

Item 1 – Cover Page

Pelagos Capital Management, LLC

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March 31, 2012

This Brochure provides information about the qualifications and business practices of PELAGOS CAPITAL MANAGEMENT, LLC (also “Pelagos” or “Pelagos Capital”). If you have any questions about the contents of this Brochure, please contact us at (617)310-6530 and or jpickart@pelagoscapiatal.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about PELAGOS CAPITAL MANAGEMENT, LLC also is available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

Pelagos Capital Management, LLC did not have material changes from our previous annual update dated March 31, 2011.

In the future, this Item will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes. We will also reference the date of our last annual update of our brochure.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to new SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Currently, our Brochure may be requested by contacting John Pickart at (617)310-6532 or jpickart@pelagoscapiatal.com.

Additional information about PELAGOS CAPITAL MANAGEMENT, LLC is also available via the SEC's web site www.adviserinfo.sec.gov. The SEC's web site also provides information about any persons affiliated with PELAGOS CAPITAL MANAGEMENT, LLC who are registered, or are required to be registered, as investment adviser representatives of PELAGOS CAPITAL MANAGEMENT, LLC.

Item 3 -Table of Contents

Item 1 – Cover Page	i
Item 2 – Material Changes	ii
Item 3 -Table of Contents.....	iii
Item 4 – Advisory Business	1
Item 5 – Fees and Compensation.....	1
Item 6 – Performance-Based Fees and Side-By-Side Management.....	2
Item 7 – Types of Clients	2
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss	3
Item 9 – Disciplinary Information.....	3
Item 10 – Other Financial Industry Activities and Affiliations	4
Item 11 – Code of Ethics.....	4
Item 12 – Brokerage Practices	5
Item 13 – Review of Accounts	6
Item 14 – Client Referrals and Other Compensation	6
Item 15 – Custody.....	6
Item 16 – Investment Discretion	6
Item 17 – Voting Client Securities	7
Item 18 – Financial Information	7
Brochure Supplement(s)	

Item 4 – Advisory Business

Pelagos Capital Management, LLC was formed in 2005 and became an SEC Registered Investment Advisor in 2008. Principal owners of Pelagos Capital Management, LLC are:

Stephen P. Burke

John C. Pickart

Franklin Templeton Institutional, LLC (Franklin Templeton Distributors, Inc. owns 100% of Franklin Templeton Institutional and Franklin Resources, Inc. owns 100% of Franklin Templeton Distributors, Inc.)

The firm provides only portfolio management services. The Pelagos Capital portfolio management team constructs investment portfolios using multiple asset class exposure vehicles, including but not limited to financial and commodity futures, options, ETFs and ETNs, fixed income securities, swaps, and structured products.

Management of client accounts is tailored to meet the needs and requirements of clients and the offering documents attached to accounts when applicable.

Pelagos provides portfolio management services that require a minimum level of assets in order to be implemented in a cost-effective manner. The dollar amount necessary for this to occur is dependent on the specific client objective, but is generally greater than \$10 million USD.

As of December 31, 2011, Pelagos Capital managed a total of \$548,156, 000.00 in discretionary assets.

Item 5 – Fees and Compensation

**Pelagos basic fee schedule for portfolio management:
For Sub-Advised Registered Investment Company Portfolios:**

0.75% on the first \$100 million

0.65% on the next \$100 million

0.50% thereafter

Fees are negotiable. Minimum annual fees may apply and are also negotiable.

Fees are billed monthly or quarterly in arrears. Clients may terminate an advisory contract by giving notice in writing. Terms of termination will be included in client advisory contracts. Pelagos does not provide refunds for services already rendered.

For Other Separately Managed Portfolios:

1.00% on the first \$100 million

0.75% on the next \$100 million

0.50% thereafter

Fees are negotiable.

Fees are billed quarterly in arrears. Clients may terminate an advisory contract by giving notice in writing. Terms of termination will be included in client advisory contracts. Pelagos does not provide refunds for services already rendered.

Pelagos Capital Management's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the client. Clients may incur certain charges imposed by custodians, brokers, third party investment and other third parties such as fees charged by managers, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Mutual funds and exchange traded funds also charge internal management fees, which are disclosed in a fund's prospectus. Such charges, fees and commissions are exclusive of and in addition to Pelagos Capital Management's fee, and Pelagos Capital Management shall not receive any portion of these commissions, fees, and costs.

Item 12 further describes the factors that Pelagos Capital Management considers in selecting or recommending broker-dealers for *client* transactions and determining the reasonableness of their compensation (*e.g.*, commissions).

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

Pelagos Capital Management, LLC does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

Item 7 – Types of Clients

Pelagos Capital Management, LLC provides portfolio management services to registered mutual funds and offshore wholly-owned subsidiaries of registered funds.

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

Investing in securities involves risk of loss that clients should be prepared to bear.

Pelagos manages portfolios using public information on numerous asset classes. The models employ several factors within a historical context including interest rates, earnings, stock price levels, correlations, commodity prices, etc. The models were constructed using fundamental investment insights based on research performed by the firm's members. The sources of information used in the process include data providers like Bloomberg, Reuters, and publicly available financial data from index providers (i.e. Standard and Poor's, Barclays Capital, Morgan Stanley, Dow Jones, HFR, US Treasury, BEA, etc.). The investment strategies employed by the Pelagos portfolio management team involve taking positions in several asset class exposure vehicles. Models are used to strategically change the relative weights of asset class exposures. Portfolios are constructed with several risk control parameters.

Commodities - Exposure to the commodities markets may subject the clients to greater volatility than investments in traditional securities. The value of commodity-linked derivative instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or sectors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments.

