/or strategic action; (ii) the Baupost Partnerships' ability to acquire sufficient securities of such companies at a sufficiently attractive price; (iii) the Baupost Partnerships' ability to build their position in accordance with applicable regulations; (iv) the willingness of the management of such companies and other security holders to respond positively to Baupost's proposals and (v) favorable movements in the market price of any such company's securities in response to any actions taken by such company. There can be no assurance that any of the foregoing will occur.

Although the Baupost Partnerships generally do not seek controlling positions in public companies, if the Baupost Partnerships acquire beneficial ownership of more than 10% of a certain class of securities of a public company or places a director or observer on the board of directors of such a company, under Section 16 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Baupost Partnerships may be subject to certain additional requirements and limitations. Furthermore, when the Baupost Partnerships' ownership of an issuer's securities exceeds certain thresholds, the Baupost Partnerships may be limited in their ability to engage in certain transactions, including taking certain short positions and making certain investments in or with respect to companies that compete with the issuer. Similar requirements and limitations may apply in non-U.S. jurisdictions.

As noted herein, the Baupost Partnerships, acting either alone or as part of a group, may acquire a "control" position in an issuer's securities or place an employee as a member or an observer of the board of directors of such issuer. This may subject the Baupost Partnerships to additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations and other types of liability in which the limited liability generally characteristic of business operations may be ignored. Additionally, to the extent that any Baupost

personnel incur liability for serving as a director of an issuer or otherwise serving on an ad hoc committee or other similar body, such liability generally will be borne by the relevant Baupost Partnerships.

#### Significant Positions in Securities; Regulatory Requirements

In the event the Baupost Partnerships acquire a significant stake in certain issuers of securities and such stake exceeds certain percentage or value limits, the Baupost Partnerships may be subject to regulation and regulatory oversight that may impose notification and filing requirements or other administrative burdens on the Baupost Partnerships and Baupost. Any such requirements may impose additional costs on the Baupost Partnerships and may delay the acquisition or disposition of the securities or the Baupost Partnerships' ability to respond in a timely manner to changes in the markets with respect to such securities.

In addition, "position limits" may be imposed by various regulators that may limit the Baupost Partnerships' ability to effect desired trades. For instance, the CFTC has adopted position limits on the size of positions that market participants may own or control in certain futures, options on futures and swaps. Position limits are the maximum amounts of gross, net long or net short positions that any one person or entity may own or control in a particular issuer's securities. All positions owned or controlled by the same person or entity, even if in different accounts, may be aggregated for purposes of determining whether the applicable position limits have been exceeded and often are aggregated for the Baupost Partnerships. To the extent that a Partnership's position limits were aggregated with the other Baupost Partnerships' position limits, the effect on that Partnership and resulting restriction on its investment activities may be significant. If at any time positions managed by Baupost were to exceed applicable position limits, Baupost would be required to liquidate positions held by one or more Partnerships, to the extent necessary to come within those limits. Further, to avoid exceeding any position limits, Baupost might have to forgo or modify certain of its contemplated trades for the Baupost Partnerships.

Moreover, the presence of corporate governance mechanisms such as staggered boards, poison pills and classes of stock with increased voting rights may hinder Baupost's ability to execute any corporate governance strategy successfully.

#### Follow-on Investments

The Baupost Partnerships have provided, and may in the future have the opportunity, or be called upon to provide, follow-on funding for certain portfolio investments ("Follow-on Investments"). Electing not to make a Follow-on Investment could have a substantial negative impact on an investment in need of capital, may diminish the Baupost Partnerships' ability to influence the investment's future development, may result in dilution of the Baupost Partnerships' investment itself and could impair the value of such investment and, in turn, the value of the Baupost Partnerships. If the Baupost Partnerships elect to make a Follow-on Investment, there is a risk that

the Follow-on Investment does not preserve, protect or enhance the existing investment, and the Baupost Partnerships may lose both their initial investment and the Follow-on Investment.

### Concentration of Investments

It is expected that no single investment of a Partnership will exceed 10% of the assets of such Partnership at the time of purchase. However, the favorable performance of a particular investment or the sale or other disposition or relatively unfavorable performance of other investments may increase the percentage of such Partnership's assets in a single investment beyond 10%. In addition, Baupost reserves the right to acquire a single investment that exceeds 10% of the assets of any Partnership at the time of its purchase if it deems the investment advisable.

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

### Portfolio Turnover

Portfolio turnover is not a limiting factor with respect to investment decisions. High portfolio turnover involves correspondingly greater brokerage commissions and other transaction costs, which will be borne by the Baupost Partnerships. Alternatively, if portfolio turnover is relatively low, in order to obtain research services, the Baupost Partnerships may be subject to brokerage commissions for execution services higher than the commissions the Baupost Partnerships would otherwise pay if the Baupost Partnerships' trading volume were higher.

### Cash Balances

The Baupost Partnerships typically hold significant cash or cash equivalent balances. The Baupost Partnerships generally hold any cash balances they may accumulate for investment, reinvestment and distribution to the Partners or reserves for unfunded obligations in short-term debt securities, either taxable or, in whole or in part, tax-exempt, in securities subject to repurchase agreements, in taxable or tax-exempt money market mutual funds or in bank accounts. These cash balances are typically held in securities issued by or backed by the government of the United States. The cash balances of the Baupost Partnerships (including amounts held in short-term debt securities, money market mutual funds or bank accounts) will vary from time to time as Baupost may deem advisable and may at any particular time amount to a significant portion of the assets of the Baupost Partnerships. Pending investment or reinvestment, such cash balances may not significantly appreciate in value and may be exposed to inflation risk.

Alternatively, Baupost may deem it advisable to hold low or no cash balances whatsoever from time to time.

### Leverage and Guarantees

Baupost has not used leverage that is recourse to the Partnerships. However, the Baupost Partnerships do have the ability to utilize partnership-level leverage, including by trading on margin, short selling or writing options, or providing guarantees related to portfolio investments. Baupost regularly employs leverage on certain types of investments on a non-recourse or limited recourse basis. Although leverage increases returns if the Baupost Partnerships earn a greater return on the incremental investments purchased with borrowed funds than they pay for such funds, the use of leverage decreases returns if the Baupost Partnerships fail to earn as much on such incremental investments as they pay for such funds. The effect of leverage in a declining market would also result in a greater decrease in the Baupost Partnerships' Net Asset Value than if the Baupost Partnerships were not so leveraged. If any of the assets used to secure the borrowing decrease in value, the Baupost Partnerships may be required to pledge additional collateral to the lender in the form of cash or securities to avoid liquidation of those assets or potential liquidation of the leveraged asset.

The Baupost Partnerships have invested and expect to invest in entities that are themselves subject to leverage, which may be substantial, including private equity and real estate vehicles. Debt may be placed on investments, including real estate and private loans, at the time of purchase, or subsequent to purchase. In limited circumstances, the Baupost Partnerships may provide additional security or a guarantee in connection with the issuance of such debt, or in connection with other types of obligations of portfolio investments. Baupost may also cause the Baupost Partnerships to guarantee or backstop certain obligations of third parties such as Baupost's operating partners in connection with underlying transactions. In connection with purchase obligations or other commitments, a Partnership may incur financial obligations on a joint basis with other Baupost Partnerships, other affiliated entities (e.g., special-purpose vehicles), or third parties, including but not limited to guarantees or other obligations undertaken by Baupost on behalf of the funds it manages, and such financial obligations may exceed such Partnership's pro rata share of its interest in the applicable investment. However, a Partnership will not incur a financial obligation on a joint basis with another of the Baupost Partnerships, other affiliated entities, or third parties unless Baupost believes that such Partnership and the other of the Baupost Partnerships, other affiliated entities, or third parties that are parties to the joint obligation will each be able to bear its pro rata share of the relevant obligation. In connection with the foregoing, a Partnership may enter into contribution agreements in order that such Partnership will not bear more than its pro rata share of any such joint obligation.



## Terrorism and Catastrophe Risks

The Baupost Partnerships may be subject to the risk of loss arising from exposure that they may incur, indirectly, due to the occurrence of various events, including, without limitation, hurricanes, earthquakes and other natural disasters, terrorism, pandemics or other health emergencies and other catastrophic events.

## Coronavirus Risks

In December 2019, the virus SARS-CoV-2, which causes the coronavirus disease known as COVID-19, surfaced in Wuhan, China. The disease spread around the world, resulting in the temporary closure of many corporate offices, retail stores, and manufacturing facilities across the globe, as well as the implementation of travel restrictions and remote working and “shelter-in-place” or similar policies by numerous companies and national and local governments. These actions caused the disruption of manufacturing supply chains and consumer demand in certain economic sectors, resulting in significant disruptions in local and global economies. Such disruptions continue to be felt, as many countries and U.S. states struggle to contain the virus and its variants. The short-term and long-term impact of COVID-19 on the operations of Baupost and the performance of the Baupost Partnerships is difficult to predict. Any potential impact on such operations and performance will depend to a large extent on future developments and actions taken by authorities and other entities to contain COVID-19 and its economic impact. These potential impacts, while uncertain, could adversely affect the performance of the Baupost Partnerships.

## Defined Benefit Plan Risks

Under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code, all members of a group of commonly controlled trades or businesses are jointly and severally liable for certain of each other’s obligations to any defined benefit pension plans maintained by an entity in the controlled group or to which such entity is obligated to contribute. These obligations may include the obligation to make required pension contributions, the obligation to fund any deficit amount upon pension plan termination and the obligation to pay withdrawal liability owed to a multiemployer plan to which such entity makes contributions. Accordingly, if, as a result of an investment, the Baupost Partnerships are in the same control group with an entity subject to such obligations, the Baupost Partnerships could be held liable for certain of the defined benefit pension obligations of such entity. While Baupost seeks to avoid this risk in the way it structures the investments made by the Baupost Partnerships, it may not always be successful.

## **Investment Risks Associated with Specific Investment Types**

### Equity Securities Generally

The value of equity securities of public and private, listed and unlisted companies and equity derivatives generally varies with the performance of the issuer and movements in the equity

markets. As a result, the Baupost Partnerships may suffer losses if they invest in equity instruments of issuers whose performance diverges from Baupost's expectations or if equity markets generally move in a single direction and the Baupost Partnerships have not hedged against such a general move. The Baupost Partnerships also may be exposed to risks that issuers will not fulfill contractual obligations such as, in the case of convertible securities or private placements, delivering marketable common stock upon conversions of convertible securities and registering restricted securities for public resale.

### Preferred Stock

Investments in preferred stock involve risks related to priority in the event of bankruptcy, insolvency or liquidation of the issuing company and risks related to how dividends are declared. Preferred stock ranks junior to debt securities in an issuer's capital structure and, accordingly, is subordinate to all debt in bankruptcy. Preferred stock generally has a preference as to dividends. Such dividends are generally paid in cash (or additional shares of preferred stock) at a defined rate, but unlike interest payments on debt securities, preferred stock dividends are payable only if declared by the issuer's board of directors. Preferred stock may also be subject to optional or mandatory redemption.

### Convertible Securities

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by the Baupost Partnerships is called for redemption, the Baupost Partnerships will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third party. Any of these actions could have an adverse effect on a Partnership's ability to achieve its investment objective.

### Debt Securities

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

Debt securities in which the Baupost Partnerships invest may or may not be rated by rating agencies such as Moody's Investors Service, Inc. ("Moody's") or Standard & Poor's Ratings Services ("S&P"), and, if rated, such rating may range from the very highest to the very lowest, currently C for Moody's and D for S&P. Securities rated below investment grade (below Baa3 if rated by Moody's and below BBB- if rated by S&P) normally provide a yield or yield to maturity that is significantly higher than that of investment-grade issues, but are predominately speculative with respect to capacity to pay interest and repay principal. The lower-rated categories include debt securities that are in default and debt securities of issuers that are insolvent. The rating

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

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

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

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

Certain debt instruments held by the Baupost Partnerships may be non-performing or in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to such debt instruments.

The Baupost Partnerships may invest in liquid bonds that later become illiquid (e.g., the issuer of a bond held by the Baupost Partnerships enters into bankruptcy proceedings causing interest payments on the bond to be deferred or the maturity date of the bond to be deferred indefinitely).

### Distressed Investments

The Baupost Partnerships have invested and expect to invest in the securities and obligations of distressed and bankrupt issuers, including debt obligations that are in covenant or payment default. Such investments generally are considered speculative. The repayment of defaulted obligations is subject to significant uncertainties. Defaulted obligations might be repaid, if at all, only after lengthy workout or bankruptcy proceedings, during which the issuer might not make any interest or other payments and the amount of any recovery may be affected by the relative security of the Baupost Partnerships' investments in the capital structure of the issuer. In certain periods, there may be little or no liquidity in the markets for these securities or instruments. In addition, the prices of such securities or instruments may be subject to periods of abrupt and erratic market movements and above-average price volatility. It may be more difficult to value such securities and the spread between the bid and asked prices of such securities may be greater than normally expected. If Baupost's evaluation of the risks and anticipated outcome of an investment in a distressed security should prove incorrect, the Baupost Partnerships may lose a substantial portion or all of their investment or they may be required to accept cash and/or securities with a value less than the Baupost Partnerships' original investments. In addition, distressed investments may also be adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate, recharacterize debt as equity or disenfranchise particular claims. Payments and distributions may be disgorged if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment. The EU Bank Recovery and Resolution Directive (2014/59/EU) equips national authorities in member states of the European Union with tools and powers for preparatory and preventive measures, including, in the case of derivatives transactions, powers to close-out such transactions or suspend any rights to close-out such transactions if a relevant institution is deemed likely to fail.

