

Item 1 Cover Page

Blue Alternative Asset Management L.L.C.

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This brochure provides information about the qualifications and business practices of Blue Alternative Asset Management L.L.C. If you have any questions about the contents of this brochure, please contact us at 212-338-3100. 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 Blue Alternative Asset Management L.L.C. also is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 Material Changes

There have been no material changes to this Brochure since the date of the last annual update as shown below.

The material changes discussed above are only those changes that have been made to this brochure since the firm's last annual update of the brochure. The date of the last annual update of the brochure was March 30, 2012.

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Item 4 Advisory Business

Blue Alternative Asset Management L.L.C. is a registered investment advisor firm registered with the SEC since April 2010.

The Principal Owner of Blue Alternative Asset Management L.L.C. is Mark R. Graham, Managing Partner and Member.

Blue Alternative Asset Management LLC (the “Firm” or “Blue”) is an investment adviser and generally enters into investment advisory contracts to manage private funds of funds (“Funds”), which accept investments from investors (“Investors”). These Funds generally have investments in a diversified portfolio of private funds and, from time to time, in accounts managed by investment advisers unaffiliated with the Firm.

The Firm, from time to time, will have investment advisory contracts to manage separate accounts for individuals and entities (“Managed Accounts”) and these Managed Accounts will generally pursue strategies similar to the strategies pursued by the Funds. (Funds and Managed Accounts are collectively “Advisory Clients”).

The Firm will tailor its advisory services to its client’s individual needs based on meetings and conversations with the client. If clients wish to impose certain restrictions on investing in certain securities or types of securities, the Firm will address those restrictions with the client to have a clear understanding of the client’s requirements.

The Firm does not provide portfolio management services to wrap fee programs.

The Firm manages client assets and as of December 31, 2012 had \$165,500,000 in discretionary assets under management.

Item 5 Fees and Compensation

Management Fees and Performance Fees. The Firm generally receives a management fee of 1% of assets under management and a performance fee of 10% of annual appreciation under each investment advisory contract and the calculation of each of these fees differs under various investment advisory contracts. Generally, management fees are calculated and payable monthly in advance as a percentage of the net asset value (“NAV”) of the Fund or Managed Account. Performance fees are generally calculated annually as a percentage of the appreciation of the NAV during the calendar year, subject to a high-water mark.

Generally, management and performance fees for Funds are not negotiable.

Unearned fees are returned. Generally, the Firm enters into investment advisory agreements that do not provide for the prepayment of management or performance fees beyond the first available redemption date of a Fund or termination date of an investment advisory contract. Notwithstanding, in the case of the redemption of any investment in a Fund or the termination of any investment advisory agreement, any fees charged, but not earned, will be rebated upon

redemption or termination.

Client is responsible for all custodial and securities execution fees charged by the custodian and executing broker-dealer. At no time will the Firm accept or maintain custody of a client's funds or securities except for authorized fee deduction. The Firm's fee is separate and distinct from the custodian and execution fees.

Blue's management fee is payable in advance. Upon termination, any fees paid in advance will be prorated to the date of termination and any excess will be refunded to client.

Neither Blue nor its supervised persons accepts compensation for the sale of securities or other investment products.

Item 6 Performance-Based Fees and Side-by-Side Management

The firm may receive a Performance Fee as described in Item 5.

There is an inherent conflict of interest when a firm charges performance-based fees to some accounts and management fees based on a percentage of assets under management to other accounts, in that an advisor is incented to favor the accounts from which it will earn higher compensation. To mitigate this conflict, the Firm provides its advisory services to all client accounts, including those clients who are not charged a performance fee. These services include evaluation of investor suitability and adhering to the investor risk profile when making investment decisions, client communications and account reviews that are the same for all clients, and availability by the firm and supervised persons to meet with clients as necessary. In addition, the firm maintains trading policies and a Code of Ethics that are intended to deliver consistency, that no one client is favored over another.

