
Paloma International Limited

Portfolio Report

SEPTEMBER 2015



Performance

The Rate of Return for September 2015 was 0.73%

	MONTH	YEAR TO DATE
Rate of Return	0.73	7.42
Master Fund Capital 09/01/2015	\$3.088 billion	

The Fund was up 0.73% in September. Global financial markets continued to experience pressure on seemingly all fronts. Many of the unresolved concerns of August rolled into September and led to significant de-risking in materials, energy, and healthcare equity sectors. High yield bonds, led of course by energy and materials-related names, and emerging market debt and currencies sold off significantly. There were unusually large corporate events as well with VW and Glencore, for example, seeing dramatic declines. All of these events seemed to culminate in a Federal Reserve meeting that further lowered expectations in regard to the timing and pace of future rate hikes, sparking a major rally in treasuries. The Fed's apparent lack of confidence in the global economic outlook appears to have heightened the markets' sense of uncertainty. Overall, the quarter turned out to be one of the more challenging periods for risk assets that markets have seen in some time. As 2015's third quarter closes, we have generally been pleased with the Fund's overall performance.

PERFORMANCE ATTRIBUTION & RISK ALLOCATION	RISK CAPITAL ¹	CONTRIBUTION TO SEPTEMBER'S RETURN	CONTRIBUTION TO Y-T-D RETURN ²
Algorithmic	51.4%	1.59%	9.12%
Credit Relative Value	19.5%	-0.01%	1.15%
Capital Structure/Volatility	11.6%	-0.17%	0.24%
Event Driven	7.6%	-0.43%	-0.62%
Long/Short	4.5%	-0.32%	-1.65%
Asia Strategies	2.4%	0.02%	-0.51%
Fixed Income	2.3%	0.01%	0.02%
Other	0.7%	0.04%	-0.33%
Total	100.0%	0.73%	7.42%

See Appendix for Historical Performance Metrics.

- 1 Risk capital is based on quantitative models and subjective analyses of the risk in the portfolio comprising each of the above categories. The methodologies employed are proprietary and different methodologies and models could produce a different indication of risk by category than presented here. Risk Capital Allocation is subject to change.
- 2 Contribution to Y-T-D Returns approximates the contribution of each strategy to the total return; numbers may be rounded to sum to the total rate of return.

Past performance does not guarantee future results and an investment in the Fund could lose value. Performance is presented net of fees and expenses.

Performance *(Continued)*

ALGORITHMIC contributed 159 basis points as September was an unusually strong month for quantitative strategies. September's results were driven by several of our larger teams having above average returns while only a couple of teams were down. Event based strategies were the best performers while our worst performing strategy was down approximately 7 basis points.

CREDIT RELATIVE VALUE subtracted 1 basis point, with mixed performance across corporate relative value strategies and modest gains from non-agency mortgages and structured credit. We have stayed relatively small in relative value and avoided so-called carry trades and fundamental "bets" that would make us net long corporate credit. Corporate credit volatility remains high and liquidity continues to be thin as spreads to benchmarks widened significantly during the month.

CAPITAL STRUCTURE/VOLATILITY subtracted 17 basis points. Despite weak equity markets, realized and implied volatility actually declined from August's very high levels making it difficult to generate returns in most alpha generating strategies. On the other hand, thematic volatility strategies in healthcare did perform as the sector came under a lot of scrutiny and underperformed the broader markets. Tail hedge strategies posted modest gains. Convertible bond arbitrage was down modestly.

EVENT DRIVEN subtracted 43 basis points as equity special situations and merger arbitrage both posted negative results. Special situation strategies losses were broadly distributed and occurred mostly in the last week of the month. Viewed in its entirety, the third quarter of 2015 has been very difficult for this area as the stocks involved underperformed hedges by a wide margin. We've maintained a modest allocation to this area all year and reduced it further in August as smaller sizing has been the best risk management tool.