### Merger Arbitrage and Reorganization Transactions

The Baupost Partnerships have invested and expect to invest in the securities of companies involved in mergers, consolidations, liquidations and reorganizations or as to which there exist tender or exchange offers, including, without limitation, negotiated, or "friendly," reorganizations and non-negotiated, or "hostile," takeover attempts (collectively, "Reorganization Transactions").

The Baupost Partnerships invest in certain Reorganization Transactions as part of a merger arbitrage strategy. The success of a merger arbitrage investment depends upon Baupost's ability to identify and exploit merger activity to capture the spread between current market values of securities and their values after successful completion of a merger, restructuring or similar

corporate transaction. Merger arbitrage investments may incur significant losses if anticipated merger or acquisition transactions are not consummated. The consummation of mergers, tender offers and exchange offers can be prevented or delayed by a variety of factors, including: (i) regulatory and antitrust restrictions; (ii) political factors; (iii) industry weakness; (iv) stock-specific events; and (v) failed financings.

The Baupost Partnerships will not invest their assets in a Reorganization Transaction unless Baupost determines that the probability of a timely and successful completion of the transaction outweighs any risks associated with possible delays in its successful completion. There can be no assurance that any Reorganization Transaction proposed at the time the Baupost Partnerships make investments will be consummated or will be consummated on the terms and within the time period contemplated.

### Illiquid Investments

The Baupost Partnerships have purchased and expect to purchase illiquid investments, which include securities whose disposition is restricted by the securities laws, by agreement or by other characteristics inherent in the investment or in the markets or other mechanisms by which such investment trades. For example, Baupost frequently invests in investment vehicles whose principal assets are comprised of real estate. These investments are typically highly illiquid.

The Baupost Partnerships may not be able to dispose of illiquid investments readily or may be contractually prohibited from disposing of such securities for a period of time. Accordingly, if the Baupost Partnerships' portfolios become more heavily weighted towards illiquid investments, the Baupost Partnerships' ability to redeem limited partnership interests in cash will be limited.

Securities that have not been registered under the Securities Act of 1933, as amended, are referred to as private placements or restricted securities and are purchased directly from the issuer or in the secondary market. Limitations on resale may have an adverse effect on the marketability of such securities. The Baupost Partnerships may have to register such restricted securities in order to dispose of them, resulting in additional expense and delay. For example, the Baupost Partnerships may purchase securities in PIPE transactions. Until the public registration process is completed, the securities acquired in PIPE transactions are restricted as to resale and the Baupost Partnerships cannot freely trade the securities. See "PIPE Transactions." There is no assurance that any restricted securities will be publicly registered, or that the registration will remain in effect. Trading volume also may be limited even for registered securities.

In addition, the Baupost Partnerships have invested and expect to invest in private equity investments. Such securities are illiquid and difficult to price for a variety of reasons. Because those securities are not regularly traded, even among institutional investors, a reliable arms-length price often is not available as a pricing benchmark. Furthermore, the value of illiquid investments

in private companies may depend heavily on the complex legal rights attached to the securities themselves that are difficult to evaluate.

The Baupost Partnerships may invest in liquid securities that later become illiquid, for example, if Baupost or an affiliate serves on a creditor's or other committee in a bankruptcy proceeding or due to trade or other restrictions on certain securities. Such restriction may be of an uncertain or protracted duration.

Baupost determines, in its sole discretion, whether and when a particular illiquid investment, or portion thereof, should be designated as a restricted investment and whether and when a restricted investment, or portion thereof, should no longer be designated as such. The Baupost Partnerships regularly hold investments that have significant characteristics of illiquidity and are not designated as restricted investments.

Restricted investments pursuant to certain of the LP Agreements can be designated as such up to certain thresholds set forth in those LP Agreements, with exceptions for follow-on investments, hedges and previously-made commitments, each of which can continue to be designated as restricted investments after the threshold is reached. When calculating the thresholds, certain non-discretionary commitments of the Baupost Partnerships associated with restricted investments are deemed fully funded. For this purpose, direct obligations of the Baupost Partnerships are generally counted toward the thresholds based on the full value of the obligations, whereas guarantees, backstops and contingent obligations, such as guarantees of third-party obligations, are estimated by Baupost using its judgment, taking into account factors such as the likelihood of funding and expected amount of funding. Certain direct obligations are also estimated by Baupost in its judgment when Baupost believes that the full value of the obligation differs from the amount that is likely to be funded. A funding obligation could be greater than Baupost's estimate.

### Bank Loans

The Baupost Partnerships have invested and expect to invest in bank loans. Risks associated with bank loans include (i) the fact that prepayments may occur at any time without premium or penalty and that the exercise of prepayment rights during periods of declining spreads could cause the Baupost Partnerships to reinvest prepayment proceeds in lower-yielding investments; (ii) the borrower's inability to meet principal and interest payments on its obligations (i.e., credit risk); and (iii) price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the borrower and general market liquidity (i.e., market risk). If bank loans become nonperforming, the loans may require substantial workout negotiations or restructuring that may result in, among other things, a substantial reduction in the interest rate and/or a substantial write-down of the principal of the loan. In addition to the risks noted above, due to required third-party consents or other reasons, certain loans may not be purchased or sold as easily or as quickly as publicly-traded securities. Moreover, historically, the trading volume in the loan market has not been as liquid as the market for public securities.

The Baupost Partnerships may acquire interests in loans either directly (by way of assignment (“Assignment”)) or indirectly (by way of participation (“Participation”)) or through the acquisition of synthetic securities, structured finance securities or interests in lease agreements that have the general characteristics of loans and are treated as loans for withholding tax purposes. The Baupost Partnerships may also originate loans. The purchaser, in an Assignment of a loan obligation, typically succeeds to all the rights and obligations of the selling institution (the “Selling Institution”) and becomes a lender under the loan or credit agreement with respect to the debt obligation. In contrast, Participations acquired by the Baupost Partnerships in a portion of a debt obligation held by a Selling Institution typically result in a contractual relationship only with such Selling Institution, not with the obligor. The Baupost Partnerships would have the right to receive payments of principal, interest and any fees to which they are entitled under the Participation only from the Selling Institution and only upon receipt by the Selling Institution of such payments from the obligor. In purchasing a Participation, the Baupost Partnerships generally will have no right to enforce compliance by the obligor with respect to the terms of the loan or credit agreement or other instrument evidencing such debt obligation, nor any rights of setoff against the obligor, and the Baupost Partnerships may not directly benefit from the collateral supporting the debt obligation in which they have purchased the Participation. As a result, the Baupost Partnerships would assume the credit risk of both the obligor and the Selling Institution. In the event of the insolvency of the Selling Institution, the Baupost Partnerships may be treated as general creditors of the Selling Institution in respect of the Participation and may not benefit from any setoff between the Selling Institution and the obligor.

Purchasers of loans are predominately commercial banks, investment funds and investment banks. As secondary market trading volumes increase, new loans frequently contain standardized documentation to facilitate loan trading that may improve market liquidity. There can be no assurance, however, that future levels of supply and demand in loan trading will provide an adequate degree of liquidity or that the current level of liquidity will continue. Because holders of such loans may be provided confidential information relating to the borrower, the unique and customized nature of the loan agreement and the private syndication of the loan, such loans are not purchased or sold as easily as publicly-traded securities are purchased or sold. In addition, historically the trading volume in the loan market has been small relative to the market for high-yield debt securities.

### Loan Origination

The Baupost Partnerships have engaged and expect to engage in loan origination activities. Such activities may subject the Baupost Partnerships or Baupost to regulatory requirements under the laws of certain jurisdictions. If the Baupost Partnerships originate loans with the intention of issuing participations to others with respect to the Baupost Partnerships’ exposure to such loans, and if the Baupost Partnerships are unable to successfully close transactions for such

participations, the Baupost Partnerships will be forced to hold their excess interest in such loans for an indeterminate period of time.

### Trade Claims

The Baupost Partnerships have purchased and expect to purchase claims against companies, including insolvent companies. These claims are typically unsecured and generally represent money due to a creditor or a supplier of goods or services to such company. An investment in trade claims is speculative and carries a high degree of risk. Trade claims are illiquid instruments that generally do not pay interest and there can be no guarantee that the debtor will ever be able to satisfy the obligation on the trade claim. Such claims are typically unsecured and may be subordinated to other unsecured obligations of a debtor, and generally are subject to defenses of the debtor with respect to the underlying transaction giving rise to the trade claim. Although Baupost endeavors to protect against such risks in connection with the evaluation and purchase of claims, trade claims are subject to risks not generally associated with standardized securities and instruments due to the idiosyncratic nature of the claims purchased. These risks include the risk that the debtor may contest the allowance of the claim due to disputes the debtor has with the original claimant or the inequitable conduct of the original claimant, or due to administrative errors in connection with the transfer of the claim. Recovery on allowed trade claims also may be impaired if the anticipated dividend payable on unsecured claims in the bankruptcy is not realized or if the timing of the bankruptcy distribution is delayed. Accordingly, if the Baupost Partnerships receive payment in respect of the trade claim investment, the payment may be in an amount less than what the Baupost Partnerships paid for or otherwise expected to receive in respect of the claim.

Additionally, there can be restrictions on the purchase, sale and/or transferability of trade claims during all or part of a bankruptcy proceeding. The markets in trade claims generally are not regulated by U.S. federal securities laws or the SEC. The purchase and sale of trade claims are generally consummated by written contract between the parties and contain customary language regarding the return of a portion of the purchase price in the event that all or a portion of the claim is disallowed or rejected. Because trade claims are unsecured, holders of trade claims may have a lower priority in terms of payment than certain other creditors in a bankruptcy proceeding.

Because they are not negotiable instruments, trade claims are typically less liquid than negotiable instruments. Given these factors, trade claims often trade at a discount to other *pari passu* instruments.

### Investments Related to Legal Proceedings and Judgments

The Baupost Partnerships have invested and expect to invest in interests in, or related to, legal proceedings or judgments including, but not limited to, the purchase of rights to bring or pursue litigation or arbitration claims, the making of, or investing, in loans to parties to litigation or



arbitration proceedings or in potential future recoveries in respect thereof (generally referred to as “litigation funding”), and debt or equity investments in companies engaged in litigation or arbitration proceedings. In addition to other risks commonly associated with loans, debt and equity investments, such investments (referred to collectively herein as “litigation investments”) are subject to a number of significant risks, including, but not limited to, those described herein.

The Baupost Partnerships’ ability to achieve their investment objectives with respect to litigation investments depends on whether claims in which the Baupost Partnerships invest are successful. Assessing the values, strengths and weaknesses of a claim is complex, and the outcome is not certain.

While Baupost seeks to align incentives between the Baupost Partnerships, the claimant and the law firm representing the claimant for each litigation investment, it may not always be successful, which could negatively impact the investment.

Baupost carefully considers the laws, regulations and ethical rules that apply to each litigation investment, including their impact on the assignment of claims and/or the participation in a lawyer’s contingent fee interests, which vary by jurisdiction and are complex. While Baupost seeks to structure litigation investments to comply with all applicable laws, regulations and ethical rules, changes to these could reduce the value of the Baupost Partnerships’ pre-existing litigation investments in such jurisdictions. Furthermore, the Baupost Partnerships’ failure to comply with any applicable laws, regulations or ethical rules relating to a litigation investment, whether actual or alleged, could expose Baupost Partnerships to potential liabilities, which could adversely affect the Baupost Partnerships.

If the defendant in a case is unable to pay, or seeks to challenge the validity of, a judgment or award, the Baupost Partnerships may encounter difficulties obtaining recoveries. In addition, certain aspects of litigation recoveries, including the timing and amounts recovered, are outside of the control of the Baupost Partnerships and Baupost. It is also possible that one or more of the parties to a litigation (whether a private party or a sovereign government) may threaten regulatory action or litigation and/or institute regulatory actions or lawsuits against the Baupost Partnerships and/or Baupost (and/or its employees) in an attempt to undermine an investment or prospective investment, and an unfavorable outcome from any such action or litigation could reduce the profitability of the Baupost Partnerships and may ultimately cause losses.

### Sovereign Debt

The Baupost Partnerships have invested and expect to invest in sovereign debt. Investment in sovereign debt can involve a high degree of risk. The governmental entity that controls the repayment of sovereign debt may not be able or willing to repay the principal and/or interest when due in accordance with the terms of the debt. A governmental entity’s willingness or ability to repay principal and interest when due may be affected by, among other factors, its cash flow

situation, the extent of its non-U.S. reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole, the governmental entity's policy toward the International Monetary Fund, the political constraints to which a governmental entity may be subject and changes in governments and political systems. At certain times, certain countries (particularly emerging market countries) have declared moratoria on the payment of principal and interest on external debt. Governmental entities may also depend on expected disbursements from non-U.S. governments, multilateral agencies and others to reduce principal and interest arrearages on their debt. The commitment on the part of these governments, agencies and others to make such disbursements may be conditioned on a governmental entity's implementation of economic reforms and/or economic performance and the timely service of such debtor's obligations. Failure to implement such reforms, achieve such levels of economic performance or repay principal or interest when due may result in the cancellation of such third parties' commitments to lend funds to the governmental entity, which may further impair such debtor's ability or willingness to service its debts in a timely manner. Consequently, governmental entities may default on their sovereign debt. Holders of sovereign debt may be requested to participate in the rescheduling of such debt and to extend further loans to governmental entities. There is no bankruptcy proceeding by which sovereign debt on which governmental entities have defaulted may be collected in whole or in part.

