

BOUSSARD & GAVAUDAN HOLDING LIMITED

Boussard & Gavaudan Holding Limited
A closed-ended investment company incorporated with limited liability under the laws
of Guernsey, with registration number 45582.

Interim Management Statement **For the Quarter ended 30 September 2014**

I. PRINCIPAL ACTIVITIES

Boussard & Gavaudan Holding Limited ("BGHL" or "the Company"), a closed-ended investment company incorporated under the laws of Guernsey, announces its interim management statement for the period from 1 July to 30 September 2014 ("the period").

The Company is registered with the Dutch Authority for Financial Markets and is listed on the NYSE Euronext Amsterdam, and the London Stock Exchange.

During the period, BGHL has invested indirectly in BG Master Fund Plc ("BG Fund" or "the Fund"), a Europe-focused multi-strategy hedge fund established in Ireland and authorised by the Central Bank as a Qualified Investor Fund (QIF), through a dedicated share class of the feeder fund, BG Umbrella Fund Plc. The Fund aims primarily at arbitraging instruments with linear or non-linear pay-offs on equities and credit markets. The overall investment objective of the Fund is to provide investors with consistent absolute returns, primarily through investing and trading in financial instruments of companies incorporated in, or whose principal operations are, in Europe.

In addition, a proportion of the net assets of BGHL may be invested in other hedge funds and/or other financial assets.

The Company announced that the Company has entered into the arrangements necessary to ensure compliance with the AIFMD with effect from Monday 21 July 2014.

Following a review of the Company's arrangements, the Company's board of Directors approved the appointment of Boussard & Gavaudan Investment Management LLP ("BGIM" or "the Investment Manager") as the Company's alternative investment fund manager on the terms of and subject to the conditions of a new investment management agreement between the Company and BGIM. BGIM was approved as an AIFM by the UK's Financial Conduct Authority on 11 July 2014.

The Company's existing investment management agreement between the Company and Boussard & Gavaudan Asset Management, LP ("BGAM"), which is not authorised as an AIFM, has been terminated. Arrangements in respect of the management fee and performance fee remain unchanged.

Boussard & Gavaudan Investment Management LLP is the Investment Manager for both the Company and the Fund.

II. HIGHLIGHTS

	30-Sep-14	30-Jun-14
Assets under management (€m)	615	627
Market capitalisation (€m)	508	506
Shares outstanding	35,200,127	35,728,791

	NAV per Share		Share price *		Discount to NAV	
	€ shares	£ shares	€ shares	£ shares	€ shares	£ shares
30-Sep-14	17.4104	15.6145	14.38	£12.95	-17.41%	-17.06%
30-Jun-14	17.4955	15.711	14.14	£12.30	-19.18%	-21.71%
Performance	-0.49%	-0.61%	1.70%	5.28%		

III. PERFORMANCE

The Eurostoxx 50® was down 0.1% this quarter and stock market volatility increased: the VDAX ended at 15.3%, up from 13.2% and the VStoxx® at 17.9%, up from 15.3%. The Crossover Series 20 finished at 215bps, widening by 12bps over the quarter.

1. BG Fund

As at 1 October 2014, the Company had approximately 103% of its assets invested in BG Fund. BGHL maximum exposure to BG Fund is 110% of its net asset value.

From 30 June to 30 September 2014, BG Fund (Euro A share class) posted a +0.34% performance. Equity strategies were the best performer followed by Trading. Volatility and, to a lower extent, Credit strategies posted a negative performance.

1.1. Volatility Strategies

Convertible Bond Arbitrage

The convertible bonds (excl. Mandatories) negative performance was mainly driven by the GFI Informatique convertible bond as the stock fell 16.2% during the quarter and the position was held outright.

Over the period, new issues amounted to €2.4bn to reach a year to date issuance of €15.0bn versus €10.7bn for the three quarters of 2013. Outstanding CBs in Europe amounted to €80bn versus €76bn at 2013 year end.

* Amsterdam (AEX) market close for the Euros shares and London (LSE) market close for the Sterling shares

The Fund did not participate in any of these new issues as the expected returns were low given high implied volatilities or implied spreads. Most of them traded below par at constant stock level (cheapened).

The Investment Manager witnessed redemptions in most long-only funds. According to data compiled using Bloomberg, total redemptions for Q3 were around €4bn, of which €2bn in September. The Investment Manager estimated that long-only funds AUM were now back to beginning of the year levels.

As a matter of fact, valuations dropped quickly during the second half of September. The Investment Manager expects valuation to depend on the balance between new issues / redemptions (€3bn expected in Q4) versus inflows / outflows in long-only funds.

At these levels the Investment Manager believes that there are only a few names worth buying and he is considering building positions in some of them. Nevertheless, he remains cautious as current implied volatility is not attractive for arbitrageurs. It remained difficult for him to implement rational investments based on “cheap volatility” or on mispriced volatility versus credit and downside risk would be significant should there be outflows from long-only funds.