LONG / SHORT subtracted 32 basis points. While long/short is a small category for the Fund it has been a disappointing area this year. We believe the portfolio is positioned for recovery from these levels. While long/short will remain a small allocation we believe diversification among strategies is important. We will be shortly adding a long/short manager who utilizes a systematic approach. We believe this sub-strategy could be an interesting addition to our manager mix.

ASIA STRATEGIES contributed 2 basis points. Most public holdings in the China portfolio were positive and overall volatility was much lower in September.

FIXED INCOME contributed 1 basis point and **OTHER** contributed 4 basis points related to overlay hedging.

Risk and Exposure Analysis

The tables below provide a snapshot of the Master Fund's risk profile as of September 30, 2015. Dollar amounts are expressed in millions except where indicated otherwise and percentages are relative to the Master Fund's capital as of the start of the reporting period. Master Fund exposure to changes in market volatility and credit spreads, as shown in the following tables under the "Exposures" heading, is calculated on the assumption that no hedging or other risk mitigating action is taken. In calculating exposures, all other market risk factors are held constant.

	MARKET VALUES		EXPOSURES		
	LONG MARKET VALUE (\$MM)	SHORT MARKET VALUE (\$MM)	NET EQUITY EQUIVALENT (%) ³	INCREASE IN VOLATILITY (10 PTS)	INCREASE IN CREDIT SPREADS (100 BPS)
STYLE EXPOSURES					
Algorithmic	4,446	3,753	4.6%	-0.4%	0.0%
Asia Strategies	81	0	2.4%	0.0%	0.0%
Capital Structure/Volatility	954	793	-2.2%	0.4%	-0.1%
Credit Relative Value	1,630	1,007	1.3%	0.0%	-0.1%
Event Driven	338	95	4.6%	0.0%	0.0%
Fixed Income	189	189	0.0%	0.0%	0.0%
Long/Short	130	107	0.8%	0.0%	0.0%
Other	113	282	-6.0%	0.1%	0.0%
	7,881	6,226	5.5%⁴	0.1%	-0.2%

	MARKET VALUES		EXPOSURES		
	LONG MARKET VALUE (\$MM)	SHORT MARKET VALUE (\$MM)	NET EQUITY EQUIVALENT (%)	INCREASE IN VOLATILITY (10 PTS)	INCREASE IN CREDIT SPREADS (100 BPS)
REGIONAL EXPOSURES					
Canada	130	101	0.5%	0.0%	0.0%
Developed Asia	290	281	2.1%	0.1%	0.0%
Eastern Europe	1	0	0.0%	0.0%	0.0%
Japan	378	426	-0.3%	0.0%	0.1%
Other	715	543	0.7%	0.1%	-0.2%
United States	5,266	3,899	-0.2%	-0.1%	-0.1%
Western Europe	1,101	976	2.7%	0.0%	0.0%
	7,881	6,226	5.5%	0.1%	-0.2%

³ Net Equity Equivalent is commonly referred to as delta. Exposures are measured as of the last day of the month. Average equity exposure during the month was approximately 8.2%. Spot Index adjusted exposure for the Fund is 0.0%.

⁴ The portfolio generally has positive "gamma," which has the effect of reducing equity exposure in falling markets and increasing it in rising markets. This gamma effect is not reflected in the equity-exposure statistic.

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Risk and Exposure Analysis *(Continued)*

