

Part 2A of Form ADV: Firm Brochure**Item 1 - Cover Page**

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This brochure provides information about the qualifications and business practices of Pomelo Capital LLC. If you have any questions about the contents of this brochure, please contact us at (212) 897-3340 or info@pomelocap.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 Pomelo Capital LLC also is available on the SEC's website at www.adviserinfo.sec.gov.

Any reference to Pomelo Capital LLC as a "registered investment adviser" or as being "registered," does not imply a certain level of skill or training.

Item 2 - Material Changes

The material changes discussed herein reflect only the material changes since the last annual update of this brochure, dated February 2012.

In April 2012, Pomelo Capital LLC began providing discretionary investment advice to private investment funds.

Pomelo Capital LLC now manages approximately \$772 million in regulatory assets under management on a discretionary basis.

Pomelo Capital LLC has entered into a placement agent arrangement with a placement agent who will refer investors to the private investment funds it manages as further discussed in Item 12 below.

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Item 4 - Advisory Business

Pomelo Capital LLC (“we,” “us” or “Pomelo”) is a Delaware limited liability company that was formed in September 2011. We are principally owned by Philip Rosenstrach.

We currently provide discretionary investment advice to a separately managed account for an institutional investor (the “Managed Account”) and the following private investment funds (the “Funds”): Pomelo Domestic Fund LP (the “Onshore Fund”), Pomelo Offshore Fund Ltd. (the “Offshore Fund”) and Pomelo Master Fund Ltd. (the “Master Fund”).

Pomelo Advisors LLC (“PAL” or the “General Partner”) is the general partner of the Onshore Fund and also serves as an adviser and provides administrative services to the Master Fund. Mr. Rosenstrach controls the General Partner.

In the future, we may provide discretionary investment advice to other separately managed accounts and private investment funds. We will generally invest and trade using relative value arbitrage strategies on behalf of our clients, using a wide variety of securities and financial instruments, domestic and foreign, of all kinds and descriptions, whether publicly traded or privately placed.

With respect to private investment fund clients, such clients and Pomelo have entered, and may in the future enter, into agreements with investors that may impose certain investment, risk and/or operating guidelines that we will adhere to when exercising our discretionary authority over such private investment fund clients. With respect to the separately managed accounts, the owners of such accounts may be permitted to impose certain investment, risk and/or operating guidelines that we will adhere to when exercising our discretionary authority over such accounts.

We do not participate in wrap fee programs.

As of February 28, 2013, we managed approximately \$772 million in regulatory assets under management on a discretionary basis for the Funds and the Managed Account. We do not manage any assets on a non-discretionary basis.

Item 5 - Fees and Compensation

Our fees and compensation will be described in the advisory contracts we enter into with our clients. Our current clients are, and we anticipate that our future clients will be, “qualified purchasers” (as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended (the “1940 Act”).

We will generally deduct our management fees from client accounts quarterly in advance, unless otherwise agreed with the client. Generally, we or our affiliates receive performance-based allocations from our private investment fund clients on an annual basis in arrears and upon redemptions by investors in such funds.

The Funds will pay, or reimburse us and/or the General Partner for advancing, the Funds’ operating expenses, including expenses related to the offering of interests, filings, administration and audit expenses, any and all fees for research (including on-line news and quotation services, Bloomberg service, etc.), research materials and research-related

travel and due diligence, interest on margin accounts, legal, accounting and professional fees, insurance costs, consulting fees, borrowing charges on securities sold short, custodial fees, trustees fees, brokerage commissions, bank service fees, interest on loans and debit balances, any taxes applicable to the Funds on account of its operations and/or investments, and any and all expenses related to the management and operation of the Funds as well as the purchase, sale or transmittal of assets, as we shall determine in our discretion. The Funds are responsible for their organizational fees and expenses.

The expenses that will be charged to the separately managed accounts are determined on a case by case basis.

From time to time, we may allocate a portion of certain clients' capital to money market funds, exchange-traded funds or other fee-bearing products. In addition to the fees and expenses discussed above, investors will indirectly incur similar fees and expenses if we invest client's capital in such money market funds, exchange traded funds or other fee-bearing products, as these funds in turn pay similar fees to their investment managers and other service providers. Details regarding our brokerage practices are found in *Item 12* below.

Generally, management fees will not be refunded if the advisory contract is cancelled prior to the end of a payment period, although we may agree otherwise on a case by case basis.

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

We or our affiliates will receive annual performance-based fees or allocations from our clients, which will be based on a percentage of the capital appreciation of client assets. These fees and allocations may create an incentive for us to make more speculative investments than would otherwise be made, or make decisions regarding the timing and manner of realization of investments differently than if such allocations were not received. However, we attempt to minimize these potential conflicts by ensuring that we manage the Funds' portfolios in accordance with stated investment objectives and disclosures to clients and investors.

The terms of the performance-based fees and allocations may differ among client accounts we manage. This may result in a conflict of interest when we allocate opportunities among these accounts because we will have an incentive to favor accounts that have higher performance-based fees and allocations. In addition, we and our principal and employees may have an interest in certain clients (e.g., may have investments in any private investment fund that we manage) and will have an incentive to favor accounts in which we have an interest. To avoid such a conflict of interest we will generally follow documented procedures in allocating opportunities among such accounts, which does not take into account the performance-based fees and allocations to which such accounts are subject (*see Item 12, Section A.4, "Allocation of Investment Opportunities" below*).