Another conflict of interest concerning accounts with performance-based fees is that the advisor is incented to use higher risk investments than called for by the client risk profile. Such investments may generate higher returns, which in turn would generate higher performance-based fees for the advisor. Blue has a fiduciary obligation to its clients to put the interest of their clients first over and above the interest of the firm and its supervised persons. In addition, Blue attempts to further mitigate this conflict by maintaining suitability and employing trading policies and procedures designed to assist the advisor in further meeting its fiduciary obligations to adhere to the client's agreed upon risk profile.

Item 7 Types of Clients

The Firm will offer its services to private funds of funds, individuals, pension and profit sharing plans.

The Funds generally will accept investments from only non-U.S. investors and U.S. investors that are "accredited investors" under Regulation D and "qualified clients" under Rule 205-3 under the Advisers Act.

Any investment advisory contracts for a Managed Account will be with individuals or entities that would be determined to be “Qualified Purchasers” Under Section 2(a)(51) of the Investment Company Act of 1940 (“ICA”).

Blue encourages its investors to invest through its existing Funds, but will establish Managed Accounts for sophisticated investors subject to terms negotiated on a case-by-case basis.

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

I. Security Analysis Methods:

Blue Funds were founded in 2003 with the idea of providing investors superior risk adjusted returns through a “core/satellite” structure focusing on: (i) access to closed managers; (ii) outstanding portfolio construction skills; and (iii) access to asymmetric information about hedge fund managers.

Further, we believe that sustainable, superior performance comes from investing with exceptional talent, and identifying and accessing that talent requires deep connections into the capital markets. Blue's founders extract key information on developments regarding top industry talent from their deep-rooted relationships in the hedge fund industry, providing an edge in selecting managers. Proprietary statistical analysis of manager returns and exposures is the departure point of each manager selection.

Blue is agnostic about allocations across strategies but strongly prefers liquid underlying investments. Blue will rotate across strategies based upon its views of the relative attractiveness of each strategy in different market conditions.

Blue seeks to preserve capital over a one- to two- year horizon. In times of perceived stress, Blue will actively manage its exposures. Blue is not a static, passively managed portfolio.

The asset allocation process is determined by the three sources of information we use in setting our portfolio strategy, described in section B below. Our Investment Committee ultimately determines our asset allocation. We do not formally cap allocations to strategies; however, except for “multistrategy” we typically will not allocate more than 20% to anyone strategy.

We will concentrate our portfolio in our best ideas. We will typically not allocate more than 15% to any one manager, however, from time to time allocations have exceeded 15%. New investments are usually 3% to 5% of the portfolio.

Blue actively manages its exposures through adjustments to manager allocations and hedging activities.

Once a manager has been referred to us through our sourcing network and passed quantitative screening, we initiate the due diligence process.

(1) **Can they Succeed:** We review the biographies of the key personnel to validate that they encompass the skills that would support execution of the hedge fund strategy. We will check references provided to us but will also seek to perform “back channel” checks at firms where the principals formerly worked. These channels often provide insights into a manager's trading behavior and skills. We also look for possible conflicts from other affiliations. Since hedge funds share many traits with small business, we also look for typical small business risks to the manager from overexpansion, inadequate fee revenue, and personnel risk.

(2) **What are they doing:** We analyze the actual trading strategy. This step has two parts:

a. We provide our own outlook for the general type of strategy and key considerations for potentially fitting such a strategy into our portfolio.

b. We assess the manager's skill in executing the strategy. Wherever possible we like to select positions randomly and quiz the managers about them. We also seek to derive whether a manager's returns come from alpha or betas. We compare a manager's performance to relevant benchmarks and to appropriate betas. While we are cognizant of the statistical limitations of such steps, we often find meaningful information in this data. We also conduct advanced statistical factor analysis to find hidden factors that could explain changes in performance. If we determine that the manager demonstrates an edge in implementing their strategy, *and* we believe their edge is sustainable, this improves the outlook for this manager.

