

ACORN DERIVATIVES MANAGEMENT CORP.

March 30, 2012

This *brochure* provides information about the qualifications and business practices of Acorn Derivatives Management Corp. (the “Acorn Derivatives”), an investment adviser registered with the United States Securities and Exchange Commission (the “SEC”). If you have any questions about the contents of this *brochure*, please contact us at (203) 355-3960 and/or rgboyle@acornderiv.com. 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 Acorn Derivatives Management Corp. is also available on the SEC’s website at www.adviserinfo.sec.gov.

Registration with the SEC or with any *state securities authority* does not imply a certain level of skill or training.

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MATERIAL CHANGES

The Brochure was updated to include a second strategy.

TABLE OF CONTENTS

| | |
|--|----|
| Item 4: Advisory Business | 1 |
| Item 5: Fees and Compensation | 2 |
| Item 6: Performance-Based Fees and Side-By-Side Management | 4 |
| Item 7: Types of Clients..... | 5 |
| Item 8: Methods of Analysis, Investment Strategies and Risk of Loss..... | 6 |
| Item 9: Disciplinary Information | 7 |
| Item 10: Other Financial Industry Activities and Affiliations | 8 |
| Item 11: Code of Ethics, Participation or Interest In Client Transactions and Personal Trading | 9 |
| Item 12: Brokerage Practices | 10 |
| Item 13: Review of Accounts | 11 |
| Item 14: Client Referrals and Other Compensation..... | 12 |
| Item 15: Custody | 13 |
| Item 16: Investment Discretion | 14 |
| Item 17: Voting Client Securities..... | 15 |
| Item 18: Financial Information..... | 16 |

Item 4: Advisory Business

Acorn Derivatives is an investment adviser located in Stamford, CT, and has been continuously registered with the SEC since 1989, including our immediate predecessors. Our principal owners, those shown in Schedule A of Part 1A of our Firm's Form ADV as owning 25% or more, are Andrew Greeley and Roberta G. Boyle. Mr. Greeley and Mrs. Boyle have been with the firm since 1994 and 1990, respectively.

Acorn Derivatives provides advisory services to large institutional clients, either through separate accounts or pooled investment vehicles. We specialize in one product, options on listed indexes; currently, the S&P 500 cash index. Clients in separate accounts may tailor certain aspects of their accounts within the investment management agreement, such as frequency and composition of reports, security limitations, and risk parameters.

As of February 29, 2012, we managed \$ 544.2 million in client assets on a discretionary basis.

Item 5: Fees and Compensation

ARS strategies:

Acorn Derivatives charges each client a 1% annual investment management fee based on the value of the client's assets under management. Investment management fees are calculated and generally billed to the client each quarter in arrears based on the total market value of the assets in the client account (including net unrealized appreciation or depreciation of investments and cash, cash equivalents and accrued interest) on the last day of the quarter. Monthly billings are also available at the client's request. If a new client account is established during a quarter or a client makes an addition or subtraction to its account during a quarter, the investment management fee will be prorated for the number of days remaining in the quarter. If a client's investment management agreement is terminated during a quarter, the fee payable to Acorn Derivatives will be calculated based on the value of the assets on the termination date and prorated for the number of days during the quarter in which the investment management arrangement was in effect.

Acorn Derivatives also charges a 20% performance-based fee, which is compensation that is based on a share of the net capital appreciation of the assets of the client. Performance fees are calculated and billed to the client, generally on an annual basis, and at account closure.

SC strategies:

Acorn Derivatives charges each client a 1% annual investment management fee based on the value of the client's assets under management. Investment management fees are calculated and generally billed to the client each quarter in arrears based on the total market value of the assets in the client account (including net unrealized appreciation or depreciation of investments and cash, cash equivalents and accrued interest) on the last day of the quarter. Monthly billings are also available at the client's request. If a new client account is established during a quarter or a client makes an addition or subtraction to its account during a quarter, the investment management fee will be prorated for the number of days remaining in the quarter. If a client's investment management agreement is terminated during a quarter, the fee payable to Acorn Derivatives will be calculated based on the value of the assets on the termination date and prorated for the number of days during the quarter in which the investment management arrangement was in effect.

All strategies:

Specific fee schedules are negotiable as long as they are economically equivalent to our standard fees. All fees are billed in arrears to the client. Only the client may instruct its custodian or prime broker to pay the fees to Acorn Derivatives.