	MARKET VALUES		EXPOSURES		
	LONG MARKET VALUE (\$MM)	SHORT MARKET VALUE (\$MM)	NET EQUITY EQUIVALENT (%)	INCREASE IN VOLATILITY (10 PTS)	INCREASE IN CREDIT SPREADS (100 BPS)
SECTOR EXPOSURES					
Consumer Discretionary	754	716	-0.6%	0.1%	-0.1%
Consumer Staples	295	303	-0.1%	0.1%	0.0%
Energy	336	305	-0.4%	0.0%	0.0%
Financials	1,128	999	-0.6%	0.0%	0.0%
Health Care	584	356	2.3%	0.2%	0.0%
Index-based Securities	575	1,017	-6.6%	-0.5%	0.0%
Industrials	842	506	3.9%	0.1%	0.0%
Information Technology	543	428	2.4%	0.1%	0.0%
Materials	289	350	0.9%	-0.1%	0.1%
Other (Includes Govt. & Agency Securities)	2,266	1,036	4.2%	0.1%	-0.1%
Telecommunication Services	108	67	0.5%	0.0%	-0.1%
Utilities	161	143	-0.4%	0.0%	0.0%
	7,881	6,226	5.5%	0.1%	-0.2%

EQUITY-EXPOSURE TREND				
	SEPTEMBER	AUGUST	JULY	JUNE
Algorithmic	4.6%	3.5%	4.8%	5.8%
Asia Strategies	2.4%	2.9%	3.5%	3.6%
Capital Structure/Volatility	-2.2%	-3.0%	-0.6%	-2.2%
Credit Relative Value	1.3%	1.8%	1.9%	2.3%
Event Driven	4.6%	4.3%	5.4%	6.0%
Fixed Income	0.0%	0.0%	0.0%	0.0%
Long/Short	0.8%	1.1%	3.0%	2.1%
Other	-6.0%	-3.9%	-1.5%	-1.4%
	5.5%	6.7%	16.5%	16.2%

The Master Fund's long and short market values may include adjustments for the notional values of certain derivative instruments. Paloma Management has made certain assumptions in calculating the adjusted values of certain derivatives in an effort to more accurately portray the Master Fund's risk exposures and leverage. These adjustments are not calculated in accordance with GAAP and generally result in the presentation of higher leverage than would be accounted for under GAAP. The assumptions used are consistent with the terms of the transaction (e.g. margin) which are based on factors such as risk of loss and volatility estimated by the exchange or counterparty, as applicable. Relevant assumptions made by Paloma Management include: estimations of risk; anticipated volatility; purpose, objective and characteristics of the derivative instrument, underlying asset(s), and/or strategy; open profits and losses, and; appropriate substitutes for the exposure measurement.

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Risk and Exposure Analysis *(Continued)*

HISTORICAL RISK CAPITAL	# OF PRINCIPAL MGRS	CURRENT ALLOCATION	JAN 1 2015	JAN 1 2014	JAN 1 2013
Algorithmic	10	51.4%	46.0%	35.0%	35.0%
Credit Relative Value	5	19.5%	25.6%	23.3%	25.0%
Capital Structure/Volatility	3	11.6%	7.9%	8.9%	10.7%
Event Driven	2	7.6%	8.7%	16.8%	9.5%
Long/Short	1	4.5%	5.8%	6.1%	11.9%
Asia Strategies	1	2.4%	3.9%	6.4%	4.9%
Fixed Income	1	2.3%	1.3%	2.9%	2.3%
Other		0.7%	0.8%	0.6%	0.7%
Total	23	100%	100%	100%	100%

Note: Currently the Master Fund has 23 principal portfolio managers that each manages 50 million dollars or more of risk capital. Approximately 91% of the Fund's risk capital is allocated to principal portfolio managers. The Fund also has 10 non-principal portfolio managers.

12 Month Rolling Trend of Fund Leverage and Value-At-Risk

	LEVERAGE⁵	VALUE-AT-RISK⁶
Sep-15	2.6	1.2%
Aug-15	3.0	1.4%
Jul-15	2.9	1.7%
Jun-15	3.0	1.5%
May-15	3.2	1.5%
Apr-15	2.8	1.5%
Mar-15	2.9	1.3%
Feb-15	2.9	1.3%
Jan-15	2.6	1.4%
Dec-14	2.5	1.5%
Nov-14	2.8	1.4%
Oct-14	2.7	1.5%

Note: Fluctuations in the Fund's leverage over time have generally been related to market-neutral algorithmic strategies.

