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# Lydian Asset Management L.P.

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**This Brochure provides information about the qualifications and business practices of Lydian Asset Management L.P. (“Lydian”). If you have any questions about the contents of this Brochure, please contact us at (203) 571-1300. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

**Lydian is an investment adviser registered with the SEC. Registration with the SEC does not imply any level of skill or training.**

**Additional information about Lydian also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

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## **ITEM 2 – MATERIAL CHANGES**

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Since Lydian's last annual update of its Form ADV, Lydian has closed its private investment fund clients on behalf of which Lydian engaged in securities trading activities. Lydian is no longer involved in traditional securities trading activities on behalf of its Clients. Lydian's current investment management activity involves managing the illiquid investment portfolio held by its Clients, as discussed below.

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#### **ITEM 4 – ADVISORY BUSINESS**

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Lydian was formed in July 1999 and is owned by David C. Friezo and Lydian Capital Advisors LLC. Lydian Capital Advisors LLC is owned by David C. Friezo. Lydian has been registered as an investment adviser with the SEC since July 6, 2000.

Lydian currently provides discretionary investment management services to two non-U.S. institutional clients that are private investment funds (collectively, “Clients”). Lydian’s current investment advisory services involve managing the illiquid investment portfolio held by its Clients attributable to claims arising out of one or more brokerage and/or other accounts with Lehman Brothers International (Europe), Lehman Brothers Inc. and/or their respective affiliates in which certain securities and cash are held (the “Lehman Claims”).

As of February 29, 2012, Lydian managed approximately \$175 million of assets on a discretionary basis.

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#### **ITEM 5 – FEES AND COMPENSATION**

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Lydian does not have a standardized fee schedule for discretionary investment management services. Lydian currently receives a fixed quarterly management fee from its Clients in the aggregate amount of \$25,000 per quarter, charged quarterly in advance. This fee will not be prorated in the event that the investment management agreement with a Client is terminated intra-quarter.

Fees may be negotiable or waivable depending upon a variety of factors, including the type of advisory service offered, amount of assets under management, or the overall relationship with the Client.

Each Client may terminate advisory services in accordance with such Client’s investment management agreement.

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#### **ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

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Lydian does not receive performance-based compensation.

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#### **ITEM 7 – TYPES OF CLIENTS**

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Lydian primarily provides investment advice to non-U.S. Clients.

Lydian does not have a standard minimum account size.

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## **ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

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Lydian's investment management activity relates exclusively to the management of the Lehman Claims with the objective of maximizing the value received by the Clients in respect of such Claims. There are no securities traded by Lydian on behalf of these Clients. There are no risks associated with Lydian's services because its sole activity is to seek to sell or otherwise realize the value of the Lehman Claims. Lydian does not conduct traditional securities investment and trading activity.

There can be no assurance that the foregoing investment objectives will be achieved or that the strategies pursued and methods utilized by Lydian will be successful under all or any market conditions.

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## **ITEM 9 – DISCIPLINARY INFORMATION**

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Lydian does not have any disciplinary or legal events to report.

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## **ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

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Lydian does not have other financial industry affiliates.

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## **ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

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Lydian has adopted a Code of Ethics (the "Code") which sets forth the ethical and fiduciary principles and related compliance requirements under which Lydian operates and the procedures for implementing those principles. The Code includes provisions that govern fiduciary duty, client opportunities, insider trading, personal trading, gifts and entertainment, political contributions, outside business activities and confidentiality.

With respect to personal trading by its principals, employees and related accounts (collectively, "Employees"), Employees are permitted to maintain personal securities accounts provided that such accounts are disclosed to Lydian and that any personal trading is consistent with applicable law and with the Code. Subject to compliance with the Code, Employees may buy, sell or hold, for their own personal trading accounts, securities that Lydian also may buy, sell or hold for Clients, although it is not expected that Employees will generally do so to any great extent, which will help to mitigate any potential conflict of interest. Employee trades in the same securities as are held in Client portfolios are subject to pre-approval by Lydian.

The Code contains policies and procedures that, among other things:

- prohibit Employees from taking personal advantage of opportunities belonging to Clients,
- prohibit trading on the basis of material nonpublic information,
- place limitations on personal trading by Employees and impose preclearance (in certain cases) and reporting obligations with respect to trading, and
- require initial and annual reports of securities holdings and monthly transaction reports by Employees.

Lydian's Code of Ethics is available upon request to any Client or prospective client by contacting Richard Li, Lydian's Chief Compliance Officer, at (203) 571-1309.

From time to time, it may be appropriate for more than one Client account to trade in the same securities at the same time (which may include "new issues" but only to the extent such accounts are eligible under applicable law). Consistent with its fiduciary duties, Lydian's policy generally is to allocate investment opportunities to its Clients on an equitable and fair basis, based on a variety of criteria, including asset size of account, and consistent with a Client's investment guidelines and strategies. Because of the diversity of objectives, risk tolerances, portfolio guidelines and limitations, tax consequences and other differences, there may often be differences among Client accounts in the particular securities and other instruments held, including in the weighting of particular positions. To the extent applicable, as a general policy if Lydian believes it is appropriate under the circumstances, Client securities orders for the same security on the same day may be combined (or bunched) and allocations among such Client are effected on a pro rata basis, based on the relative value of the accounts, or otherwise on a allocation amount or methodology determined at or prior to the time of the order. To the extent applicable and if the same prices or execution cannot be obtained, the orders are combined (or bunched) such that each of the accounts will have its same day orders filled on an average price basis (such that each receives the same price). While Lydian's goal is to be fundamentally fair on an overall basis with respect to all Clients, there can be no assurance that on an overall or trade-by-trade basis that any particular Client will not be treated more favorably than another.

Lydian does not engage in principal transactions with Client accounts and before it could do so it would have to secure applicable Client consent. Principal transactions are generally defined as transactions where an adviser, acting as principal for its own account, buys from or sells any security to any advisory client. A principal transaction may also be deemed to have occurred if a security is crossed between an affiliated private investment fund and another client account.

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## **ITEM 12 – BROKERAGE PRACTICES**

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Lydian does not select or recommend broker-dealers for Client transactions.

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**ITEM 13 – REVIEW OF ACCOUNTS**

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The sole investments held by Lydian on behalf of its Clients are the Lehman Claims. Lydian advises its Clients periodically on the progress of its efforts to realize value on the Lehman Claims.

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**ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION**

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Lydian does not compensate third parties for Client referrals and does not receive any economic benefit for providing advice to its Clients from anyone other than its Clients.

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**ITEM 15 – CUSTODY**

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Lydian does not have actual custody of any Client assets.

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**ITEM 16 – INVESTMENT DISCRETION**

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Consistent with a Client's investment objectives and in accordance with the applicable investment management agreement, Lydian has the authority to, without obtaining specific Client consent, manage Client assets and do all things necessary and appropriate with respect to the Client assets or claims.

Limitations on Lydian's authority are guided by, among other things, (i) its responsibility to act as a fiduciary when handling Clients' accounts and (ii) the applicable investment management agreement.

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**ITEM 17 – VOTING CLIENT SECURITIES**

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Lydian does not currently exercise discretion to vote proxies for Client securities.

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**ITEM 18 – FINANCIAL INFORMATION**

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Lydian has no financial condition that impairs its ability to meet contractual commitments to Clients, and has not been the subject of a bankruptcy proceeding.