In addition to paying investment management and/or performance-based fees, client accounts will also be subject to other trade related expenses, including fees and commissions charged by the executing

broker. Acorn Derivatives always chooses an executing broker based on its expertise in listed index options and negotiates a commission rate for best execution. Best execution may include research provided by a broker to Acorn for the benefit of all Acorn clients as defined under Section 28(e) of the Securities Exchange Act of 1934. Clients choose all other providers, including the custodian, prime broker and/or administrator. Any fees, expenses, etc. paid to these other providers are negotiated solely by the client. Clients are also responsible for choosing an investment vehicle offered by their custodian or prime broker that allows for daily sweeps of all free cash not currently invested in listed index options.

Item 6: Performance-Based Fees and Side-By-Side Management

Acorn Derivatives provides investment management services to multiple portfolios for multiple clients. They are paid performance-based compensation by its private pooled investment vehicle clients and certain other client accounts.

Acorn Derivatives has adopted and implemented policies and procedures intended to address conflicts of interest relating to the management of multiple accounts, including accounts with multiple fee arrangements, and the allocation of investment opportunities. Acorn Derivatives reviews investment decisions for the purpose of ensuring that all accounts with substantially similar investment objectives are treated equitably. The performance of similarly managed accounts is also regularly compared to determine whether there are any unexplained significant discrepancies. In addition, all trades within a strategy are executed as a single bulk trade and allocated equally to all managed accounts using that strategy based on the ratio of the account to the total of all such accounts. And finally, the firm and its owners, including senior portfolio managers, are investors in one of the private pooled investments using the ARS strategy, which directly aligns their interests with those of our clients. These areas are monitored by the firm's Chief Compliance Officer.

The manager has incentives to take risks given the asymmetry of the performance fee. We combat this by having an investment in the strategy ourselves.

Item 7: Types of Clients

Acorn Derivates' clients are large, institutional investors, such as pension and government funds. The minimum account size is USD 10 million, which may be funded over a reasonable period of time. Investors in a pooled investment vehicle may have a lower minimum as defined by the offering memorandum for the pooled investment vehicle.

Item 8: Methods of Analysis, Investment Strategies and Risk of Loss

Acorn Derivatives has been managing option strategies for over 20 years. Options are investments whose ultimate value is determined from the value of the underlying investment. We currently invest in options based on the S&P 500 index that are listed on the Chicago Board Options Exchange ("CBOE"). These index options are cleared through the OCC, formerly known as the Options Clearing Corporation. The OCC guarantees all trades done by its members. All executing brokers must be a member of the OCC.

Our research confirms that listed S&P 500 Index options are persistently overpriced. This overpricing has existed for over twenty years and is present in the index options market 87% of the time. Both of our strategies are based on this overpricing. There are two rationales for this overpricing:

- Imbalance between natural buyers and sellers
- Frequent gaps in prices

We know of several significant research papers about this persistent overpricing. We'll be happy to provide more details upon request.

For the ARS strategy, we generally trade a 4 piece, debit unit known as a butterfly. This reduces market risk and allows for better execution. It also means that the economic risk of loss for each butterfly is known with 100% certainty. The combined initial debits of all butterfly units open at any one time is limited to a percent of the total current assets, as defined in the client's investment management agreement. For the SC strategy, we generally trade a 2 piece, credit unit known as a credit spread. This also reduces market risk, allows for better execution, and means the economic risk of loss for each spread is known with 100% certainty. The maximum number of spreads is defined in the client's investment management agreement. All butterfly units and credit spreads are traded on the CBOE and guaranteed by the OCC. We use options that expire within 2 months and never use leverage. We actively increase/decrease the portfolio exposure using an investment process that has evolved over our 20 plus year history. It is a disciplined, discretionary and continuous process that is applied consistently over time.

Option strategies involve risk of loss to clients and clients must be prepared to bear the loss of their entire investment. Extreme market conditions occurring outside of normal trading hours of the CBOE may cause large price fluctuations in the underlying S&P 500 index. The units are specifically chosen to define and limit the maximum loss to our strategies.

Item 9: Disciplinary Information

This item is not applicable.