#### Non-U.S. Securities and Emerging Markets Securities

The Baupost Partnerships have invested and expect to invest in securities principally or exclusively traded in non-U.S. markets. Since non-U.S. securities are normally denominated and traded in non-U.S. currencies, the value of the Baupost Partnerships' assets may be affected favorably or unfavorably by currency exchange rates and exchange control regulations (which may include suspension of the ability to transfer currency from a given country and repatriation of investments). Exchange rates with respect to certain currencies may be particularly volatile. There may be less information publicly available about a non-U.S. company than about a U.S. company, and non-U.S. companies are not generally subject to accounting, auditing and financial reporting standards and practices comparable to those in the United States. The securities of some non-U.S. companies are less liquid and at times more volatile than securities of comparable U.S. companies. Non-U.S. brokerage commissions and other fees are also sometimes higher than in the United States. Non-U.S. settlement procedures and trade regulations may involve certain risks (such as delay in payment or delivery of securities or in the recovery of the Baupost Partnerships' assets held abroad) and expenses not present in the settlement of domestic investments. Baupost generally retains, but in certain circumstances may delegate to executing brokers or custodians, the discretion to select currency exchange rates and execution times in connection with non-U.S. currency exchange transactions.

Some countries in which the Baupost Partnerships may invest may have fixed or managed currencies that are not free-floating against the U.S. dollar. Further, certain currencies may not be

traded internationally. Certain of these currencies have experienced or may experience a steady devaluation relative to the U.S. dollar. Any devaluations in the currencies in which the Baupost Partnerships' portfolio securities are denominated may have a detrimental impact on the Baupost Partnerships. Many countries in which the Baupost Partnerships may invest have experienced substantial, and in some periods extremely high, rates of inflation for many years. Inflation and rapid fluctuations in inflation rates have had and may continue to have negative effects on the economies and securities markets of certain countries.

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

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

Emerging markets are also subject to unanticipated political or social developments that may affect the values of the Baupost Partnerships' investments in these countries and the availability to the Baupost Partnerships of additional investments in these countries. The small size, limited trading volume and relative nascency of the securities markets in these countries may make the Baupost Partnerships' investments in such countries illiquid and more volatile than investments in more developed countries. There may be little financial or accounting information available with respect to issuers located in these countries, and it may be difficult, as a result, to assess the value or prospects of an investment in such issuers.

## Currencies

The Baupost Partnerships have traded and expect to trade currencies. A principal risk in trading currencies is the rapid fluctuation in the market prices of currency contracts. Prices of currency contracts traded by the Baupost Partnerships are affected generally by relative interest rates, which in turn are influenced by a wide variety of complex and difficult to predict factors such as money supply and demand, balance of payments, inflation levels, fiscal policy, and political and economic events. In addition, governments from time to time intervene, directly and by regulation, in these markets, with the specific effect or intention of influencing prices that may, together with other factors, cause all of such markets to move rapidly in the same direction because of, among other things, interest rate fluctuations.

## Initial Public Offerings

Investments in initial public offerings (or shortly thereafter) may involve greater risks than investments in secondary public offerings or purchases on a secondary market due to a variety of factors, including, without limitation, the limited number of shares available for trading, unseasoned trading, lack of investor knowledge of the issuer and limited operating history of the issuer. In addition, some companies that make initial public offerings are involved in relatively new industries or lines of business, which may not be widely understood by investors. Some of these companies may be undercapitalized or regarded as developmental stage companies, without revenues or operating income, or the near-term prospects of achieving them. These factors may contribute to substantial price volatility for such securities and, thus, may impact the value of the Baupost Partnerships' interests.

The Baupost Partnerships have in the past and expect to purchase equity securities in an initial public offering. Such offerings are considered "new issues," as defined in Rule 5130 of the Financial Industry Regulatory Authority, Inc. ("FINRA"). Rule 5130 generally prohibits members of FINRA from selling new issues to an account in which a "restricted person" (as defined in Rule 5130) has an interest, unless the fund has a mechanism in place that limits such "restricted person" from receiving allocations of profits and losses from new issues in excess of certain thresholds. Furthermore, FINRA Rule 5131 generally prohibits members of FINRA from selling new issues to an account in which directors and executive officers of certain public and non-public companies (or persons receiving material support therefrom) have an interest, unless the fund has a mechanism in place that limits such persons restricted by Rule 5131 from receiving allocations of profits and losses from new issues in excess of certain thresholds. To allow the Baupost Partnerships to participate in new issues, Baupost has developed and implemented procedures to treat separately the interests in the Baupost Partnerships of "restricted persons" and persons covered by FINRA Rule 5130, on the one hand, and persons not so restricted or covered, on the other, relying on the representations investors make in a subscription agreement or periodic questionnaires distributed by Baupost to make such determinations. If an investor is unable or unwilling to complete the applicable information in a subscription agreement or periodic

questionnaires, Baupost may treat such investor as a restricted person and that investor may be limited in its ability to participate on a pro rata basis with investors who are not restricted persons in any profits or losses attributable to such Partnership's investment, if any, in new issues.

#### Securities of Small-to-Medium Sized Companies

The Baupost Partnerships have invested and expect to invest in securities of small-to-medium sized companies. Such companies may have limited product lines, markets or financial resources, and may be dependent on a limited management group. The risk of bankruptcy or insolvency of many smaller companies (and the corresponding losses to investors) may be higher than for larger, "blue-chip" companies. Securities of small-to-medium sized companies may be traded in the over-the-counter ("OTC") markets. While OTC markets have grown rapidly, many OTC securities trade less frequently and in smaller volumes than exchange-listed securities. The values of these securities may fluctuate more sharply than exchange-listed securities, and the Baupost Partnerships may experience difficulty in acquiring or disposing of positions in these securities at prevailing market prices.

#### Special Purpose Acquisition Companies

The Baupost Partnerships have invested and expect to invest in units, shares, warrants, and other interests in special purpose acquisition companies or similar entities that pool funds to seek potential acquisition opportunities (collectively, "SPACs"). The funds raised by a SPAC in its initial public offering ("IPO") are held in trust until the SPAC successfully consummates an initial business combination ("IBC") or until redeemed by public shareholders in connection with an IBC, and the SPAC promoter typically receives a discounted stake in the SPAC. If the SPAC fails to consummate an IBC within a specified timeframe, typically 24 months (which may be extended in certain circumstances), the trust proceeds are returned to the public shareholders.

The Baupost Partnerships may also invest in a SPAC through a private placement in connection with an IBC. For these investments, the Baupost Partnerships may agree not to transact in or hedge the securities of the SPAC for a specified period of time. As a result, the Baupost Partnerships could have a prolonged period of exposure to a particular SPAC without the ability to liquidate or hedge the position. Such investments are also subject to the risks associated with PIPEs as discussed in "PIPE Transactions."

An investment in a SPAC is subject to a variety of risks, including, among others, that (i) as a newly formed company with no operating history, there is little basis on which to evaluate the SPAC's ability to consummate a successful IBC other than the track record of the its management team; (ii) the SPAC may encounter substantial completion for attractive targets, particularly given the substantial increase in SPACs in recent years; (iii) the SPAC may not identify an attractive business combination target, and the SPAC may be required to liquidate and return any remaining monies to shareholders; (iv) a business combination, if effected, may prove unsuccessful and an

investment in the SPAC may lose value; (v) the warrants or other rights with respect to the SPAC held by the Baupost Partnerships may expire worthless or may be repurchased or retired by the SPAC at an unfavorable price; (vi) the Baupost Partnerships may be delayed in receiving any redemption or liquidation proceeds from a SPAC to which it is entitled; and (vii) an investment in a SPAC may be diluted in connection with the business combination or by additional financings.

### PIPE Transactions

Private investments in public companies whose stocks are quoted on stock exchanges or trade in the over-the-counter securities market (a type of investment commonly referred to as a “PIPE” transaction) will generally result in the Baupost Partnerships acquiring either restricted stock or an instrument convertible into restricted stock. As with investments in other types of restricted securities, such an investment may be illiquid. The Baupost Partnerships’ ability to dispose of securities acquired in PIPE transactions may depend on the registration of such securities for resale. A number of factors may prevent or delay a proposed registration. Alternatively, it may be possible for securities acquired in a PIPE transaction to be resold in transactions exempt from registration in accordance with Rule 144 under the Securities Act of 1933, or otherwise under the U.S. federal securities laws. There is no guarantee that there will be an active or liquid market for the stock of any small capitalization company due to the possible small number of stockholders. As a result, even if the Baupost Partnerships are able to have securities acquired in a PIPE transaction registered or sell such securities through an exempt transaction, the Baupost Partnerships may not be able to sell all the securities on short notice, and the sale of the securities could lower the market price of the securities. There is no guarantee that an active trading market for the securities will exist at the time of disposition of the securities, and the lack of such a market could hurt the market value of the investments of the Baupost Partnerships.

### Short Sales

While not core to the investment strategy, the Baupost Partnerships from time to time engage in short sales (and also gain short exposure through the use of derivatives, including forward sales, futures and swaps). In a short sale, the seller sells a security that it does not own, typically a security borrowed from a broker or dealer. Because the seller remains liable to return the underlying security that it borrowed from the broker or dealer, the seller must purchase or otherwise acquire the security prior to the date on which delivery to the broker or dealer is to be made. The Baupost Partnerships will typically engage in short sales when Baupost believes the value of the security will decline or as part of a hedging strategy or part of a stub trade. Short sales exposes the Baupost Partnerships to the risk of liability for the market value of the security sold. If the price of the security sold short increases between the time of the short sale and the time the Baupost Partnerships replace the borrowed security, the Baupost Partnerships will incur a loss; conversely, if the price declines, the Baupost Partnerships will realize a gain. Any gain will be reduced, and any loss increased, by the transaction costs associated with short sales. Although the Baupost Partnerships’ gains are limited to the price at which they sold the security short, their

potential loss is unlimited if the Baupost Partnerships do not own the security. In addition, there can be no assurance that securities necessary to cover a short position will be available for purchase or that securities will be available to be borrowed by the Baupost Partnerships at a reasonable cost. If a request for return of borrowed securities occurs at a time when other short sellers of the security are receiving similar requests, a “short squeeze” can occur, and the Baupost Partnerships may be compelled to replace borrowed securities previously sold short with purchases on the open market at the most disadvantageous time, possibly at prices significantly in excess of the proceeds received in originally selling the securities short.

The SEC has in the past adopted interim rules requiring reporting of all short positions above a certain de minimis threshold and may in the future adopt rules requiring monthly public disclosure of short positions. In addition, other non-U.S. jurisdictions where the Baupost Partnerships may trade have adopted reporting requirements.

#### Repurchase Agreements

The Baupost Partnerships have entered and may enter into repurchase agreements with banks and broker-dealers; in such agreements the Baupost Partnerships acquire a security for cash and obtain a simultaneous commitment from the seller to repurchase the security at an agreed-upon price and date. The resale price is in excess of the acquisition price and reflects an agreed upon market rate unrelated to the coupon rate of the purchased security. Baupost will generally monitor such transactions to try to ensure that the value of the underlying securities will be at least equal at all times to the total amount of the repurchase obligation, including the interest factor. Such transactions afford an opportunity for the Baupost Partnerships to earn a return on temporarily available cash at no market risk, although there is a risk that the seller may default in its obligation to pay the agreed upon sum on the redelivery date. Such a default may subject the Baupost Partnerships to expenses, delays and risks of loss. In addition, if the seller should be involved in bankruptcy or insolvency proceedings, the Baupost Partnerships may incur delays and costs in selling the underlying security or may suffer a loss of principal and interest if the Baupost Partnerships are treated as unsecured creditors and are required to return the underlying collateral to the seller’s estate. The Baupost Partnerships may also enter into reverse repurchase agreements that involve the risk that the market value of the securities retained by the Baupost Partnerships may decline below the price of the securities the Baupost Partnerships have sold but are obligated to repurchase under the agreement. In the event the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, the Baupost Partnerships’ use of the proceeds of the agreement may be restricted pending a determination by the other party, or its trustee or receiver, whether to enforce the Baupost Partnerships’ obligations to repurchase the securities.

#### Mortgage-Backed and Asset-Backed Securities

The Baupost Partnerships have invested and expect to invest in mortgage-backed and asset-backed securities, including mortgage derivatives, frequently at discounts to original issue price because

of distress in the performance of the underlying collateral. When market interest rates decline, many mortgages are refinanced, and mortgage-backed securities are paid off earlier than expected. Prepayments may also occur on a scheduled basis or due to foreclosure. Accordingly, holders of these securities may not benefit fully from the increase in value that other fixed-income securities experience when rates decline. Furthermore, under such circumstances, the Baupost Partnerships would be forced to reinvest the proceeds of the payoff at current yields, which would be lower than those paid by the security that was prepaid. For distressed mortgage- or asset-backed securities, the continued underperformance of the collateral including rising default rates or loss severity, home price depreciation, litigation or problems with the servicing of the collateral may all contribute to increased risk of loss and price decline.

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

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

#### Master Limited Partnerships

Investments in securities of master limited partnerships (“MLPs”) involve certain risks that differ from investments in common stock, including risks related to limited control and limited rights to vote on matters affecting MLPs, risks related to potential conflicts of interest between an MLP and the MLP’s general partner, including those arising from incentive distribution payments, cash flow risks, dilution risks and risks related to the general partner’s right to require unit-holders to sell their common units at an undesirable time or price. Many of the Baupost Partnerships’ investments in MLPs will be subject to legal and other restrictions on resale or will otherwise be less liquid than publicly-traded securities. In addition, certain tax risks are associated with investments in MLPs including without limitation, the obligation to file state tax returns and allocations from the MLP generating UBTI.