⁵ For purposes of this report, the Master Fund calculates leverage as the quotient of the Master Fund's long market value divided by its capital. Long market value includes trading assets for trading teams; the notional value of investments in standalone funds, which are treated as unlevered; and the notional value of certain derivative contracts. Other funds may use different ways of calculating leverage, the uses of which could have resulted in a different leverage statistic.

⁶ Value-at-Risk is expressed as a percentage of Master Fund capital as of the start of the reporting period. Value-at-Risk is a statistical measure of potential loss given the Master Fund's current investments under normal market conditions and assuming no hedging or trading. Value-at-Risk in the table assumes a 20 business day (approximately one calendar month) holding period and is measured at the 99th percentile. Value-at-Risk is calculated using proprietary methodologies.

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Risk Measurement Methodologies

CREDIT SENSITIVITY - The estimated effect on value from a change in credit spreads, holding all other market factors constant and assuming no risk mitigating actions are taken. The sensitivity of the portfolio to changes in credit spreads is calculated as the gain or (loss) resulting from a 100-basis-point upward shift in spreads relative to the government benchmark. This gain or (loss) is then expressed as a percentage of capital.

EQUITY EXPOSURE - The term Equity Exposure refers to the sensitivity (i.e., delta) of any equity or derivative to changes in the price of the underlying equity. Equity exposure is calculated as long equity exposure (positive) or short equity exposure (negative) expressed in US dollars as a percentage of capital.

INDEX-ADJUSTED EQUITY EXPOSURE - The Equity Exposure is calculated by weighting the exposure to each underlying equity by that equity's beta (sensitivity) to changes in a relevant aggregate stock index such as the S&P 500 stock index.

INTEREST RATE SENSITIVITY - The estimated effect on value from changes in interest rates and changes in the slope of the benchmark-yield curve, holding all other market factors constant, and assuming no risk mitigating actions are taken. The effect of a parallel shift in the benchmark curve is calculated by shifting all rates up 100 basis points and repricing the portfolio. The effect of a change in slope is accomplished by increasing the slope of the yield curve, by 50 basis points, between the two-year and ten-year points.

RETURN - The term "return" refers to the month-to-date percentage rate of return. The return is calculated as profit (or loss), net of all commissions, expenses, and overhead, divided by allocated capital.

VOLATILITY SENSITIVITY - The estimated effect due to a change in the volatility of financial prices, holding all other market factors constant and assuming no risk mitigating actions are taken. Volatility exposure is measured as the gain or (loss) for a 1,000 basis point increase in annualized volatility, and expressed as a percentage of capital.

Appendix: Historical Performance Metrics

PILTD PERFORMANCE DATA

Net Returns

Year to Date	7.42%
Trailing Three Years (Annualized)	10.97%
Trailing Five Years (Annualized)	7.80%
Trailing Ten Years (Annualized)	9.98%
Since Inception (Annualized)*	12.45%

Standard Deviation

Trailing Three Years	3.67%
Trailing Five Years	4.21%
Trailing Ten Years	5.17%
Since Inception*	5.27%

Correlation to S&P 500*	0.17
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Correlation to Barclays Int. G/C*	0.10
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Sharpe Ratio*	1.58
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Sortino Ratio*	2.41
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* PLLC returns are used to calculate since inception returns (inception date: October 1, 1981), standard deviations, Sharpe ratio, Sortino ratio and correlations.