Item 10: Other Financial Industry Activities and Affiliations

Acorn Derivatives is registered with the Commodity Futures Trading Commission as a Commodity Trading Advisor and is a member of the National Futures Association. All management persons are registered as associated persons. All registrations and memberships are currently inactive.

Prior to 1/11/2012, Howard P. Offit, a managing director and member of Acorn Derivatives' Board of Directors, was also registered as an investment advisor representative with Capital Investment Advisors, Washington, D.C. Mr. Offit spent 100% of his business time to the exclusive benefit of Acorn Derivatives, and did not disclose any Acorn Derivatives related information to Capital Investment Advisors.

Acorn Derivatives Management Corp. is currently the general partner and/or investment advisor to two pooled investment vehicles. These vehicles share in the same allocations as all other clients using the same strategy.

Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Acorn Derivative's Ethics Policy, adopted pursuant to SEC rule 204A-1, which covers all employees, includes but is not limited to the following. A complete copy of our Code of Ethics is available upon request to Roberta Boyle, our Chief Compliance Officer (the "CCO"), at rgboyle@acornderiv.com, or by phone at (203) 355-3960.

First and foremost, employees must place client interest before his/her own and act honestly and fairly in all respects in their dealings with clients. In addition, employees must comply with applicable federal securities laws, such as the confidentiality of client information as further described in our Privacy Policy. They must use reasonable care and prudent judgment when managing client assets. They must deal fairly and objectively with all clients when providing investment information.

Second, all employees must disclose all personal accounts at all brokerage firms at least annually. Further, all covered trades must be disclosed at least quarterly for review by our CCO. Primarily, she is looking for violations of our policy that restricts employees from trading in any security that Acorn trades for its clients and the securities of our clients. There is one exception to this policy:

Acorn Derivatives has an interest in a private pooled vehicle for which it serves as investment advisor and general partner. All owners of the firm, as well as some of their family members, also have investments in this vehicle. We believe there are no potential conflicts with any clients since all accounts using the same strategy are traded *pari passu* using bulk trades as previously described. Acorn Derivatives does not use a rotational method.

And finally, all employees must disclose all outside affiliations: for instance, serving on the Board of Directors, or similar position, of a non-profit organization (except those who are clients of Acorn). Employees may not manage accounts for third parties who are not clients of Acorn, nor serve as the trustee for a third party, unless pre-cleared by the CCO.

Item 12: Brokerage Practices

In all circumstances and for all discretionary accounts, Acorn Derivatives chooses broker-dealers who provide the best execution. Factors include expertise in listed index options, reputation, financial strength and stability, efficiency of execution and most importantly, the best execution at the best price for our clients. It is not our practice to negotiate “execution only” commission rates, thus a client may be deemed to be paying for research, brokerage or other services provided by a broker-dealer which are included in the commission rate. Best execution may include receipt of research as defined under Section 28(e) of the Securities Exchange Act of 1934. Research includes proprietary research created and/or developed by a broker as well as research created and/or developed by outside vendors and paid for by a broker on Acorn Derivatives’ behalf. Outside research vendors have included:

- Option data providers such as Bloomberg and Track Data
- Fundamental and technical research firms such as Arbor Research, Bianco Research, Lowry Research, Renaissance Macro Research, and Rosenberg

Requests for payment to outside research vendors must be approved in advance by both the Head of Trading and the CCO. Acorn Derivatives may receive research from several different executing brokers at any time. Acorn Derivatives is not obligated to direct trades to any of executing broker providing such research.

The benefits of all research are shared equally amongst all client accounts. Other than research received for the benefit of all clients, Acorn does not share in any brokerage commissions. Acorn does receive a benefit, in that we do not have to produce or pay for the research ourselves. While we may have an incentive to select or recommend a broker-dealer based on our interest in receiving the research, products or services, rather than on our clients’ interest in receiving most favorable execution, we always choose broker-dealers who provide the best execution as described above. As described in Item 6, Acorn uses bulk trades whenever possible.

Acorn Derivatives may receive client referrals from a broker-dealer as described in Item 14, however, we do not direct client transactions to a broker-dealer in exchange for client referrals.

Clients may choose to direct trades to a broker of their choice. This will limit Acorn Derivatives’ ability to provide best execution at the best price.