### Pooled Investment Vehicles, Joint Ventures and Pass-Through Entities

The Baupost Partnerships have invested and expect to invest in other pooled investment vehicles, including real estate investment trusts, investment companies registered under the Investment Company Act, unregistered investment vehicles and other private investment vehicles managed by third parties, including operating partners engaged by Baupost to manage joint venture investments. When the Baupost Partnerships invest in joint ventures, including those with operating partners, or pooled investment vehicles, investors bear the cost of any management and performance fees of third parties in addition to the fees of the General Partners and their affiliates. Such investments may have limited liquidity, and any investment by the Baupost Partnerships in such vehicles will have the risks inherent in the instruments or other assets in which such vehicles invest.

A claim asserted against a pooled investment vehicle in which the Baupost Partnerships invest could be enforced against all of the assets of such vehicle. For example, the value of the Baupost Partnerships' investments in a pooled vehicle could be adversely affected even if the claim relates to an investment from which the Baupost Partnerships were excused from participating or if the claim relates to a particular class or sub-class of interests that the Baupost Partnerships did not hold.

### Third-Party Involvement

The Baupost Partnerships have held and expect to hold a portion of their investments through partnerships, joint ventures, securitization vehicles or other entities with third-party investors. These types of investments with third-party investors involve various risks, including the risk that the Baupost Partnerships will not be able to implement investment decisions or exit strategies because of limitations on the Baupost Partnerships' control over the relevant investment entities under applicable agreements with third-party investors, the risk that a third-party investor may become bankrupt or may at any time have economic or business interests or goals that are inconsistent with those of the Baupost Partnerships, the risk that a third-party investor may be in a position to take action contrary to the Baupost Partnerships' objectives, the risk of liability based upon the actions of a third-party investor and the risk of disputes or litigation with such third-party investor and the inability to enforce fully all rights (or the incurrence of additional risk in connection with enforcement of rights) one investor may have against another, including in connection with foreclosure on investor loans because of risks arising under state law.

### Operating Partners

With respect to certain real estate or private equity investments, the Baupost Partnerships have in the past entered into, and expect in the future to enter into joint ventures with third-party operating partners. Such operating partners normally manage the day-to-day operations of such investments, and perform a variety of functions such as asset management, administration, property

management, technology services, loan servicing, due diligence and idea generation. These operations are typically performed by the operating partner's personnel, not by personnel of Baupost or any of its affiliates, and Baupost does not exercise day-to-day control over or management of the operating partners. In addition, operating partners often identify potential investment opportunities to Baupost and may be compensated by the Baupost Partnerships in connection therewith. While operating partners typically co-invest in and receive a share of the profits from the assets they manage, there is a risk that their interests may not be directly aligned with those of the Baupost Partnerships, and their decisions, actions or omissions may adversely affect the Baupost Partnerships' investment in the joint venture. Since certain operating partners manage assets held by the Baupost Partnerships and assets not held by the Baupost Partnerships, operating partners may face conflicts of interest between choices that may favor one investment over another, as well as decisions regarding devotion of time and resources. The Baupost Partnerships also have provided and expect on occasion in the future to provide loans to operating partners, and such loans may be non-recourse to the borrower.

#### Company Ownership and Use of Special Purpose Vehicles

The Baupost Partnerships may own a controlling interest in companies in which they have invested. Because of their ownership, representation on the board of directors or other governing body and/or contractual rights, the Baupost Partnerships may be perceived as controlling, participating in the management of or influencing the conduct of such companies. This could expose the assets of the Baupost Partnerships generally to claims (for example, arising from environmental, pension or Foreign Corrupt Practices Act exposure, or arising from tax positions) by such company, its other security holders, its creditors, governmental agencies or other third parties. Such liability may not be limited to any particular asset, such as the investment giving rise to the liability, and may exceed the value of the particular investment giving rise to the liability.

In addition, Baupost has used and expects to use special-purpose entities in connection with certain transactions. Similar considerations may apply to these special-purpose entities. In addition, the bona fides of such entities may be subject to later challenge based on a number of theories, including veil piercing or substantive consolidation.

Accordingly, investors could find their limited partnership interests in the Baupost Partnerships adversely affected by a liability arising out of a particular investment (including in circumstances where a particular investor does not otherwise have exposure to the investment because it is a restricted investment).

#### Private Equity and Venture Capital Investments

The Baupost Partnerships have made and expect to make private equity and venture capital investments, either directly or indirectly through pooled investment vehicles or special purpose vehicles, that involve a high degree of business and financial risk. Although Baupost may acquire

control positions and/or seek protective provisions, including in certain circumstances board representation, in connection with certain of its private equity and/or venture capital investments, in other instances the Baupost Partnerships take minority positions in companies in which they invest and may do so in a purely passive role. With respect to minority private equity and/or minority venture capital investments, Baupost is typically not in a position to exercise control over the management of such companies, and, accordingly, may have a limited ability to protect the Baupost Partnerships' positions in such companies. When the Baupost Partnerships invest in private equity or venture capital through a pooled investment vehicle, investors bear the cost of any management and performance fees of third parties in addition to the fees of the General Partners and their affiliates. Such fees reduce the returns to the Baupost Partnerships.

Early-stage companies with little or no operating history, and early-stage investments generally, may require substantial additional capital to support expansion or to achieve or maintain a competitive position, may produce substantial variations in operating results from period to period or may operate at a loss. Such early-stage companies and investments may face intense competition, including competition from companies with greater financial resources, better marketing and service capabilities and a larger number of qualified management and technical personnel. Such competition, as well as other factors, may adversely affect the performance of such investments and result in substantial losses.

The Baupost Partnerships have made and may make private equity investments in highly leveraged companies. The use of such leverage may present additional risks, including that it may increase the exposure of such companies to adverse economic factors such as downturns in the economy or deterioration in the conditions of such companies or their respective industries. In the event any such company cannot generate adequate cash flow to meet debt service, the Baupost Partnerships may suffer a substantial loss of capital invested.

#### Investments in Regulated Industries

The Baupost Partnerships' investments may include companies in industries that are subject to significant regulation, including, but not limited to, transportation, banking and finance, media, mining, utilities and insurance. Investments in companies that are subject to greater governmental regulation pose additional risks relative to investments in other companies generally. Changes in applicable laws or regulations, or in the interpretations of these laws and regulations, could result in increased compliance costs or the need for additional capital expenditures. If the Baupost Partnerships or one of their investments fail to comply with these requirements, the Baupost Partnerships could also be subject to civil or criminal liability and the imposition of fines. The Baupost Partnerships or one of their investments could also be materially and adversely affected as a result of statutory or regulatory changes or judicial or administrative interpretations of existing laws and regulations that impose more comprehensive or stringent requirements on such an investment. Governments have considerable discretion in implementing regulations that could impact the Baupost Partnerships or their investments, and governments may be influenced by

political considerations and may make decisions that adversely affect the Baupost Partnerships or their investments.

### Insurance-Related Investments

The Baupost Partnerships have in the past and may in the future make insurance-related investments. Insurance-related investments, such as investments in public and private insurance and reinsurance companies, insurance-linked securities, including private insurance, reinsurance, retrocessional reinsurance contracts, industry loss warranties, loss indemnification contracts, and insurance subrogation claims, catastrophe bonds, and other instruments linked to event-driven risks or similar factors, are subject to the risks inherent to the insurance and reinsurance industry, such as the occurrence of weather-related and other natural or man-made catastrophes. These risks are unpredictable and may result in significant losses. To the extent the Baupost Partnerships invest in insurance-related investments, a significant natural disaster, such as a hurricane or earthquake, a terrorist incident, or a series of such or similar events, could have a material, adverse effect on the Baupost Partnerships.

### Real Estate-Related Transactions

The Baupost Partnerships have invested and expect to invest in real estate and in real estate-related assets. Real estate-related assets include securities that are backed by, represent interests in or are secured by real estate, as well as securities issued by companies or limited partnerships or limited liability companies that invest in real estate or interests in real estate. Investments in real estate and real estate-related assets entail certain risks due to a variety of factors, including uncertainties surrounding the underlying real estate ventures and hidden defects that might not be discovered despite reasonable due diligence. Factors affecting the performance of real estate ventures may include changes in interest rates, excess supply of real property in certain markets, satisfactory completion of construction, sufficient level of occupancy, adequacy of financing available in capital markets, competent management, rent levels and maintaining adequate rent to cover operating expenses, regulatory limits on rents, local and regional markets for competing assets, changes in applicable zoning and other laws and governmental regulations (including taxes), the ability to obtain use or development entitlements and other regulatory permits and permissions, possible environmental liabilities, natural disasters and social and economic trends.

Real estate investments that the Baupost Partnerships have made and may make include investments in and relating to non-U.S. properties. In addition to the risks associated with real estate investment generally, investment in non-U.S. properties and ventures involves additional risks such as currency exchange rate risk, liquidity risk, and the risk of different or changing property ownership and tax laws. See “Non-U.S. Securities and Emerging Markets Securities.”

As noted in “Operating Partners,” the Baupost Partnerships typically invest in real property through joint ventures with operating partners. In connection with these investments, the Baupost

Partnerships' joint venture will incur the burdens of ownership of real property, which include the paying of expenses and taxes, maintaining such property and any improvements thereon and ultimately disposing of such property.

With respect to investments in equity securities, debt securities or other financial instruments, including those issued by real estate investment trusts, the securities generally will be subject to the risks incident to the ownership and operation of real estate and/or risks incident to the making of nonrecourse mortgage loans secured by real estate. The Baupost Partnerships will also in large part be dependent on the ability of third parties to successfully operate the underlying real estate assets.

Many of the real estate-related assets in which the Baupost Partnerships may invest will not be readily marketable. Investments in real estate and in real estate-related assets that are not readily marketable entail additional risks, such as difficulty in pricing the real estate or other asset for purposes of determining the particular Baupost Partnership's net asset value (the "Net Asset Value") and the possibility that the Baupost Partnerships would be unable to sell the real estate or other asset at a price that Baupost believes fairly represents its intrinsic value when Baupost decides to sell it.

#### Potential Environmental Liability of Real Estate Investments

Under various U.S. and non-U.S. federal, state and local laws, ordinances and regulations, an owner of real property may be liable for the costs of removal or remediation of certain hazardous or toxic substances on or in such property. Such enactments often impose such liability without regard to whether the owner knew of, or was responsible for, the presence of such hazardous or toxic substances, and the liability under such enactments has in certain circumstances been interpreted to be joint and several. For example, the current owner of a parcel of land may be liable for environmental problems at, or emanating from, the parcel of land that were caused by a past owner or current operator of the site. The cost of any required remediation and the owner's liability therefore as to any property is generally not limited under such enactments and could exceed the value of the property and/or the aggregate assets of the owner. The presence of such substances, or the failure to properly remediate such substances, may adversely affect the owner's ability to sell the real estate or to borrow using such property as collateral. In addition, remediated property may attract a limited number of potential purchasers because of the property's history of contamination, which might also adversely affect the owner's ability to sell the property. Further, a transfer of property does not relieve from liability a person who owned the property at a time when hazardous or toxic substances were disposed of on, or released from, such property. In addition, noncompliance with environmental regulations may allow a governmental authority to order the owner/operator to cease operations at the property or to incur substantial costs and expenses to bring the property into compliance through the implementation of burdensome remediation or prophylactic measures. Where appropriate to reduce the possibility of liability under environmental laws, the Baupost Partnerships will seek to obtain indemnities from sellers,

purchase environmental insurance or hold title in limited liability entities. Review of environmental issues will be conducted in accordance with customary industry standards applicable to such matters. There can be no assurance that environmental laws relating to real estate transactions will not be amended in the future in ways that could adversely affect the Baupost Partnerships' investments.

### Real Estate Development and Construction Risks

The Baupost Partnerships have acquired and expect to acquire equity and/or debt interests in real estate developments and/or in businesses that engage in real estate development. To the extent that the Baupost Partnerships invest in such development activities, it will be subject to the risks normally associated with such activities. Such risks include, without limitation, risks relating to the availability and timely receipt of zoning and other regulatory approvals, the cost and timely completion of construction (including risks beyond the control of the Baupost Partnerships or Baupost, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have an adverse effect on the financial condition and results of investments by the Baupost Partnerships.

### Hedging Transactions

The Baupost Partnerships have entered and may, but are not required to, enter into hedging transactions in order to hedge risks in connection with a particular investment or transaction, with the portfolios generally or otherwise. Baupost may be unable to anticipate any particular risk and, therefore, may be unable to hedge against it. Any hedge may prove to be ineffective and may fail to hedge against the risk for which it was intended. Moreover, the Baupost Partnerships' portfolios will always be exposed to certain risks that cannot be hedged. Even if Baupost is successful in identifying appropriate hedges, such hedges may be unavailable or available only at prices deemed by Baupost to be too costly. Alternatively, Baupost may in any circumstance choose not to hedge or may choose to hedge partially. Hedging transactions may result in a poorer overall performance for the Baupost Partnerships than if the Baupost Partnerships had not engaged in such hedging transactions. Additionally, changes to the regulations applicable to the financial instruments the Baupost Partnerships use to accomplish their hedging strategy could affect the effectiveness of that strategy.

A Partnership may make two or more investments that have hedging properties with respect to one another. Because of the varying participation by investors in restricted investments and new issues, among other factors, investors may participate in these types of complementary investments in a proportion that may vary significantly from that of other investors, or may participate in only one of the underlying investments and not the other(s). As a result, such investors may not obtain Baupost's intended hedging ratio for the applicable investments.