Appendix: Historical Performance*

PIL Net Returns (%)

	January	February	March	April	May	June	July	August	September	October	November	December	Annual
2003	2.00	0.60	-0.61	0.19	0.59	0.28	-0.82	-0.50	2.01	1.10	1.81	0.50	7.31
2004	2.04	0.27	0.40	-0.35	-1.00	-0.83	0.68	0.20	0.00	0.02	2.36	1.18	5.03
2005	0.01	0.77	0.76	-1.26	-1.14	0.01	1.14	0.64	0.54	0.14	0.12	-0.85	0.86
2006	1.45	0.46	0.22	2.41	0.50	1.02	0.82	0.43	0.29	0.85	1.12	4.03	14.41
2007	1.97	2.90	1.52	3.66	0.52	0.70	4.50	-1.80	0.60	5.05	0.43	-0.44	21.22
2008	-0.25	3.00	-1.63	-1.23	1.50	0.76	-0.59	1.08	-4.34	-1.95	0.16	0.36	-3.29
2009	2.13	-1.67	0.57	2.06	4.02	2.33	2.11	2.22	2.28	1.16	2.02	0.76	21.80
2010	2.08	0.75	1.47	3.46	-1.88	-0.85	0.74	1.44	2.01	2.38	0.66	2.34	15.48
2011	0.56	1.45	0.65	-0.07	0.66	0.33	0.64	-2.03	-2.56	-0.70	0.79	-2.48	-2.83
2012	1.69	1.24	0.07	0.15	-1.51	-0.77	0.29	0.94	1.85	1.16	0.58	2.50	8.43
2013	3.95	1.02	1.90	1.46	0.77	-0.84	0.94	0.56	0.31	0.81	1.76	2.39	16.02
2014	0.16	2.10	-0.90	-0.03	0.96	1.07	1.10	0.72	-0.81	-0.92	1.38	0.24	5.14
2015	0.03	0.71	2.54	0.64	2.26	0.1	-0.17	0.39	0.73				7.42 (YTD)

NOTES TO PERFORMANCE

Paloma International Limited (“PIL”) is a private investment fund organized to operate for the benefit of non-U.S. persons and U.S. tax-exempt persons. PIL began operating on January 1, 2003. Prior to January 1, 2003, there were other funds offered to non-U.S. persons and U.S. tax-exempt persons, the earliest of which began operating on October 1, 1988. These funds sought to achieve substantially similar performance to Paloma Partners L.L.C. (“PPLLC”) through parallel investments and investments in synthetic structures. Returns and data presented for periods “since inception” are for PPLLC. Please see the explanation of PPLLC’s performance history below.*

Performance returns shown are for a representative PIL Class A, USD sub-class, fee paying investors and are calculated net of all fees and expenses, including accrued performance fees payable to portfolio managers (if applicable), reflect the reinvestment of dividends and all other earnings and include estimates of unrealized gains and losses. Monthly net rates of return are calculated by dividing the monthly net return by the net assets at the beginning of the month. Annual returns are calculated by compounding the monthly net rates of return for the year. An individual investor’s return may vary based on the share class/sub-class held, the timing of capital transactions and differing management fee arrangements.

PIL’s returns for the period beginning January 1, 2003 and ending December 31, 2005, were achieved by investing substantially all of PIL’s capital in a swap, whose rate of return was derived from the performance of Paloma International L.P. (the “Master Fund”). On December 31, 2005, the swap terminated and PIL invested directly into the Master Fund.

Performance returns for 2015 have not been audited and are therefore subject to change.

Past performance does not guarantee future results. There can be no assurance, nor should it be assumed that future investment performance of the Fund will conform to any performance example included herein or that the Fund’s investments will be able to avoid losses. The investment results and portfolio compositions discussed herein are provided for illustration purposes only and may not be indicative of the future investment results or future portfolio composition of the Fund. The composition, size of, and risks associated with an investment in the Fund may differ substantially from the examples set forth herein. An investment in the Fund can lose value.

NOTES AND DISCLOSURE

This Portfolio Report ("Report") has been prepared for the Fund's investors and counterparties on a confidential basis for general information purposes and is intended only for the person (or entity) to whom it has been given. You may not reproduce or distribute this Report without our prior written consent.