Mandatory Convertible Bond Arbitrage

Mandatories convertible contributed slightly negatively this quarter.

There were two issues this quarter: Telefonica issued an exchangeable mandatory in Telecom Italia for €750m in July and in September the company issued €1.5bn of standard mandatory convertible bond.

The Investment Manager participated in the first issue but quickly sold the position on Telefonica / Telecom Italia exchangeable bond as the cheapness was limited. He favoured the Telecom Italia 6.125% 2016 mandatory bond which could benefit from a potential change of capital structure. Vivendi could become a major shareholder of Telecom Italia if the sale of GVT to Telefonica was partially paid in cash and partially in Telecom Italia shares, which could only be a positive event for Telecom Italia's credit.

In September, the Investment Manager participated actively in the issue of a €1.5bn Telefonica mandatory convertible bond and in the secondary market as the disappointing stock performance led some long-only investors to sell back their positions at discounted levels.

It was priced at mid-terms for investors (4.9% coupon; 100% - 122.5%; 3 year-maturity). Unlike some previous issues the main prospectus provides protection against dividend hikes, takeover and credit deterioration. Terms were attractive with a 10pts implied skew to be compared with a fair skew at 2pts according to the Investment Manager's model. Furthermore options were liquid on this name. Financing and repo conditions provided by prime brokers were also attractive for this “tier one” name. Lastly, Telefonica's dividend policy was generous. Considering Spanish practice (the Investment Manager has negotiated dividends in the past at less than 100% of gross amount), a full dividend protection could bring extra value.

Other mandatories were hit as well and posted losses.

Gamma Trading

Gamma Trading contributed slightly negatively to the performance.

This book was kept to a minimum as most of the theta was spent in equity strategies.

The Investment Manager believed that most of the market participants were long gamma and were buying shares in a falling market and sold shares in a rising market, dampening market moves. Fixed strike volatility did not move, which reinforced his conviction to use options in equity strategies to express his directional views rather than in the gamma strategy.

1.2. Equity Strategies

Equity strategies contributed positively to the performance of the Fund.

July started on a negative note, the European market finished down 3.5%, driven by geopolitical fears (Middle East and Ukrainian situation) and concerns that the FED would start tightening earlier than expected.

However, the Fund benefited from its investment in Shire. The Investment Manager initiated a position as AbbVie seemed interested in acquiring Shire's assets and the Shire board seemed willing to sell at a fair price. The Investment Manager exited the position after their agreement as he did not want to take the political risk related to this tax inversion deal. AbbVie would become the largest U.S. company to move its legal address abroad, in Ireland, in order to lower its taxes.

The investment in Club Med was also profitable. Andrea Bonomi made an offer at €21 per share versus an improved offer from Gaillon Invest at €17.50.

August was driven by supportive comments from Mario Draghi at Jackson Hole and by the hope of a resolution of the Ukrainian crisis. As well as helping the market, this weighed on the euro, which continued on its downtrend against the dollar. The Fund benefited from its dollar exposed investments: Safran. Vivendi also performed well following the bids from Telefonica and Telecom Italia; the Investment Manager took profit on the position following a 14% rally from the lows of mid-July. Vodafone performed well following reassuring earnings releases at the end of July. The financials book performed thanks to Zurich Insurance which was backed by a strong execution on its turnaround plan and a positive outlook; and Axa, as they delivered good earnings growth and a positive message on its dividend policy.

September was marked by a bearish sentiment throughout the Eurozone economy, which drove the EUR another 4% lower in the month against the USD, the companies exposed to the USD benefited from this drop. Despite significant volatility driven by ECB announcements and the upcoming results of the Asset Quality Review, the financials portfolio performed well (especially ING, Aegon and Commerzbank). M&A was fairly active, the Fund benefited from the offer by Orange to buy Jazztel in Spain at a 30% premium of the undisturbed price.

Capital markets activity remained very difficult, with block placements and IPOs trading very poorly. The Investment Manager has decided not to participate in most of the deals, until market participants become willing to deploy risk again.

1.3. Credit Strategies

Capital Structure Arbitrage

Capital structure arbitrage was marginally positive over the period.

European credit and equities moved inline in July. Nevertheless the Investment Manager was able to trade around local dislocations between credit and equity on the positions and locked some profits.

August started on a negative note and the book suffered from disappointing earnings on some of the investments leading to significant discrepancies between equity, which underperformed considerably and credit. Moreover, tensions between Ukraine and Russia generated dislocations in an illiquid market which were magnified by poor European PMI numbers. In the second half of the month, the market stabilised somewhat and the book ended the month slightly up thanks to active trading of the positions.

Lastly, in September, equity outperformed credit in general. The book was profitable on most of the long equity / short credit trades and for the most part disappointed with the long credit / short equity trades. Unfortunately, one of the long equity / short credit investments performed poorly because of idiosyncratic concerns.