## Derivatives

The Baupost Partnerships have engaged and expect to engage in a variety of transactions using “derivatives,” including options, futures and swaps. The use of derivative instruments may involve risks different from, or greater than, the risks associated with investing directly in the underlying securities, commodities or other assets (including, without limitation, differences in tax treatment). Derivatives are financial instruments the value of which depends upon, or is derived from, the value of something else, such as one or more underlying investments, indexes, interest rates or currencies. Derivatives may be traded on organized exchanges, or in individually negotiated transactions with other parties. Derivatives involve special risks and costs and may result in losses to the Baupost Partnerships. The successful use of derivatives requires sophisticated management, and will depend on the ability of Baupost to analyze and manage derivatives transactions. The prices of derivatives may move in unexpected ways, especially in abnormal market conditions. The Baupost Partnerships may use derivatives both for hedging and non-hedging purposes. These risks may be magnified in the case of complex derivatives that involve multiple underlying investments, indexes, interest rates and/or currencies.

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

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

The Baupost Partnerships may sustain a loss as a result of the failure of the other party to a derivatives contract (a “counterparty”) to comply with the terms of the contract whether due to insolvency, bankruptcy or other causes. If there is a default by a counterparty, the Baupost Partnerships will be limited to contractual remedies pursuant to the agreements related to the transaction. There is no assurance that counterparties will be able to meet their obligations pursuant to the contracts or that, in the event of default, the Baupost Partnerships will succeed in pursuing contractual remedies. The Baupost Partnerships will generally attempt to mitigate such risk by requiring counterparties to post additional collateral as the value of a swap with such

counterparty increases, but the collateral may be insufficient to cover the counterparty's obligations or the counterparty may refuse to post additional collateral. If a counterparty's creditworthiness declines, the value of a derivative with such counterparty may also decline.

The Baupost Partnerships will also be subject to counterparty risk in certain situations where the Baupost Partnerships are required to collateralize their position. For example, certain swaps and other transactions will require the Baupost Partnerships to post margin with a counterparty. These situations involve some risk to the Baupost Partnerships if the counterparty defaults on its obligations (or becomes insolvent or is otherwise unable to perform) and the Baupost Partnerships are delayed in or prevented from recovering the collateral. In such cases, the value of the posted collateral may be less than the value of such posted securities or assets would otherwise have been if they were not encumbered. In addition, the Baupost Partnerships may be required to post collateral to cover any delay between the date of a trade and the settlement date. Some contracts may not require the counterparty to post collateral. In such circumstances, the Baupost Partnerships would not receive collateral from the counterparty to cover the Baupost Partnerships' exposure. In addition, the Baupost Partnerships may transact with counterparties located in certain jurisdictions outside the United States where local laws and regulations may not permit the Baupost Partnerships to exercise the full range of its rights under its derivatives contracts or exercise them promptly, which could negatively impact the value of the derivatives.

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

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

Certain derivatives transactions that may be used by the Baupost Partnerships, including certain interest rate swaps and certain credit default index swaps, are required to be cleared. In a cleared derivatives transaction, a Partnership's counterparty to the transaction is a central derivatives clearing organization, or clearing house, rather than a bank or broker. Since the Baupost Partnerships are not members of a clearing house, and only members of a clearing house can participate directly in the clearing house, the Baupost Partnerships have entered into cleared



derivatives transactions through clearing members that are futures commission merchants and members of the clearing houses. The Baupost Partnerships make and receive payments owed under cleared derivatives transactions (including margin payments) through their accounts at clearing members. A Partnership's clearing members guarantee that Partnership's performance of its obligations to the clearing house. In contrast to bilateral derivatives transactions, in some cases following a period of advance notice to a Partnership, clearing members can generally require termination of existing cleared derivatives transactions at any time and increase the amount of margin required to be provided by the Partnership to the clearing member for any cleared derivatives transaction above the amount of margin required by the clearing house or clearing member. Clearing houses also have broad rights to increase margin requirements for existing transactions and to terminate transactions. Any such termination or increase could interfere with the ability of a Partnership to pursue its investment strategy. Also, a Partnership is subject to execution risk if it enters into a derivatives transaction that is required to be cleared (or that Baupost expects to be cleared), and no clearing member is willing to clear the transaction on that Partnership's behalf. In that case, the transaction might have to be terminated, and such Partnership could lose some or all of the benefit of any increase in the value of the transaction after the time of the trade.

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act and regulations thereunder require real-time public reporting of swap transaction and pricing data, including for swaps that are executed on a swap execution facility. "Swap data repositories" are required to disseminate publicly certain data that they receive as soon as technologically practicable, subject to a time delay for certain large swap transactions ("block trades"). The minimum size of block trades and the time delay before dissemination of information regarding block trades has been a subject of

concern in the markets, because public reporting of a large transaction immediately following execution could have an adverse impact on the ability of a party to the transaction to enter into offsetting transactions to hedge its exposure. The Commodity Futures Trading Commission has adopted rules that seek to mitigate this concern by establishing threshold swap notional amounts for off-exchange swaps, above which public reporting is delayed and the mandatory trade execution requirement falls away. While block trades that would otherwise have been subject to the trade execution requirement are required to be executed pursuant to the rules of a swap execution facility, they are not required to be executed through the swap execution facility's order book or request-for-quote system. The Baupost Partnerships have authorized Baupost to enter into block trades on behalf of the Baupost Partnerships from time to time.

Rules issued by U.S., EU and other regulators globally impose various margin requirements (the "Margin Rules") on all swaps that are not centrally cleared, including the establishment of minimum amounts of margin that must be posted. Although the Margin Rules are intended to increase the stability of the derivatives market, the overall amount of margin that the Baupost Partnerships will be required to post to swap counterparties may increase by a material amount, and as a result the Baupost Partnerships will not be able to put such capital to the uses that they otherwise would. Moreover, the margin requirements for both cleared and uncleared OTC derivatives may require that Baupost, in order to maintain its exemption from commodity pool operator registration under CFTC Rule 4.13(a)(3), limit the Baupost Partnerships' hedging transactions or exposure to synthetic investments, in either case potentially adversely affecting the Baupost Partnerships' ability to mitigate risk. Such restrictions would be inapplicable if Baupost ultimately registers as a commodity pool operator.

These and other new rules and regulations could, among other things, further restrict the Baupost Partnerships' ability to engage in, or increase the cost to the Baupost Partnerships of, derivatives transactions, for example, by making some types of derivatives no longer available to the Baupost Partnerships, increasing margin or capital requirements or otherwise limiting liquidity or increasing transaction costs. The costs of derivatives transactions are expected to increase as clearing members raise their fees so as to cover the costs of additional capital requirements and other regulatory changes applicable to the clearing members and when rules imposing mandatory minimum margin requirements on OTC derivatives become effective.

#### Forward Contracts

The Baupost Partnerships have entered and may from time to time enter into forward contracts and options thereon, including non-deliverable forwards. The principals who deal in the forward contract market are not required to continue to make markets in such contracts. There have been periods during which certain participants in forward markets have refused to quote prices for forward contracts or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. The imposition of credit controls or price risk limitations by governmental authorities may limit such forward trading to

less than that which Baupost would otherwise recommend, to the possible detriment of the Baupost Partnerships. In their forward trading, the Baupost Partnerships will be subject to the risk of the failure of, or the inability or refusal to perform with respect to their forward contracts by, the principals with which the Baupost Partnerships trade. The Baupost Partnerships' assets on deposit with such principals will also generally not be protected by the same segregation requirements imposed on certain regulated brokers in respect of customer funds on deposit with them. Baupost may order trades for the Baupost Partnerships in such markets through agents. Accordingly, the insolvency or bankruptcy of such parties could also subject the Baupost Partnerships to the risk of loss.

### Contracts for Differences

The Baupost Partnerships have entered and may enter into contracts for differences ("CFDs"). CFDs are privately negotiated contracts between two parties, buyer and seller, stipulating that the seller will pay to, or receive from, the buyer the difference between the nominal value of the underlying instrument at the opening of the contract and that instrument's value at the end of the contract. The underlying instrument may be a single security, stock basket or index. A CFD can be set up to take either a short or long position on the underlying instrument. The buyer and seller are both required to post margin, which is adjusted daily. The buyer will also pay to the seller a financing rate on the notional amount of the capital employed by the seller less the margin deposit. As is the case with trading any financial instrument, there is the risk of loss associated with trading a CFD. CFDs may be considered illiquid, including if the underlying instrument is illiquid because the liquidity of a CFD is based on the liquidity of the underlying instrument. A further risk is that adverse movements in the underlying security will require the posting of additional margin. CFDs also carry counterparty risk (i.e., the risk that the counterparty to the CFD transaction may be unable or unwilling to make payments or to otherwise honor its financial obligations under the terms of the contract). If the counterparty were to do so, the value of the contract may be reduced. Entry into a CFD transaction may, in certain circumstances, require the payment of an initial margin and adverse market movements against the underlying stock may require additional margin payments. To the extent that there is an imperfect correlation between the return on a Partnership's obligation to its counterparty under the CFDs and the return on related assets in its portfolio, the CFD transaction may increase a Partnership's financial risk.

### Options

The Baupost Partnerships have sought and may seek to increase their current return by writing covered call and put options on securities, commodities and/or other assets. When the Baupost Partnerships write an option they receive a premium, which increases the Baupost Partnerships' returns if the option expires unexercised or is closed out at a net profit. When the Baupost Partnerships write a call option, they give up the opportunity to profit from any increase in the price of the underlying asset above the exercise price of the option; when they write a put option, the Baupost Partnerships take the risk that they will be required to purchase the underlying asset

from the option holder at a price above the current market price of the asset. The Baupost Partnerships may also from time to time buy and sell combinations of put and call options on the same underlying asset to earn additional income. The Baupost Partnerships may also buy options to enter into swap transactions (“swaptions”). In exchange for an option premium, the buyer of a swaption obtains the right, but not the obligation, to enter into a specified swap agreement with an issuer on a specified future date. The agreement will specify whether the buyer of the swaption will be a fixed-rate receiver (such as a call option on a bond) or a fixed-rate payer (such as a put option on a bond). The Baupost Partnerships may also buy and sell put and call options and buy swaptions for hedging purposes. The Baupost Partnerships’ use of these strategies may be limited by applicable law.

### Futures and Related Options

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

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

The Baupost Partnerships may from time to time buy and sell non-U.S. futures contracts and related options. Transactions in markets located outside the United States, including markets formally linked to a U.S. market, may be subject to regulations that offer different or diminished protection to the Baupost Partnerships, including a limited ability to enforce agreements.

## Swaps, Caps, Floors, Collars and Credit Spread Trades

The Baupost Partnerships have entered into and may enter into swaps, caps, floors, collars and credit spread trades on various securities, securities indexes, interest rates, prepayment rates, commodities, non-U.S. currencies or other financial instruments or indexes, including varying combinations thereof, for both hedging and non-hedging purposes, including, without limitation, to maximize returns (including to take advantage of the relative value across interest rates, credit spreads, volatility levels, commodities indexes, commodities subsectors, individual commodities, currency exchange rates, and equity indexes), to preserve a return or spread on a particular investment or portion of its portfolio, to gain exposure to a particular market or market segment, to protect against (or to opportunistically benefit from) currency fluctuations, as a duration management technique, or to protect against any increase in the price of securities the Baupost Partnerships anticipate purchasing at a later date. Transactions consisting of multiple components may be more volatile, less liquid and more difficult to price accurately than less complex securities or more traditional derivatives transactions.

Swaps typically involve an exchange of obligations by two parties. For example, interest rate swaps involve the exchange of respective rights to receive interest, such as an exchange of fixed-rate payments for floating-rate payments. Currency swaps involve the exchange of respective rights to make or receive payments in specified currencies. In an equity swap, the counterparty generally agrees to pay the Baupost Partnerships the amount, if any, by which the notional amount of the equity swap contract would have increased in value had it been invested in the underlying stock or stocks plus the dividends that would have been received on those stocks. The Baupost Partnerships agree to pay to the counterparty a floating rate of interest (typically based on a Reference Rate) on the notional amount of the equity swap contract plus the amount, if any, by which that notional amount would have decreased in value had it been invested in such stock or stocks. Therefore, the return to the Baupost Partnerships on any equity swap contract should be the gain or loss on the notional amount plus dividends on the underlying stocks less the interest paid by the Baupost Partnerships on the notional amount less premium paid, if any. The Baupost Partnerships may also from time to time enter into the opposite side of equity swap contracts, which are known as “reverse equity swaps.”

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

Baupost Partnerships could also receive the premium and be obligated to pay a counterparty the par value of certain bonds or loans upon a default (or similar event) by the issuer. A credit default swap transaction on mortgage-backed and asset-backed securities, corporate debt, municipal debt or sovereign debt would be subject to the same risks as those described herein with respect to such securities, in addition to the risks associated with swap transactions.

Payments under a swap contract may be made at the conclusion of the contract or periodically during its term. The Baupost Partnerships thus assume the risk that they may be delayed in or prevented from obtaining payments owed to them pursuant to swap contracts. To address this risk with respect to interest rate swaps, the Baupost Partnerships will usually enter into interest rate swap contracts on a net basis, which means that the two payment streams (one from the Baupost Partnerships to the counterparty, one to the Baupost Partnerships from the counterparty) are netted out, with the Baupost Partnerships receiving or paying, as the case may be, only the net amount of the two payments. Interest rate swaps do not involve the delivery of securities, other underlying assets or principal. Accordingly, the risk of loss with respect to interest rate swaps entered into on a net basis would be limited to the net amount of the interest payments that the Baupost Partnerships are contractually obligated to make. If the other party to an interest rate swap defaults, the Baupost Partnerships' risk of loss consists of the net amount of interest payments that the Baupost Partnerships are contractually entitled to receive. In contrast, currency swaps and other types of swaps may involve the delivery of the entire principal value of one designated currency or financial instrument in exchange for the other designated currency or financial instrument. Therefore, the entire principal value of such swaps may be subject to the risk that the other party will default on its contractual delivery obligations. Credit default swaps generally only require payment in the event of an actual default or credit event, as opposed to a credit downgrade or other indication of financial difficulty.