Item 13: Review of Accounts

All accounts are reviewed internally on a daily basis. Each separate account receives a detailed monthly performance report from Acorn Derivatives and a monthly position / transaction statement from the account's custodian/prime broker. Acorn Derivatives will provide other customized reports upon request and is available for meetings and conferences calls at the client's discretion.

Investors in a pooled investment vehicle receive reports pursuant to the terms of each vehicle's offering memoranda or as otherwise described in the offering document of the vehicle.

Item 14: Client Referrals and Other Compensation

Acorn Derivatives receives certain research or other products or services from broker-dealers through “soft-dollar” arrangements. These “soft-dollar” arrangements create an incentive for the firm to select or recommend broker-dealers based on our interest in receiving the research or other products or services and may result in the selection of a broker-dealer on the basis of considerations that are not limited to the lowest commission rates and may result in higher transaction costs than would otherwise be obtainable by us on behalf of our clients. Please see Item 12 for further information on our “soft-dollar” practices, including our procedures for addressing conflicts of interest that arise from such practices.

Acorn Derivatives may make cash payments to third-party solicitors for client referrals, provided that, to the extent required, each such solicitor has entered into a written agreement with us pursuant to which the solicitor will provide each prospective client with a copy of our Form ADV Part 2, and a disclosure document setting forth the terms of the solicitation arrangement, including the nature of the relationship between the solicitor and Acorn Derivatives and any fees to be paid to the solicitor. Where applicable, cash payments for client solicitations will be structured to comply fully with the requirements of Rule 206(4)-3 under the Advisers Act and related SEC staff interpretations.

Item 15: Custody

Acorn Derivatives does not have custody of any clients' assets, other than as the general partner to a pooled investment vehicle. All other clients choose the custodian for their assets and receive direct monthly statements. Acorn also offers a monthly performance statement and reminds our clients to carefully compare it to their custodian's statement as well as reviewing any other information provided by their custodian for complete accuracy.

The custodian of all assets for a pooled investment vehicle is chosen as described in the offering document of the vehicle. When Acorn Derivatives is the general partner or investment advisor to a pooled investment vehicle, a non-affiliated party, such as a third party administrator, must initiate all payment requests when the recipient is Acorn Derivatives.

Item 16: Investment Discretion

Acorn Derivatives provides investment advisory services on a discretionary basis to clients. Please see Item 4 for a description of any limitations clients may place on the Adviser's discretionary authority. Prior to assuming limited discretion in managing a client's assets, the firm enters into an investment management agreement or other agreement that sets forth the scope of our discretion. This agreement strictly limits Acorn's authority to place trades in specific securities in a specific manner. This limited power is revocable by the client at any time. Assets are always held by a custodian or clearing broker chosen by the client. All trades are settled directly between an executing broker chosen by Acorn and the custodian/clearing broker chosen by the client.

Unless otherwise instructed or directed by a discretionary client, Acorn Derivatives has the authority to determine (i) the securities to be purchased and sold for the client account (subject to restrictions on its activities set forth in the applicable investment management agreement and any written investment guidelines) and (ii) the amount of securities to be purchased or sold for the client account. Because of the differences in client investment objectives and risk tolerances, the strategy chosen by each client may lead to differences in invested positions and number of contracts held. It is our policy to allocate trades on a pro rata basis by strategy, based on the value of the assets of each participating account relative to value of the assets of all similar accounts.

If it appears that a trade error has occurred, Acorn Derivatives will review the relevant facts and circumstances to determine an appropriate course of action. To the extent that trade errors and breaches of investment guidelines and restrictions occur, our error correction procedure is to ensure that clients are treated fairly and, following error correction, are in the same position they would have been if the error had not occurred. We have discretion to resolve a particular error in any appropriate manner that is consistent with the above stated policy. In the event that a client account incurs a trade error as a result of our gross negligence, willful misconduct, or fraud, trade errors will be corrected by us as soon as practicable, in a manner such that the client incurs no loss. Any other trade errors are borne by the client account.

Item 17: Voting Client Securities

Acorn Derivatives generally does not accept authority to vote client securities. Currently, Acorn trades only listed options on the S&P500 cash index which do not have voting rights. If Acorn receives a proxy notice in error, we will quickly forward it to the client. If, due to a client's specific needs, Acorn must receive proxies on the client's behalf, Acorn will always contact the client and then vote the proxy as directed by the client.

Item 18: Financial Information

This item is not applicable.