The book remained well balanced between long equity / short credit and long credit / short equity trades.

Credit Long / Short

Credit long / short strategies were negative contributor during the quarter.

In line with other risky asset classes, European credit was weaker in July after a particularly strong performance in June driven by the ECB's ongoing accommodative policies but the credit book remained resilient, in particular thanks to the financials. In High Yield, the primary market continued to be active in particular with rather aggressive structures or weaker names. The fund did not participate in these issues.

In August, credit markets started anticipating further accommodative policy by the ECB as European dataflow continued to disappoint. Interestingly, the cash credit market underperformed while yields on European government bonds reached their record lows in August. As usual in August, the primary market was quiet.

Most of the negative performance was made in September, which was a weak month in credit especially with an underperformance of high beta and high yield versus high grades ones. This was due to a risk-off mode: The US high yield market saw a move towards quality and higher grade names, a weaker primary pipeline quality, Bill Gross's departure from Pimco and negative idiosyncratic news in Europe. In financials, caution prevailed in the market ahead of the AQR and stress tests expected during October. The primary pipeline in financial hybrids remained heavy in September, especially in Additional Tier 1 (ahead of AQR) and in insurance hybrids (optimization of capital structure ahead of solvency 2). In that context, secondary cash markets underperformed the hedges / indices and were characterized by a lack of liquidity.

Over the period, the Investment Manager has continued to refocus the portfolio on special situations and increased short/hedges on the long core positions

Trading

Trading contributed positively to the performance of the fund this quarter.

2. Investments Other Than BG Fund

As at 30 September 2014, the net asset value of the other investments outside BG Fund represented approximately 8% of the net asset value of BGHL.

The investments other than BG Fund contributed negatively during the period, mainly due to GFI Informatique whose market price dropped by 16.2% during the quarter and the position was held outright..

2.1. Rasaland

BGHL entered into Rasaland in June 2008 for \$10 million. Rasaland is a Maltese company structured as a private equity fund in terms of fees and organisation, dedicated to investing in land and high-end resort developments in Mexico. The EUR/USD exposure is hedged by an FX forward which is rolled on a three monthly basis.

2.2. GFI Informatique

BGHL signed on 7 June 2013 a shareholders' agreement in order to act in concert with the two main shareholders of GFI Informatique. GFI Informatique is one of the leading IT services firms in France and Southern Europe, employing 10,000 people at the end of 2012.

In compliance with applicable regulations, the concert through Infofin Participations (an entity created for this purpose, hereafter "Infofin"), filed a mandatory public tender offer with the French Autorité des

Marchés Financiers (AMF) for all of the outstanding shares and bonds thereby giving access to GFI's share capital or voting rights not yet held by the concert.

Under the shareholders' agreement BGHL agreed to invest - after completion of the public offer - in bonds to be issued by Infofin and exchangeable into GFI shares. BGHL completed on 29 August 2013 its subscription of Infofin exchangeable bonds for an amount of €20,364,030.72.

The Investment Manager of BGHL is not aware of any material adverse development and has not identified any significant event since August 2013. GFI has been performing in line with expectations.

In addition, the Company has a direct equity investment in GFI Informatique (FR0004038099) representing approximately €9.8 million as of 30 September 2014.

IV. OUTLOOK

Financial prospects for the coming months will be linked to the level of opportunity created across the Company's strategies in the European corporate environment.

The Investment Manager continues to be fully committed to the strategies of the Company.

As of 1 October 2014, BGIM assets under management are at €1.78bn.

For further information contact:

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Disclaimer

The Company is established as a closed-ended investment company domiciled in Guernsey. The Company has received the necessary approval of the Guernsey Financial Services Commission and the States of Guernsey Policy Council. The Company is registered with the Dutch Authority for the Financial Markets as a collective investment scheme pursuant to article 2:73 in conjunction with 2:66 of the Dutch Financial Supervision Act (Wet op het financieel toezicht). The shares of the Company (the "Shares") are listed on Euronext Amsterdam. The Shares are also listed on the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange plc's main market for listed securities.

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Neither the Company nor BG Fund has been, and neither will be, registered under the US Investment Company Act of 1940, as amended (the "Investment Company Act"). In addition the securities referenced in this announcement have not been and will not be registered under the US Securities Act of 1933, as amended (the "Securities Act"). Consequently any such securities may not be offered, sold or otherwise transferred within the United States or to, or for the account or benefit of, US persons except in accordance with the Securities Act or an exemption therefrom and under circumstances which will not require the issuer of such securities to register under the Investment Company Act. No public offering of any securities will be made in the United States.

You should always bear in mind that:

- *All investment is subject to risk;*
- *Results in the past are no guarantee of future results;*
- *The investment performance of BGHL may go down as well as up. You may not get back all of your original investment; and*
- *If you are in any doubt about the contents of this communication or if you consider making an investment decision, you are advised to seek expert financial advice.*

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