Swap contracts are individually negotiated, and their terms are not uniform across contracts. The Baupost Partnerships may be unable to close out their obligations under a particular swap contract. Moreover, unless the Baupost Partnerships choose to, and are successful in, negotiating transfer rights, then swaps contracts are ordinarily non-transferable. Under such circumstances, the Baupost Partnerships might be able to negotiate another swap contract with a different counterparty to offset the risk associated with the first swap contract. However, unless the Baupost Partnerships are able to negotiate such an offsetting swap contract, the Baupost Partnerships could be subject to continued adverse developments, even after Baupost has determined that it would be prudent to close out or offset the first swap contract.

The use of swaps involves investment techniques and risks different from and potentially greater than those associated with ordinary portfolio securities transactions. If Baupost is incorrect in its expectations of market values, interest rates or currency exchange rates, the investment performance of the Baupost Partnerships would be less favorable than it would have been if this investment technique were not used. Certain swaps that the Baupost Partnerships may use can

also have the effect of creating leverage and thus can give rise to many of the same risks associated with borrowing funds or trading on margin. Because certain non-U.S. markets may be closed for all practical purposes to U.S. investors such as the Baupost Partnerships, the Baupost Partnerships have invested and expect to invest indirectly in such markets through swap transactions and would therefore be subject to the risks described above with respect to investments in non-U.S. securities. Swap transactions are also subject to the same counterparty risk as that described for derivatives generally.

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

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

Caps, floors and collars are variations on swaps. The purchase of a cap entitles the purchaser to receive payments from the party selling the cap to the extent that a specified index exceeds a predetermined interest rate or amount. The purchase of an interest rate floor entitles the purchaser to receive payments from the party selling the floor to the extent that a specified index falls below a predetermined interest rate or amount. A collar is a combination of a cap and a floor that preserves a certain return within a predetermined range of interest rates or values. Caps, floors and collars are similar in many respects to OTC options transactions, and may involve investment risks that are similar to those associated with options transactions and options on futures contracts. A credit spread trade is an investment position relating to a difference in the prices or interest rates of two securities or currencies, where the value of the investment position is determined by

movements in the difference between the prices or interest rates, as the case may be, of the respective securities or currencies.

### Other Derivative Instruments

The Baupost Partnerships may invest in other derivative instruments that are not presently contemplated for use or that are currently not available, but that may be developed. Special risks may apply to instruments that are invested in by the Baupost Partnerships in the future that cannot be determined at this time. Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk, the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk and operations risk.

### General Risks Associated with Investments in Digital Assets

The Baupost Partnerships may invest in digital assets and derivatives that reference digital assets (which includes, but is not limited to, virtual currencies, cryptocurrencies, and digital coins and tokens). The Baupost Partnerships may also purchase digital assets on a spot basis in order to settle or hedge derivative transactions that reference digital assets. The investment characteristics of digital assets generally differ from those of traditional currencies, commodities or securities.

Importantly, digital assets are not backed by a central bank or a national, supra-national or quasi-national organization, and many are not backed by any dedicated collateral or reserves and may not give rise to any claims against an issuer or any party. Rather, digital assets are market-based and a digital asset's value is determined by (and may fluctuate significantly and often, according to) a wide range of factors, including supply and demand factors; the number of merchants that accept it; the value that various market participants place on it through their mutual agreement, barter or transactions; interruptions in service or failures of major trading venues; actual or predicted government regulation impacting digital assets; actual or purported fraud related to digital assets or other "hacks" or thefts of digital assets; and investment and trading activities of large investors. Valuation is further complicated by the lack of centralized pricing sources, which may create pricing discrepancies between trading venues.

Transfers of digital assets are verified and recorded on distributed ledgers or "blockchains." An incorrect transfer of digital assets (due to theft, human error or otherwise) generally will not be reversible, and the Baupost Partnerships may not be capable of seeking compensation for any such transfer. Further, various digital assets are controllable only by the possessor of unique private keys relating to the digital wallet addresses in which the digital assets are held. The theft, loss or destruction of a private key required to access a digital asset is often irreversible, and the Baupost Partnerships would generally not be able to access the digital assets held in such digital wallet as a result.



Several events or factors can result in disruptions of digital asset markets and, therefore, markets for derivatives or other financial products that reference digital assets, including cyberattacks, theft, fraud or other operational losses at trading venues, wallet providers or other platforms or intermediaries; commencement of insolvency proceedings in respect of one or more trading venues; suspension or limitation on trading in digital assets, including intervention by a government authority; sudden changes in the legal, regulatory or tax treatment of digital assets or related derivatives, including heightened enforcement activity or the imposition of limits on owning or trading in digital assets; decreases in the amount of mining activity or collusion between the miners and validators that confirm digital asset transactions; and the announcement or occurrence of changes in a digital asset's underlying technology protocols (such as a "fork"), initiation or discontinuation of use or support by a significant merchant, investor or other market participant, trading venue or other intermediary.

The occurrence of any of the above could adversely affect the Baupost Partnerships' investments in digital assets or derivatives that reference digital assets.

## **Risks Relating to Market Conditions Generally**

### General Economic and Market Conditions

The success of the Baupost Partnerships' activities will be affected by general economic and market conditions, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of the Baupost Partnerships' investments), trade barriers, currency exchange controls and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of the prices and the liquidity of the Baupost Partnerships' investments. Volatility or illiquidity could impair the Baupost Partnerships' profitability or result in losses. The Baupost Partnerships may maintain substantial trading positions that can be adversely affected by the level of volatility in the financial markets.

### Governmental Interventions

Extreme volatility and illiquidity in markets has led to, and may lead to, extensive governmental interventions in equity, credit and currency markets. Generally, such interventions are intended to reduce volatility and precipitous drops in value. In certain cases, governments have intervened on an "emergency" basis, suddenly and substantially eliminating market participants' ability to continue to implement certain strategies or manage the risk of their outstanding positions. In addition, these interventions have typically been unclear in scope and application, resulting in uncertainty. It is difficult to predict when these restrictions will be imposed, what the interim or permanent restrictions will be and/or the effect of such restrictions on the Baupost Partnerships' strategies.

### Potential Interest Rate Increases

The United States has experienced a sustained period of historically low interest rate levels. In recent years, however, short-term and long-term interest rates have risen. The uncertainty of the U.S. and global economy, changes in U.S. government policy, and changes in the federal funds rate, increase the risk that interest rates will remain volatile in the future. Sustained future interest rate volatility may cause the value of the fixed income securities held by the Baupost Partnerships to decrease.

### Discontinuation of LIBOR

It is expected that the U.S. dollar London Interbank Offered Rate (“LIBOR”), which is commonly used as a reference rate within various financial contracts (any such rate, a “Reference Rate”), will not be published after June 30, 2023 (other than the one-week and two-month tenors, which will not be published after the year 2021). In anticipation of the end of LIBOR, the United States and other countries are currently working to replace LIBOR with alternative Reference Rates. As a general matter, the expected discontinuation of LIBOR may significantly impact financial markets; specifically, discontinuation may impact financial contracts to which the Baupost Partnerships are a party. Generally, the transition to alternative Reference Rates may (i) cause the value of a Reference Rate to be uncertain or to be lower or more volatile than it would otherwise be; (ii) result in uncertainty as to the functioning, liquidity or value of certain financial contracts; (iii) involve actions of regulators or rate administrators that adversely affect certain markets or specific financial contracts; and (iv) impact the strategy, products, processes, legal positions and information systems of market participants, including the Baupost Partnerships and their counterparties. With respect to financial contracts to which the Baupost Partnerships are a party, including corporate and municipal bonds and loans, consumer loans, bank loans, floating rate debt, certain asset-backed securities, and interest rate swaps and other derivatives, any such contract that has a maturity that extends beyond June 2023 and uses LIBOR as a Reference Rate (other than contracts that include curative fallback language or other curative mechanisms) may need to be renegotiated, the process of which will consume resources of the Baupost Partnerships and may result in disputes among counterparties, the result of which may be adverse to the Baupost Partnerships. Considered in their entirety, the impacts of the discontinuation of LIBOR on financial markets generally and on the specific financial contracts to which the Baupost Partnerships are a party may adversely affect the performance of the Baupost Partnerships.

### Sanctions

The United States or other nations or governmental entities could impose sanctions on a country, group or individual that limit or restrict foreign investment, the movement of assets or other economic activity or that otherwise restrict the ability to conduct business with the target party. Before making investments, Baupost conducts due diligence that it deems reasonable and

appropriate based on the facts and circumstances applicable to each investment, including, where applicable, an assessment of whether the investment might be subject to sanctions. In addition, Baupost monitors the risk of sanctions with respect to existing investment holdings on an ongoing basis. Despite the risk assessment and monitoring undertaken by Baupost, investments may become subject to economic sanctions laws and regulations of various jurisdictions, which could adversely impact the Baupost Partnerships. At any given time, whether under applicable law, by contractual commitment or as a voluntary risk management measure, the Baupost Partnerships may be required, or elect, to comply with various sanctions programs, including the Specially Designated Nationals and Blocked Persons List and Sectoral Sanctions programs administered by OFAC, the sanctions regimes administered by subsidiary organs of the United Nations Security Council, the Sanctions Orders of the Cayman Islands (including as extended to the Cayman Islands by Order of the government of the United Kingdom from time to time), and the Restrictive Measures adopted by the European Union. Some sanctions that may apply to the Baupost Partnerships prohibit or restrict dealings with particular identified persons. Other potentially applicable sanctions programs broadly prohibit or restrict dealings in certain countries or territories or with individuals and entities located in such countries or territories. In addition to such current sanctions, additional sanctions may be imposed in the future. Such sanctions may be imposed with little or no advance warning or "safe harbor" for compliance and may be ambiguous, including as to the scope of financial activities that regulators may ultimately deem to be covered by the sanctions.

Sanctions may adversely affect the Baupost Partnerships in various ways, including by preventing or inhibiting the Baupost Partnerships, or Baupost on the Baupost Partnerships' behalf, from making certain investments, forcing the Baupost Partnerships to divest from investments previously made, and leading to substantial reductions in the revenues, profits and value of companies in which the Baupost Partnerships have invested. In addition, if the Baupost Partnerships or Baupost, were to violate or be deemed in violation of any such sanction, it could face significant legal and monetary penalties. Depending on the scope and duration of a particular sanctions program, compliance by the Baupost Partnerships may result in a material adverse effect on the Baupost Partnerships' and the investors' investments therein.

#### Competition; Availability of Investments

Many of the markets in which the Baupost Partnerships invest are extremely competitive for attractive investment opportunities. As a result, there can be no assurance that Baupost will be able to identify or successfully pursue attractive investment opportunities in such environments.

#### Volatility Risk

The Baupost Partnerships' investment program involves and, in the future, may involve the purchase and sale of relatively volatile securities and/or investments in volatile markets.

Fluctuations or prolonged changes in the volatility of such securities and/or markets can adversely affect the price of investments held by the Baupost Partnerships.

### Systemic Risk

Financial intermediaries, such as clearing houses, banks, securities firms and exchanges with which the Baupost Partnerships interact, as well as the Baupost Partnerships, are all subject to systemic risk that could impact the Baupost Partnerships and the markets for the securities in which the Baupost Partnerships seek to invest. Systemic risk is the risk of broad financial system stress or collapse triggered by the default of one or more financial institutions that results in a series of defaults by other interdependent financial institutions.

## **Certain Risks Related to Management of the Baupost Partnerships**

### Reliance on Key Personnel

The investment performance of the Baupost Partnerships depends largely on the skill of key personnel of Baupost, including, in particular, Mr. Seth Klarman and other senior personnel who make investment decisions with respect to the Baupost Partnerships' investments. Competition in the financial services industry for experienced and capable investment professionals is intense. If any of its key personnel were to leave Baupost, it might not be able to find equally desirable replacements, and the performance of the Baupost Partnerships could be adversely affected.

### Reliance on Third Party Managers

Because the Baupost Partnerships have invested and expect to invest in other pooled vehicles and joint ventures, the management of certain investments may be primarily performed by a party other than Baupost. Although the Baupost Partnerships will often have the ability to influence the management of such investment vehicles, there can be no assurance that Baupost will always be able to exercise control over the underlying investment decisions. Since investments decisions of such vehicles are made by the investment advisers independently of each other, at any particular time, one investment vehicle may be purchasing securities of an issuer whose securities are being sold by another investment vehicle, and a Partnership could indirectly incur certain transaction costs without accomplishing any net investment result.

### Valuation of Investments

Many of the investments made by the Baupost Partnerships are illiquid, complex and difficult to value. Actual realized returns on investments will depend among other things on the value of the securities at the time of disposition, any related transaction costs and the manner of sale. Accordingly, the actual realized return on investments will likely differ, sometimes materially, from the values presented to the investors.