(3) **Risk Awareness:** We study the managers' risk profile. Our goal is to be *risk* aware, which is not equal to *risk* averse. A key function of due diligence is to help ensure that the risks we perceive equal the risks we take. We look for concentrations or patterns of concentrations, and we study changes in net long/beta positions. We look at stress tests and correlations where possible to estimate how a manager would perform relative to the markets and to the client's portfolio.

(4) **Operations:** We assess key aspects of a manager's operational infrastructure. We have successfully avoided fraud, and following are some key considerations:

a. We strongly prefer independent, unfiltered third-party valuations to be sent to us wherever possible.

b. We want independent, reputable administrators who provide effective administration services and not just NAV calculations. We also want audited fund statements although our confidence in the thoroughness of audits is not high.

c. We want to see administrators check that all expenses paid are permitted under the subscription agreements. We look for hidden fees within the fund structure. We perform independent investigative background searches for new limited partnership relationships.

II. Main Sources of Information:

We develop our portfolio strategy primarily from three sources. First. We observe changing

opportunities to invest with top talent from our deep relationships in the hedge fund industry. Second, we observe changes in the relative attractiveness across different hedge fund strategies, both from our own analysis and from insights provided to us by our relationships. Third, we develop our own views concerning near-term economic and market conditions, and consult with economists, to understand better the types of stresses our portfolio should be prepared for.

If a candidate manager has been referred to us from our information network, and the manager's track record looks favorable based both on our quantitative analysis and as a fit in our portfolio construction, we will conduct a detailed qualitative review (manager experience, investment style analysis, evaluation of investment strategy, consistency in management style, ownership and incentive structures, conflicts review, background checks, business terms and structure).

Our competitive edge is (1) our ability to reach to the top ranks of veteran hedge fund and investment banking managers to source quality investment opportunities for our portfolios, (2) our proprietary analytics, and (3) our team.

(1) our relationships often identify early to us opportunities, particularly with regard to hedge fund managers, that are not apparent to other investors. These relationships are equally helpful in steering us away from problematic situations as they are for promising opportunities.

(2) Blue has in-house proprietary analytics, which we believe are in many ways superior to what may be obtained externally. Blue also uses third party analytical platforms.

(3) An established paradigm in certain industries (tech and biotech for example) is that small, highly motivated and talented groups unhinged from the burdens of large, cumbersome organizations frequently produce the best results. **We believe the same is true for managing fund of funds, and to implement our strategy we require very senior analysts with broad and deep experience in the financial markets.** We do not hire sector specialists because we desire the advantages that generalists have from their ability to compare attractiveness across trading strategies. However, to be effective as a generalist, our senior analysts must also have exceeded the maximum capabilities possible from focusing on individual sectors. Our senior analysts are experts in mergers and acquisitions, fixed income and derivatives, equity and equity options, structured products, and risk management.

III. Investment Strategies Used:

Blue invests in most strategies typically used in a multistrategy fund of funds portfolio, including:

- Long/short equity
- Global macro
- Multistrategy
- Convertible arbitrage
- Emerging markets debt and equity
- Statistical arbitrage
- Volatility arbitrage

Distressed debt
Merger arbitrage
Credit relative value

Blue avoids making substantial investments in illiquid strategies such as asset-backed lending, private equity, microcap equity, and PIPES. Such investments will be at most a small portion of the portfolio.

Clients need to be aware that investing in securities involves risk of loss that clients need to be prepared to bear.

The methods of analysis and investment strategies followed by the Firm are utilized across all of the Firm's clients, as applicable. One method of analysis or investment strategy is not more significant than the other as the Firm is considering the client's portfolio, risk tolerance, time horizon and individual goals. However, the client should be aware that with any trading that occurs in the client account, the client will incur transaction and administrative costs.

Blue invests primarily in hedge funds.