This Report is intended to provide a context for understanding our perspective and characterization of the risks associated with the strategies, markets and financial instruments traded in the Fund in September. The data shown is calculated as of month end and may have fluctuated significantly during the month. Furthermore, certain assumptions and factors contributing to our estimations of risks may change significantly on a daily or monthly basis. This Report does not create any guidelines or limitations for how the Fund may manage risk, estimate risk characteristics or allocate capital in the future. Opinions expressed herein are based on the judgment of Paloma Management as of the date of this Report and are subject to change without notice due to a variety of factors, both general and specific, many of which cannot be predicted or quantified and are beyond Paloma Management's control. Information included in this Report may have been provided by unaffiliated third parties, and although believed to be reliable, has not been independently verified.

Unless otherwise noted, performance returns are for a representative PIL Class A, USD sub-class, fee paying investor and are calculated net of all fees and expenses, including accrued performance fees payable to portfolio managers (if applicable), reflect the reinvestment of dividends and all other earnings and include estimates of unrealized gains and losses. Monthly net rates of return are calculated by dividing the monthly net return by the net assets at the beginning of the month. Annual and year-to-date returns are calculated by compounding the monthly net rates of return for the year. An individual investor's return may vary based on the share class/sub-class held, the timing of capital transactions and differing management fee arrangements. Performance returns for the current year have not been audited and are therefore subject to change.

Paloma Management believes that the information included in this Report is reliable but does not warranty its accuracy or completeness. Statements regarding future events constitute only subjective views or beliefs, should not be relied upon, are subject to change due to a variety of factors, both general and specific, many of which cannot be predicted or quantified. The estimates, investment strategies, and views expressed in this Report are based upon information known to us as of the date of this Report. This Report will not be updated or otherwise revised to reflect information that subsequently becomes available to us, or for changing circumstances occurring after the date of this Report. Data presented herein, including returns for the current year, attribution, and portfolio risk statistics is unaudited and may be based on subjective estimates or assumptions. Calculations or analyses used in this Report may use one among alternative methodologies that produce different results.

No guarantee or representation is made that the Fund's investment program, including, without limitation, its investment, objectives, diversification strategies, or risk monitoring goals will be successful and investment results may vary substantially over time. The Fund's risk management protocols seek to monitor and manage risk, but should not be understood to imply low, or no risk. Nothing herein is intended to imply that the Fund's investment methodology may be considered "conservative", "safe", "risk free", or "risk averse". There may be risks which cannot be monitored or controlled and risks that may be greater than forecasted, especially in unusual market conditions. Economic, market and other conditions could also cause the Fund to alter its estimation of risk and its risk management approach.

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An investment in the Fund: is speculative and may involve a high degree of risk; could result in a loss of all, or substantially all of investors' capital; may be leveraged which can increase the risk of loss; may have volatile performance, and; can be highly illiquid.

Index returns have been included to show the general trend in certain markets during the periods indicated. References to any particular index should not be taken to imply that the Fund is comparable to any index either in composition or element of risk. The Fund does not attempt to replicate or benchmark itself against the performance of any index. The S&P 500 is an unmanaged index widely regarded as the standard for measuring large-cap US stock market performance. Barclays Intermediate Government/Credit Bond Index measures the performance of US dollar denominated US Treasuries, government related and investment grade US corporate securities that have a remaining maturity of greater than or equal to 1 year and less than 10 years. VIX and VXN are the Chicago Board Options Exchange's OEX and NDX volatility indices, respectively and provide an indication of the general level of implied volatility in the market.

The Sharpe Ratio statistic measures risk-adjusted returns over various time periods for the simulated portfolio and benchmark. Sharpe Ratio is a measure of investment efficiency expressed as the amount of return earned per unit of associated risk. The return value used is the annualized return of the simulated portfolio minus the T-bill return. The risk measure is the standard deviation of the simulated portfolio's excess return versus the T-bill. The higher the Sharpe Ratio, the better the trade-off is between return and risk.

The Sortino Ratio is similar to the Sharpe ratio, except it uses downside deviation for the denominator instead of standard deviation, the use of which does not discriminate between up and down volatility.

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