### Material Nonpublic Information

Baupost personnel possess confidential or material nonpublic information regarding certain issuers of public financial instruments, for example, information received as a result of entering into confidentiality agreements regarding public companies. If Baupost personnel receive material nonpublic information with respect to such issuers, the Baupost Partnerships may be prohibited by law, policy or contract, for a period of time from (i) establishing an initial position or taking any greater position in such issuer, (ii) unwinding a position in such issuer, or (iii) transacting in other investment opportunities; such prohibitions may have an adverse effect on the Baupost Partnerships.

### Cybersecurity Risk

As part of its business, Baupost processes, stores and transmits large amounts of electronic information, including information relating to the transactions of the Baupost Partnerships and personally identifiable information of investors in the Baupost Partnerships. Similarly, service providers of Baupost and the Baupost Partnerships, including certain service providers located outside of the United States, process, store and transmit such information. Baupost has procedures and systems in place that it believes are reasonably designed to protect such information and prevent data loss and security breaches. However, such measures cannot provide absolute security. The techniques used to obtain unauthorized access to data, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time. Hardware or software acquired from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Network connected services provided by third parties to Baupost may be susceptible to compromise, leading to a breach of Baupost's network. Baupost's systems or facilities may be susceptible to employee error or malfeasance, government surveillance, or other security threats. On-line services provided by Baupost to investors may also be susceptible to compromise. Breach of Baupost's information systems may cause information relating to the transactions of the Baupost Partnerships and personally identifiable information of investors to be lost or improperly accessed, used or disclosed. In general, cyber-attacks are deliberate, but unintentional events may have similar effects. Cyber-attacks include, among other things, stealing or corrupting data maintained online or digitally, preventing legitimate users from accessing information or services on a website, releasing confidential information without authorization, and causing operational disruption.

The service providers of Baupost and the Baupost Partnerships are subject to the same electronic information security threats as Baupost. If a service provider fails to adopt or adhere to adequate data security policies, or in the event of a breach of its networks, information relating to the transactions of the Baupost Partnerships and personally identifiable information of investors may be lost or improperly accessed, used or disclosed.

The loss or improper access, use or disclosure of Baupost's or the Baupost Partnerships' proprietary information may cause the Baupost or the Baupost Partnerships to suffer, among other things, financial loss, the disruption of its business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing events could have a material adverse effect on the Baupost Partnerships and their investors' investments therein.

The same cybersecurity risks described above are present for issuers of securities in which the Baupost Partnerships invest, including issuers in which the Baupost Partnership may own a "control" position. Such risks could result in material adverse consequences for such issuers and may cause the Baupost Partnerships' investments in such securities to lose value.

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

There is one disciplinary event regarding a Partner of Baupost, as follows:

Between 2003 and 2005, private funds managed by Baupost made three French real property investments alongside third parties through Luxembourg companies (the "Luxembourg Entities"). Thomas Blumenthal, a Partner, was appointed as a director of the Luxembourg Entities. Subsequent to the 2006 sale of these investments, the French Tax Administration ("FTA") opened tax audits of the Luxembourg Entities. The FTA alleged that the Luxembourg Entities were not eligible for beneficial tax treatment under the France-Luxembourg tax treaty, and thus were required to pay income tax in France. One of the three Luxembourg Entities successfully proved in French court that no tax was due. The remaining two Luxembourg Entities appealed the FTA's assessment to the French Supreme Tax Court. On March 31, 2017, the French Supreme Tax Court ruled against these Luxembourg Entities. In 2011, the FTA referred for investigation potential charges against all of the directors of the two remaining Luxembourg Entities, including Mr. Blumenthal, alleging that these Luxembourg Entities and their directors had engaged in tax fraud as a result of the failure by these Luxembourg Entities to pay income tax in France. On January 11, 2017, Mr. Blumenthal was notified that a Magistrate Judge had charged the directors of these two Luxembourg Entities, including Mr. Blumenthal, with committing criminal tax fraud.

Following a trial, the court on June 20, 2018 convicted the directors of the two Luxembourg entities, including Mr. Blumenthal, of criminal tax fraud and sentenced each director to a fine and a suspended sentence. As to Mr. Blumenthal, the order of conviction imposed a fine of approximately US\$43,000, together with a suspended sentence of four years. The directors of the Luxembourg entities, including Mr. Blumenthal, were also determined to be jointly and severally liable as a civil matter for the balance of the income taxes and related interest and penalties determined to be due in respect of the Luxembourg Entities. The Baupost Partnerships that owned these investments paid their portion of the taxes, interest and penalties in 2017; the balance was subsequently satisfied.

Mr. Blumenthal acted in good faith for the benefit of the Baupost Partnerships, having followed advice from prominent international tax advisors in connection with these investments, and Mr. Blumenthal appealed the judgment in 2018. While Baupost has always strongly disagreed with this verdict and views the conviction as unwarranted, Mr. Blumenthal withdrew the appeal in June 2021 with the full support of Baupost.

The Baupost Partnerships did not bear any portion of the appellate defense costs or the additional tax obligation and will not bear any portion of the fine. The verdict does not impact Mr. Blumenthal's continuing role as a Partner at Baupost.

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

Neither Baupost nor any of its management persons is registered, or has an application pending to register, as a broker-dealer, registered representative of a broker-dealer, futures commission merchant, commodity pool operator, commodity trading advisor, or associated person of any of the foregoing entities. If Baupost recommends or selects other investment advisers for the Baupost Partnerships, Baupost will not receive compensation directly or indirectly from those advisers, nor will Baupost have other business relationships with those advisers that create any material conflicts of interest.

As disclosed in Item 4, Baupost Partners serves as the profit sharing general partner to the Baupost Partnerships. Additionally, pursuant to a Sourcing Agreement, Baupost Group International LLP, an affiliate of Baupost, provides advisory services to Baupost by augmenting the sourcing of potential investments in Europe.

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

Baupost strives to adhere to the highest industry standards of conduct based on principles of professionalism, integrity, honesty and trust. In seeking to meet these standards, we maintain a Code of Ethics (the "Code"). The Code incorporates the following general principles applicable to all employees:

- employees have a fiduciary obligation to and must at all times place the interests of the Baupost Partnerships first;
- all personal securities transactions must be conducted in a manner consistent with the Code and any actual or potential conflicts of interest must be escalated;
- employees must not take any inappropriate advantage of their positions;

- information concerning the identity of securities and financial circumstances of the Baupost Partnerships, including the Baupost Partnerships' investors, must be kept confidential; and
- independence in the investment decision-making process must be maintained at all times.

Additionally, the Code (i) governs the personal securities transactions of Baupost's employees and immediate family/household members; and (ii) requires all employees to report any violations of the Code to Baupost's chief compliance officer.

The Code restricts or prohibits certain personal investment transactions by employees and their immediate family/household members in any account in which they have beneficial ownership or any account in which they have investment discretion, including family charitable foundations (collectively, the "Accounts"). Employees must receive approval prior to transacting in securities in their Accounts (other than certain exempted securities, which include direct obligations of the United States of America, commercial paper, shares issued by money market funds, and shares issued by open-end mutual funds).

The Code prohibits employees defined as "Investment Personnel" (generally, those employees who make investment recommendations on behalf of the Baupost Partnerships) from purchasing "public securities" (as defined in the Code). The Code does not prohibit purchases of interests in the Baupost Partnerships, and certain key personnel of Baupost have significant interests in the Baupost Partnerships.

The restrictions of the Code do not prohibit employees from investing in or having exposure to public and private investments that Baupost has recommended to the Baupost Partnerships, subject to the preclearance requirements of the Code. Similarly, employees and their charitable foundations may also invest in transactions offered to but rejected by the Baupost Partnerships. Employees or their charitable foundations may invest in securities alongside the Baupost Partnerships subject to the preclearance requirements of the Code. In these circumstances, the employees (or indirectly their charitable foundation) may benefit from their knowledge of the evaluation, investigation, and due diligence undertaken by Baupost on behalf of the Baupost Partnerships. Furthermore, employees and/or their charitable foundation will not share or reimburse the relevant Baupost Partnership and/or Baupost for any expenses incurred in connection with the investment opportunity.

In addition, the Baupost Partnerships from time to time invest in securities of companies that Investment Personnel acquired for their own Account prior to joining Baupost. While the interests of Investment Personnel generally align with those of the Baupost Partnerships, such persons may have differing interests with respect to those investments creating potential conflicts of interest.

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



### Transactions with Affiliates

The LP Agreements do not prohibit the Baupost Partnerships from participating in transactions in which Baupost or any investor is directly or indirectly interested (including, subject to compliance with the Advisers Act, any transaction between the Baupost Partnerships and Baupost or an affiliate thereof). For example, Baupost or its affiliates could engage in commercial transactions with businesses in which the Baupost Partnerships have an interest, such as commercial or residential real estate leases or transactions for goods and services provided by portfolio companies owned by the Baupost Partnerships. In connection with such transactions, the Baupost Partnerships, on the one hand, and Baupost and its affiliates, on the other hand, may have conflicting interests.

Baupost may also face conflicts of interest in connection with purchase or sale transactions (involving an investment by a Partnership) with an affiliate of such Partnership (including the other Baupost Partnerships), including with respect to the consideration offered by, and the obligation of, Baupost and such other affiliate. Although the Baupost Partnerships have not historically engaged in principal transactions between the Baupost Partnerships and Baupost or an affiliate thereof, they may do so and in such circumstances Baupost will either (i) seek the advance consent of the majority in interest of the investors of the relevant Partnership(s) or (ii) appoint an independent body (such as, for example, an advisory board or another person or persons), which shall be comprised of at least two persons, and may consist of investors or third-parties, to represent the interests of the investors. Baupost shall inform investors if it appoints any such independent body and shall identify its members to investors. The advance consent of such independent body or of the majority in interest of the investors shall be deemed to be the consent of a Partnership, including for purposes of the Advisers Act. Any such independent body or person(s), and the members thereof, will not owe any fiduciary or other duties to the investors or the Partnership and may be indemnified out of a Partnership's assets.

### Business between Portfolio Companies and Other Investments

Certain portfolio companies or other investments of the Baupost Partnerships occasionally receive and pay for products or services from other portfolio companies or other investments. To the extent that the decision to obtain the products or services is made by Baupost, Baupost will perform reasonable diligence to ascertain that the products or services meet Baupost's selection criteria including, but not limited to, the nature, quality, cost and level of relevant expertise. The costs of the products and services will be borne by the relevant portfolio companies or other investments.

### Cross Trades

While it has not historically done so, Baupost may determine that it would be in the best interests of some or all of the Baupost Partnerships to engage in a cross trade, such as the transfer of a financial instrument or an illiquid investment from one Partnership to another, for a variety of

reasons, including tax considerations, liquidity considerations, to rebalance the portfolios of the Baupost Partnerships or to reduce transaction costs that may arise in an open market transaction. If Baupost decides to effect a cross trade between some or all of the Baupost Partnerships, Baupost will have determined that the trade is in the best interests of all of the Partnerships involved. In executing cross trades, Baupost could face a potential conflict of interest with respect to the allocation of investment opportunities.

A cross trade between two Partnerships may occur as an “internal cross” that is reflected in the books and records of each Partnership at a price determined in accordance with Baupost’s valuation policy. If Baupost effects an internal cross on behalf of some or all of the Baupost Partnerships, Baupost will not receive any commission in connection with the completion of the transaction. Alternatively, Baupost may execute cross trades with the assistance of a broker-dealer that executes and books the transaction at the close of the market on the day of the transaction, and the applicable Partnerships may pay such broker-dealer a commission in respect thereof.

Baupost may cause the Baupost Partnerships to engage in cross trades with respect to Illiquid Assets. Baupost is responsible for determining the fair value of the Illiquid Assets of the Baupost Partnerships; however, there is no guarantee that the value determined by Baupost with respect to a particular asset will represent the value that will be realized by the Baupost Partnerships on the eventual disposition of the related investment or that would be realized upon an immediate disposition of the investment. There is a risk that Baupost’s valuation determination with respect to Illiquid Assets subject to a cross trade could operate to the detriment of one client in favor of another. To the extent that Baupost has engaged an independent valuation expert in connection with the valuation of an Illiquid Asset for purposes unrelated to an internal cross trade and the Baupost Partnerships intend to engage in an internal cross trade with respect to such Illiquid Asset, the Baupost Partnerships will execute the internal cross trade based on the same valuation used for such other unrelated purpose (or, if there have been material developments since the time of such prior valuation, Baupost intends to utilize an independent valuation expert to determine the price at which such internal cross trade will occur). Baupost has a conflict of interest in a range of situations, including for example where the applicable cross trades entered into by a Partnership (i) are with other of the Baupost Partnerships in which Baupost and its affiliates and employees own substantial interests or (ii) involve circumstances where Baupost’s compensation is tied to a greater degree to the performance of one party to the cross trade.

#### Allocations of Investment Opportunities and Sales

Certain prospective investments may be appropriate for several of the Baupost Partnerships, and, because of Baupost’s, its affiliates’ and employees’ investments in the Baupost Partnerships, there may be a conflict of interest in the allocation of investment opportunities among the Baupost Partnerships. The allocation of such investments among the Baupost Partnerships is determined by Baupost in its best judgment and in its sole discretion taking into account such factors as it believes relevant. Generally, allocations of liquid purchases among the Baupost Partnerships are

made pro rata based on each Partnership's available buying capacity, which is determined based on projected available cash. Allocations of Illiquid Asset purchases among the Baupost Partnerships are generally made pro rata, based on each Partnership's available buying capacity, and where applicable, restricted investment capacity (both at the discretion of Baupost). Allocations of sales are generally made pro rata based on the ownership of the existing position by the Baupost Partnerships.