Item 9 Disciplinary Information

Clients should be aware that neither Blue nor its management persons have had any legal or disciplinary events, currently or in the past.

Item 10 Other Financial Industry Activities and Affiliations

Charles N. Jordan, Chief Compliance Officer is the President and CEO and principal owner of Charles Jordan & Co., LLC, CRD # 30303, a FINRA registered broker-dealer. The broker-dealer activities are separate from the activities of Blue, and there are no common clients between the broker-dealer and Blue.

Neither the firm nor any of its management persons are registered or have an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.

Except as described below, the Firm does not currently have any relationships or arrangements that are material to its advisory business or clients with either a broker-dealer, municipal securities dealer, or government securities dealer or broker, investment company or other pooled investment vehicle (including a mutual fund, closed-end investment company, unit investment trust, private investment company or "hedge fund" and offshore fund, other investment advisor or financial planner, futures commission merchant, commodity pool operator, or commodity trading advisor, banking or thrift institution, accountant or accounting firm, lawyer or law firm, insurance company or agency, pension consultant, or real estate broker or dealer.

As described in Item 4, the Firm has investment advisory relationships with private funds of funds. The Firm receives fees through these relationships as described in Item 5. If Managed

Account clients were to invest in these funds of funds, it creates a conflict of interest. The Firm addresses this conflict of interest by disclosing to its clients prior to initiating any transactional related business or issuing shares in a pooled investment vehicle that it manages that by utilizing the Firm in this capacity the client will incur additional expenses. Those expenses are explained to the client in advance of offering these services.

Blue Advisers, LLC, under common ownership with the Firm, is an entity that creates or packages limited partnerships, and serves as general partner of Blue Elite Fund, LP, an investment advisory client of the Firm.

The Firm arranges the organization of Funds that enter into investment advisory contracts with the Firm. The principal investments of these Funds will be allocations of assets to a diversified portfolio of private funds.

In addition to the organization of Funds, the Firm and its employees may engage in a broad spectrum of activities, including financial, advisory, investment and other activities. While relationships and activities of the Firm and its employees enable these entities to offer attractive opportunities and service to Advisory Clients and Investors, such relationships and activities may also give rise to circumstances in which the interests of the Firm and its employees conflict with the interests of Advisory Clients and Investors.

Inherent and Potential Conflicts of Interest.

There are certain inherent and potential conflicts of interest among the Firm and the employees, officer, directors, and principals of the Firm on the one hand and Advisory Clients and Investors of the Firm on the other. Among the factors that should be considered by each prospective Advisory Client and Investor are the following:

Management of Advisory Client Assets. Employees, officers, directors, and principals of the Firm are not obligated to devote their full time to the Firm, but will devote such time that they, in their respective sole discretion, deem necessary to carry on the management or Advisory Client and Investor assets effectively.

Substantial Investment in Other Investment Vehicles. The Firm and its affiliates, employees, directors, and principals may conduct any other business including any business with respect to securities. Certain of the employees, officers, directors, and principals of the Firm may acquire substantial investments in certain other investment vehicles managed by the Firm or its affiliates and conflicts of interest may arise in allocating management time, services or functions among such affiliates, including one in which the Firm's employees, officer, directors and principals may have a greater financial interest.

Fees From the Funds - The compensation to be paid by Funds to the Firm was determined by the Firm and was not negotiated at arm's length.

Conflicts of Interest Arising from Fees- Management Fees - The Firm has a conflict of interest between its obligation to act in the best interests of Advisory Clients and Investors

as investment adviser and its interest in continuing to receive management fees for that activity from Advisory Clients and Investors. A potential conflict of interest arises between the duty of the Firm to generate profits from investing assets and its possible desire to avoid taking risks which might reduce the Fund's profit and, consequently, the Firm's fees.