Hedge Fund Exposure - Indirect exposure to hedge funds may subject clients to greater volatility than investments in traditional securities. The hedge funds comprising a hedge fund index, for example, invest in and may actively trade securities and other financial instruments using a variety of strategies and investment techniques that may involve significant risks. The managers of the hedge funds also may use proprietary investment strategies that are not fully disclosed, which may involve risks that are not anticipated. In addition, the hedge fund managers often are entitled to receive performance-based allocations out of the net profits of the hedge funds, which may create an incentive for the managers to make investments that are riskier or more speculative than they might have made in the absence of such arrangements.

Managed Futures - The risks associated with client's use of futures contracts include: (i) although Pelagos will generally purchase exchange-traded futures, due to market conditions, there may not always be a liquid secondary market for a futures contract and, as a result, the Pelagos may be unable to close out its futures contracts at a time which is

advantageous; (ii) the risk that losses caused by sudden, unanticipated market movements may be potentially unlimited; (iii) changes in the price of a futures contract may not always track the changes in market value of the underlying reference asset; (iv) trading restrictions or limitations may be imposed by an exchange, and government regulations may restrict trading in futures contracts; and (v) if clients have insufficient cash to meet margin requirements, clients may need to sell other investments, including at disadvantageous times.

Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Pelagos Capital Management, LLC or the integrity of Pelagos' management. Pelagos Capital Management, LLC has no information applicable to this Item.

Item 10 – Other Financial Industry Activities and Affiliations

Pelagos Capital Management, LLC or management personnel at the Firm are not involved in other Financial Industry Activities. As stated in Items 2 & 4, Franklin Templeton has an ownership interest in Pelagos Capital Management, LLC.

Item 11 – Code of Ethics

Pelagos Code of Ethics (the "Code") is designed to reinforce Pelagos Capital Management's values, including integrity, and sets forth procedures and limitations which govern the personal securities transactions of every Pelagos member or employee. The Code was developed to promote the highest standards of behavior and ensure compliance with applicable laws. Pelagos employees are made aware that they may be held personally liable for any improper or illegal acts committed during their course of employment, and that "ignorance of the law" is not a defense. Employees may be subject to civil penalties such as fines, regulatory sanctions including suspensions, as well as criminal penalties. Employees must read the Code and comply with it. Failure to comply with the provisions of the Code may result in serious sanctions including, but not limited to: disgorgement of profits, dismissal, substantial personal liability and referral to law enforcement agencies or other regulatory agencies. Employees are asked to retain a copy of the Code in their records for

future reference. Any questions regarding the Code are directed to the Pelagos Compliance Officer.

General Principles

Each Pelagos employee is responsible for maintaining the very highest ethical standards when conducting business. More specifically, this means:

- Each employee has a duty at all times to place the interests of clients first;
- All personal securities transactions must be conducted consistent with the Code and in such a manner as to avoid any actual or potential conflict of interest or other abuse of the employee's position of trust and responsibility; and
- No employee should take inappropriate advantage of his/her position or engage in any fraudulent or manipulative practice with respect to our clients' accounts

A full copy of the Pelagos Code of Ethics is available upon request.

Item 12 – Brokerage Practices

Factors considered in selecting brokers and determining the reasonableness of their commissions. If the value of products, research and services given to the applicant or a related person is a factor, describe:

- the products, research and services
- whether clients may pay commissions higher than those obtainable from other brokers in return for those products and services
- whether research is used to service all of applicant's accounts or just those accounts paying for it; and
- any procedures the applicant used during the last fiscal year to direct client transactions to a particular broker in return for product and research services received.

At Pelagos, we seek best execution whenever we trade. Therefore, when selecting a broker to trade with, we evaluate that firm's ability to provide the liquidity we need while seeking best execution. These are the primary factors for selecting a broker. We do not rely on brokerage research and therefore we would not pay for such a service using commission dollars. The majority of portfolio trading will be performed electronically at a pre-established competitive commission rate.

Pelagos Capital does not participate in soft dollar programs.

Item 13 – Review of Accounts

Pelagos provides formal portfolio reviews for clients at least annually. However, Pelagos portfolio managers are available on an ongoing basis to discuss portfolio-related items. Portfolio reviews typically include a performance summary, portfolio trading summary, and an overview of capital market conditions. Typically, one or two members of the Pelagos investment team would be responsible for reviewing client portfolios.

Pelagos does not have custody of client assets, therefore, the firm is not responsible for producing ongoing client account reports. Pelagos will provide capital market commentary and additional research publications for clients periodically.

Item 14 – Client Referrals and Other Compensation

Pelagos Capital Management, LLC does not have referral or third party marketing arrangements.

Item 15 – Custody

Pelagos does not have custody of client assets, therefore, the firm is not responsible for producing ongoing client account reports.

Item 16 – Investment Discretion

Pelagos Capital Management, LLC usually receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, Pelagos Capital Management, LLC observes the investment policies, limitations and restrictions of the clients for which it advises. For registered investment companies, Pelagos Capital's authority to trade

securities may also be limited by certain federal securities and tax laws that require diversification of investments and favor the holding of investments once made.

Investment guidelines and restrictions must be provided to Pelagos Capital Management, LLC in writing.

Item 17 – Voting Client Securities

Pelagos Capital acts as sub-adviser to client portfolios and does not vote proxies. As a matter of firm policy and practice, Pelagos Capital Management, LLC does not have any authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. Pelagos Capital may provide advice to clients regarding the clients' voting of proxies.

Item 18 – Financial Information

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about Pelagos Capital Management's financial condition. Pelagos Capital Management, LLC has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.