Baupost may in its sole discretion depart from the general allocation principles set forth herein, including when doing so would, in Baupost's sole discretion, be appropriate based upon certain factors, including but not limited to the relative size of the Baupost Partnerships, current holdings, availability of cash for investment, the size of the investments generally, limitations concerning illiquid investments, tax considerations, regulatory restrictions, legal considerations and the need to re-size risk. Other allocation methodologies used by Baupost can include allocations based on the relative Net Asset Values of the Baupost Partnerships and order size, among others. Although Baupost and its affiliates intend to allocate investment opportunities and sales in a manner that is fair to all the entities involved, there can be no assurances that an investment opportunity that comes to the attention of Baupost and its affiliates would not be allocated wholly or primarily to some Baupost Partnerships, with another Partnership being unable to participate in such investment opportunity or participating only on a limited basis.

A particular investment may be bought or sold for only one or some of the Baupost Partnerships, or at different times for more than one but less than all of the Baupost Partnerships. Likewise, a particular investment may be bought for one or more of the Baupost Partnerships when one or more of the other Baupost Partnerships are selling the investment. It is also possible that one or more of the Baupost Partnerships may engage in short sales of an investment owned or being purchased by other Baupost Partnerships or vice versa. There can be no assurance that a Partnership will not receive less (or none) of a certain investment than it would otherwise receive if Baupost did not have to allocate such investment among multiple Baupost Partnerships.

#### Allocation of Hedges and Follow-on Investments

Allocations of portfolio-level hedge purchases among the Baupost Partnerships are generally made pro rata based on their Net Asset Values. Net Asset Value, for allocation purposes, is the most current period-end Partnership Net Asset Value, which may be adjusted for estimated or projected activity based on guidelines established by Baupost. Allocations of purchases specific to an existing investment, such as investment hedges or follow-on investments, are generally made pro rata based on the allocation of that existing position across the Baupost Partnerships. Follow-on investments include, but are not limited to, additional investments made by a joint venture or pooled investment vehicle in which a Partnership is already invested. Accordingly, allocations may be fixed for discrete investments made by such joint ventures or pooled investment vehicles over a period of several years.

Baupost may, in its sole discretion, elect to treat a follow-on investment as a new investment for allocation purposes. These investments will be allocated based on the then-current allocation methodology (rather than based on ownership of the prior related investment), which may result in, depending on the ownership of certain Baupost Partnerships, a greater allocation to Baupost Partnerships with employee investors than might otherwise be the case.

A Partnership may make two or more investments that have hedging properties with respect to one another. Because of the varying participation by investors in restricted investments and new issues, among other factors, investors may participate in these types of complementary investments in a proportion that may vary significantly from that of other investors, or may participate in only one of the underlying investments and not the other(s). As a result, such investors may not obtain Baupost's intended hedging ratio for the applicable investments.

#### Co-Investments Offered by the Baupost Partnerships

Generally, Baupost does not offer co-investment opportunities to any investor in the Baupost Partnerships and no investor in the Baupost Partnerships is entitled to a co-investment opportunity by reason of being an investor in the Baupost Partnerships. Baupost has in the past, and may in the future, determine that it would be beneficial to the Baupost Partnerships to allocate a portion of an investment opportunity that would have otherwise been available to the Baupost Partnerships to one or more co-investors, such as third-party investment advisers and their affiliated investment funds. It is possible that such co-investors may experience financial, legal or regulatory difficulties and may, from time to time, have economic, tax, regulatory, contractual or other business interests or goals that are inconsistent with those of the Baupost Partnerships and as a result, may take a different view from Baupost as to appropriate strategy for an investment or may be in a position to take a contrary action to the Baupost Partnerships' investment objectives.

In connection with these investments, the Baupost Partnerships may initially bear investment-related expenses attributable to such co-investors. In these circumstances, Baupost requires that the co-investors agree to reimburse the Baupost Partnerships for these expenses.

#### Sell Downs

Baupost has in the past, and may in the future, enter into transactions with third-parties to reduce, or "sell down," all or a portion of certain investments held by one or more of the Baupost Partnerships. The sales price for such transactions will be mutually agreed to by Baupost and the purchaser(s); however, determinations of sales prices involve a significant degree of judgment by Baupost and Baupost is not obligated to solicit competitive bids for such sales transaction or to seek the highest available price, which means Baupost may not obtain the highest price for the transaction. There can be no assurance, in light of the performance of the investment following such a transaction, that such transaction will ultimately prove to be the most profitable or advantageous course of action for the applicable Baupost Partnership(s).

### Co-Investments Offered to the Baupost Partnerships

Baupost Partnership have in the past, and may in the future, invest in third-party investment funds that offer co-invest opportunities. These co-investments will generally be allocated based on the then-current allocation methodology (rather than based on ownership of the relevant underlying third-party investment fund), which may result in, depending on the ownership of certain Baupost Partnerships, a greater allocation to Baupost Partnerships with employee investors than might otherwise be the case.

### Tax Considerations

Baupost monitors the tax characteristics of the Baupost Partnerships' investment activities and portfolio on an on-going basis. Occasionally, the timing and terms of investment and trading decisions are influenced by the expected tax results of those decisions for the Baupost Partnerships and their investors as a whole. There can be no guarantee that the decisions will result in the expected tax results, or that all investors would necessarily benefit from the decisions in light of their individual tax situations. In seeking to conduct their investment activities in a tax efficient manner, the Baupost Partnerships could be exposed to risks that would not have occurred in the absence of tax considerations, such as changes in market prices and liquidity. Investors that are exempt in whole or in part from taxation may not benefit from decisions that take into account tax considerations but may still bear any risks of such considerations.

### Investments in Different Layers of the Capital Structure and Related Conflicts

The Baupost Partnerships may invest in different layers of the capital structure of an issuer, and may make investments in one or more issuers or instruments that may involve economic conflict with respect to one another. For example, upon liquidation or bankruptcy of an issuer, distributions are generally made in a manner providing priority to, respectively, secured creditors, unsecured creditors, preferred equityholders and common equityholders. The Baupost Partnerships may at times hold both debt and equity of the same issuer, and may hold different types of debt and different types of equity. Additionally, the Baupost Partnerships may invest in the equity or debt of an issuer while at the same time investing in certain rights or claims against such issuer. Further, any of the foregoing investments may be restricted investments or new issues, while others may not be, resulting in a potential conflict given that not all investors participate in, or fully participate in, restricted investments or new issues.

In certain circumstances, such as when an issuer defaults on its debt or seeks protection from creditors in bankruptcy, a conflict of interest can arise in that the action taken to protect the interest of one set of security holders may be at the potential detriment of other holders of the same issuer's securities or instruments. Depending on the extent to which such an investor participates in restricted investments and on the timing of their capital contributions and withdrawals, the returns

of an individual investor, including investors who are Baupost employees, may vary from the returns of a Partnership generally and of those experienced by other investors.

If the Baupost Partnerships own securities and instruments of the same issuer in different levels of seniority, action taken for the benefit of some of the Baupost Partnerships may favor that set of the Baupost Partnerships at the expense of another. Baupost will endeavor to manage any such potential conflict(s) in a manner that is fair to the Baupost Partnerships, by, among other things, making investment decisions for each investing Partnership on independent grounds based on the economics and investment objectives of such investing Partnership.

#### Other Benefits

From time to time, Baupost and its employees receive or may receive benefits and/or discounts in connection with their activities on behalf of the Baupost Partnerships that are not shared with the Baupost Partnerships or their investors and that do not offset the management fees received by Baupost. These benefits include discounted hotel room rates at certain real estate properties that the Baupost Partnerships own through joint ventures and may include discounts for consumer products sold by certain portfolio companies owned by the Baupost Partnerships.

#### **Item 12. Brokerage Practices**

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

Baupost believes that for the vast majority of securities transactions for the Baupost Partnerships, best execution is not quantifiable, but rather is a set of quality standards—a trading process that seeks to maximize the value of a Partnership's portfolio over the course of time, given the stated investment objectives and circumstances. In short, Baupost seeks to achieve the best overall end result for each Partnership, the key components of which include a dedicated staff aware of Baupost's fiduciary obligations, up-to-date information and systems, reputable broker-dealers and sufficient oversight. Maximizing long term profit for the Baupost Partnerships takes precedence over short-term goals of cost efficiency in connection with individual trades.

## Factors

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

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

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

- The price, including commissions or spread;
- The size of the transaction;
- The timing of the transaction, taking into account market prices and trends;
- The nature of the market for the security;
- Whether the broker-dealer has the ability to transact in the share size and price sought by Baupost, and the ability to in fact execute and settle the trade;

- Whether the broker-dealer is informed about the investment and involved in the particular market in which the investment trades; and
- The difficulty of execution for the type of security and market in which it trades.

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

### Research and Other Services

Many securities firms offer to provide investment managers (such as Baupost) a variety of services and benefits that go beyond execution, clearance and settlement of transactions. These services and benefits include such things as (i) the broker-dealer firms' proprietary research reports and analytical products, (ii) information and advice about market conditions and individual securities, (iii) investment opportunities that may be attractive for the Baupost Partnerships, (iv) opportunities to meet with company management and (v) capital introduction services whereby Baupost may be afforded the opportunity to make a presentation regarding its services to certain qualified investors identified by the securities firm. Investment managers often seek to recognize broker-dealers who provide these services or benefits by directing transactions to these broker-dealers or by paying higher commissions to these broker-dealers than would otherwise be appropriate.

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



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

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

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

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

#### Trade Aggregation

Baupost will aggregate the Baupost Partnerships' orders and place the aggregated order with a single broker or dealer for execution. The Baupost Partnerships that participate in an aggregated trade each generally pay their pro rata share of the total cost of the trade and receive their pro rata share of the proceeds. From the standpoint of a single Partnership, simultaneous identical portfolio transactions for such Partnership and other Baupost Partnerships may decrease the prices received, and increase the prices required to be paid, by that Partnership for its portfolio sales and purchases. In effecting transactions, it may not always be advisable, or consistent with the investment objectives of the Baupost Partnerships, to take or liquidate the same investment positions at the same time or at the same prices.

## Trade Errors

Baupost has a Trade Error Policy to handle trade errors (as defined in the Trade Error Policy) that may arise in connection with placing trades on behalf of the Baupost Partnerships. Baupost attempts to correct errors as soon as practicable after discovery. If a Partnership realizes a gain from a trade error or the correction thereof, the gain will remain with that Partnership. If a Partnership realizes a loss, Baupost will evaluate the trade error in light of the standard of care owed to that Partnership under the relevant LP Agreement. Accordingly, the cost of trade errors will be borne by the Baupost Partnerships unless attributable to the fraud, gross negligence or willful misconduct of Baupost.

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

Baupost's investment staff monitor the Baupost Partnerships' investments on an ongoing basis. Additionally, Baupost, as managing general partner of the Baupost Partnerships, performs a monthly review of the Baupost Partnerships' accounts and ensures that each Partnership is in compliance with its LP Agreement. As part of this review, Baupost verifies that all income and loss items, management fee and profit sharing obligation are allocated appropriately to each investor in the applicable Partnership. This allocation review is performed by Baupost's Portfolio Valuations, Accounting and Reporting department under the supervision of the Portfolio Controller and is overseen by Baupost's Chief Financial Officer.

Baupost engages a third-party administrator to maintain the official books and records for the Baupost Partnerships. Administrative services include cash and position confirmation, pricing confirmation, Net Asset Value calculation, investor income allocations, fee calculations, and preparation of limited partner account statements.

The financial statements of the Baupost Partnerships are prepared and audited in conformity with accounting principles generally accepted in the United States ("GAAP") at each calendar year-end.

Investors in the Baupost Partnerships are provided with regular written or electronic reports communicating information relating to capital account value, Baupost Partnership Net Asset Value, portfolio allocation, and performance. Regular reporting is provided at the capital account level, at each Partnership, and across the Baupost Partnerships with substantially similar investment objectives. Investors receive various written or electronic reports on a monthly, quarterly and annual basis. Reports are distributed in hard copy or electronically, mainly through Baupost's website. Certain Baupost Partnerships receive additional Partnership-level reporting. Investors who are members of Baupost's Advisory Board may receive additional information.

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

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

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

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

Under Rule 206(4)-2 of the Advisers Act (often referred to as the “Custody Rule”), Baupost is deemed to have custody of client funds or securities in any circumstances under which (i) Baupost actually possesses funds or securities, (ii) Baupost is authorized to withdraw funds or securities from the Baupost Partnerships (for example, to deduct fees), or (iii) Baupost or a related person serves in a legal capacity, such as general partner, which affords Baupost access to funds or securities of the Baupost Partnerships.

Accordingly, Baupost has engaged a PCAOB-registered independent accounting firm to perform an annual audit of the financial statements of each Partnership prepared in accordance with GAAP, which are distributed to all investors within 120 days of each Partnership’s fiscal year end.

In addition, the assets of each Partnership are generally held (other than certain privately offered securities) with “qualified custodians” (as defined in the Custody Rule), which may be a broker-dealer, bank or another type of institution, as required by the Custody Rule. These qualified custodians do not send account statements to investors in the Baupost Partnerships.

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

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

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

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

If Baupost should determine that a material conflict of interest exists in voting a proxy (*e.g.*, if an employee of Baupost may personally benefit if the proxy is voted in a certain manner), Baupost’s procedures provide for the Proxy Voting Committee to convene and to determine the appropriate vote. If the Proxy Voting Committee is unable to reach a decision, Baupost, at its own expense,

will engage a competent third party to determine the appropriate vote based on Baupost's Proxy Voting Policy.

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

**Item 18. Financial Information**

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