Conflicts of Interest Arising from Fees- Performance Fees - The performance fees payable to the Firm may create an incentive for the Firm to cause Advisory Clients to make investments that are riskier or more speculative than would be the case if this performance fee were not payable. In addition, since the performance fee is calculated on a basis that includes unrealized appreciation of Advisory Client assets, it may be greater than if such fee were based solely on realized gains.

Valuation of Securities - The Firm has potential conflicts of interest that arise from the valuation of securities. Both management fees and performance fees are calculated as a function of the value of Advisory Client assets. A potential conflict arises between the duty of the Firm to accurately value Advisory Client assets and the possible desire to earn higher management and performance fees.

The Firm has addressed this potential conflict of interest by adopting, as a part of the Firm Manual, a set of procedures for the valuation of Advisory Client assets that emphasizes the role of independent third parties in the valuation of Advisory Client assets. These detailed procedures are available on request.

The conflicts of interest described above are mitigated to the extent possible by disclosure and the Firm's adoption and adherence to the compliance policies and Code of Ethics referred to in Item 11 below.

The Firm only selects other investment advisors as described in Item 8 above and does not receive compensation directly or indirectly from those advisors.

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

The Firm is registered with the SEC and maintains a Code of Ethics pursuant to SEC rule 204A-1. The Firm has adopted a Code of Ethics that sets forth the basic policies of ethical conduct for all managers, officers, and employees of the adviser. In addition, the Code of Ethics governs personal trading by each employee of the Firm deemed to be an Access Person and is intended to ensure that securities transactions effected by Access Persons of the Firm are conducted in a manner that avoids any conflict of interest between such persons and clients of the adviser or its affiliates. The Firm collects and maintains records of securities holdings and securities transactions effected by Access Persons. These records are reviewed to identify and resolve conflicts of interest. The Firm will provide a copy of the Code of Ethics to any client or prospective client upon request.

The Firm offers information to current Managed Account clients about the Funds of Funds that it manages if the clients meet certain qualified investor standards as described previously in this Brochure. The Firm's principals, representatives, and employees may be currently invested in the limited partnerships. The receipt of additional compensation by the Firm's principals, representatives or employees creates a conflict of interest. If client elects to purchase an interest in one of the limited partnerships or offshore funds that Blue manages, the Firm will disclose all fees the client will pay, in advance.

The Firm and/or its investment advisory representatives may from time to time purchase or sell products that they may recommend to clients. The Firm and/or its investment advisory representatives have a fiduciary duty to put the interests of their clients ahead of their own.

Blue requires that its investment advisory representatives follow its basic policies and ethical standards as set forth in its Code of Ethics.

Item 12 Brokerage Practices

Generally, under an investment advisory agreement, the Firm is granted broad authority to determine the type and amount of securities to be bought and sold for an Advisory Client's account.

It is the Firm's policy to obtain each Advisory Client's investment objectives and restrictions and to periodically review each Advisory Client's investments for consistency with that Advisory Client's investment objectives and restrictions.

The Firm, as an investment adviser to Funds that would be characterized as "funds of funds" and Managed Accounts that pursue a similar strategy, generally utilizes its broad trading authority to purchase the securities of various private funds and to contract with unaffiliated investment advisers to manage separate accounts.

When interests in private funds are purchased for a Fund, the Fund generally gives all authority for the selection of securities, broker, and commission rates to the investment adviser to the private fund for transactions in that private fund.

Fund investments in separately managed accounts, under agreements with unaffiliated investment advisers, give all authority for the selection of securities, broker, and commission rates to the unaffiliated investment adviser.

In both Fund investments in private funds and Fund investments in separately managed accounts, the unaffiliated investment adviser is generally given wide latitude in the selection of brokers and the use of commissions to purchase goods and services, including the purchase of goods and services outside of those that would be characterized as research related.

The Firm does not receive research or other products or services other than execution from a broker-dealer or third party as a result of client securities transactions.

Blue does not receive client referrals from any broker-dealer or third party as a result of the firm selecting or recommending that broker-dealer to clients.

The Firm does not recommend, request or require that a client direct it to execute transactions through a specified broker-dealer.

The Firm does not permit a client to direct brokerage.

From time to time, the Firm may select investment securities with limited availability, such as shares of a private fund that limits investments. The Firm will allocate such limited investment opportunities for more than one Advisory Client fairly and equitably.

The Firm, in advance of placing an aggregated order, will either:

- Designate the portion of the aggregated order to be allocated to each specific Advisory Client account; or
- Make a *pro rata* allocation of the investment to each Advisory Client account based upon account size.

The Firm may make exceptions to its trade allocation procedures under the following circumstances:

- Specialized accounts receive priority. For example, a low volatility Fund managed by the Firm would receive first right to an opportunity to purchase a limited investment in a low volatility private fund; and
- An Advisory Client account will not receive its pro rata allocation of an investment if the total amount available is below a *de minimis* amount (e.g., \$250,000 in face amount). This investment opportunity would be reallocated to larger Advisory Client accounts.

Item 13 Review of Accounts

All Advisory Client Accounts are reviewed on a monthly basis by the Investment Committee, consisting of Mark Graham, Chris Cutler, and Ken Grant.

Advisory Clients and Investors receive a monthly valuation of their accounts.

For Investors in Funds, under an administration agreement, Caledonian Fund Services (Cayman) Limited prepares and sends a monthly valuation of each Investor's interests in each Fund. Each Investor also will receive an annual audit of the Fund prepared by a certified public accountant.

Item 14 Client Referrals and Other Compensation

The Firm does not currently have any such arrangements where someone who is not a client provides an economic benefit to the Firm for providing investment advice or other advisory services to our clients.

Blue may compensate persons or firms for client referrals in compliance with the Investment Advisers Act. The fees paid to referral sources do not affect the fees clients pay to the Firm. In

each instance, a written agreement will exist between the Firm and the referral source. At the time of a referral, prospective advisory clients will receive the Firm's Brochure and a Solicitor's Disclosure Document. The Firm has established policies and procedures to ensure that its solicitation activities are compliant with the requirements under Rule 206(4)-3 of the Adviser's Act.

Item 15 Custody

Blue does not have custody of client funds or securities.

Item 16 Investment Discretion

The Firm generally has discretion over the selection and amount of securities to be bought or sold in client accounts without obtaining prior consent or approval from the client for each transaction. However, these purchases or sales may be subject to specified investment objectives, guidelines, or limitations previously set forth by the client and agreed to by the Firm.

Discretionary authority will only be provided upon full disclosure to the client. The granting of such authority will be evidenced by the client's execution of an Investment Advisory Agreement containing all applicable limitations to such authority. All discretionary trades made by the Firm will be in accordance with each client's investment objectives and goals.

Item 17 Voting Client Securities

Blue has adopted and implemented written Proxy Voting Policies and Procedures ("Proxy Voting Procedures") which are designed to reasonably ensure that Blue votes proxies in the best interest of its clients where the adviser has voting authority.

The Proxy Voting Procedures describes how Blue addresses voting authority, material conflicts of interest, voting decisions, notification to the client, and books and records requirements, and ensures that proxies are voting in the best interest of its clients.

Blue acknowledges and agrees that it has a fiduciary obligation to its clients to ensure that any proxies for which it has voting authority are voted solely in the best interests and for the exclusive benefit of its clients. The Proxy Voting Procedures are intended to guide Blue and its personnel in ensuring that proxies are voted in such manner without limiting Blue or its personnel in specific situations to vote in a predetermined manner. These policies are designed to assist Blue in identifying and resolving any conflicts of interest it may have in voting client proxies.

Item 18 Financial Information

Blue does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, and is not required to provide financial information.

The Firm has discretionary authority over client accounts and is not aware of any financial condition that will likely impair its ability to meet contractual commitments to clients. If the Firm does become aware of any such financial condition, this brochure will be updated and clients will be notified.