As the management fees and performance-based fees and allocations are based directly on the net asset value of the client accounts, we have a conflict of interest in valuing the assets held in the accounts. We will follow our documented valuation policies in order to mitigate this risk.

Item 7 - Types of Clients

We provide investment advice to clients who are private investment funds. Investors in such private investment funds include high net worth individuals and institutional investors that qualify as “accredited investors” (as defined in Rule 501 under the Securities Act of 1933, as amended) and “qualified purchasers” (as defined in Section 2(a)(51) of the Investment Company Act, as amended).

The private investment funds we advise require a minimum \$250,000 or \$5 million initial investment for new investors, depending on the terms of such investment and whether the investor is introduced to Pomelo through a placement agent arrangement, subject to our discretion to accept lesser amounts. (*See Item 14 below*)

We also provide investment advice through a managed account structure to an institutional investor and may in the future provide investment advice to other separately managed accounts. We will determine the minimum investment for other managed accounts on a case by case basis but it is generally expected to exceed \$100 million.

Item 8 - Methods of Analysis, Investment Strategies and Risk of LossMethods of Analysis and Investment Strategies Generally

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

We will seek to provide our clients with consistent absolute returns with low volatility by investing primarily in a variety of relative value trading strategies, predominately capital structure arbitrage. Absolute return objectives will be balanced with risk management and capital preservation objectives. We will seek to reduce risk and preserve capital through dynamic hedging of non-strategic risks, limiting concentration to specific security types, industry groups, correlated trades, and through a rigorous fundamental analysis of individual companies, securities and markets.

Disjointed capital flows and segregated, investable product platforms create relative value trading opportunities. We believe that a thorough understanding of these pricing dislocations across individual issuers’ equity and debt enables us to efficiently maximize returns for a given fundamental exposure. Derivatives across equity and credit often exhibit greater delays or mispricings than do cash markets. It is here that we find a great deal of investable advantage.

We primarily intend to trade equities, debt and derivatives relating to U.S. companies (as described in more detail below). However, we may also trade in the equity, debt and derivatives relating to non-U.S. companies. We may use leverage, options, swaps, short selling and other instruments and techniques.

Credit-Volatility Relative Value Strategy

Credit-Volatility Relative Value is a complex, speculative trading strategy incorporating the full range of securities in a company’s capital structure, as well as options and other derivatives on those securities. The prices for these securities and derivatives may be sensitive to a company’s credit risk, its equity volatility or both, depending upon their

structure. On a fundamental level, credit spreads and equity volatility are correlated since both parameters express information about the state of a company's prospects and the relative risk of an investment in the company. We will seek to generate consistent absolute returns by exploiting this relationship with two different approaches.

First, we will attempt to identify situations where securities (or their derivatives) dependent on credit risk are mispriced relative to those dependent on volatility. We will take offsetting positions in those securities in an attempt to profit when the securities converge to a level where both convey a consistent view of the underlying company. Offsetting positions may be all long, all short, or both long and short depending upon the situation and the instruments traded. We may also pursue this strategy with equity and credit derivatives on either broad-based or sector index products. This strategy may involve judgments about the appropriate level of correlation between parameters, the levels of parameters implied by the market prices of securities, future levels of a company's leverage, potential catalysts for revaluing a company's securities, the ability to accurately hedge collateral market risks, the cost of financing long and short positions in various securities and other factors.

Second, we will attempt to identify situations where a security or combination of securities imply a level for either the credit spread or the equity volatility that is at odds with the fundamental condition of the company. This strategy may involve judgments about the fundamental health of a company's balance sheet, the levels of parameters implied by the market prices of securities, future levels of a company's leverage, potential catalysts for revaluing a company's securities, the ability to accurately hedge collateral market risks, the cost of financing long and short positions in various securities and other factors.

In pursuing the Credit-Volatility Strategy, we may take long or short positions in equities, warrants, equity or equity index options, exchange traded funds (ETFs), equity swaps, corporate debt, convertible debt, credit default swaps and other derivative contracts based on these instruments.

Capital Structure Arbitrage

Capital Structure Arbitrage is a complex, speculative trading strategy involving the full range of securities in a company's capital structure, as well as options and other derivatives on those securities. Many securities have complex or unusual features in their structures which are sometimes misunderstood by the market. Often these features are related to the sensitivity of the security's value to changes in the firm's credit quality, dividend payout, capital structure, or other factors. We will seek to generate consistent absolute returns by exploiting these features.

We will seek to identify situations where a particular security has provisions that can have a material effect on the security's value and the market has valued that provision incorrectly. We will take a long or short position in the security while attempting to hedge ancillary risks with positions in related instruments to isolate the effect of the security's structural feature. This strategy may involve judgments about the likelihood of an expected corporate event actually occurring, the timing of such an event, the impact of a change in corporate capital structure on various security prices, the interpretation of various sections of a security's indenture, future dividend payments, the ability to

accurately hedge collateral market risks, the cost of financing long and short positions in various securities and other factors.

In pursuing the Capital Structure Arbitrage strategy, we may take long or short positions in equities, warrants, equity options, equity swaps, corporate debt, convertible debt, credit default swaps and other derivative contracts based on these instruments. We may also trade interest rate and currency derivatives and other instruments and derivatives in order to minimize the risks from non-strategic factors.

Capital Structure Arbitrage is both a quantitative and fundamental investment discipline, requiring us to continuously monitor the significance of corporate events, the ongoing strength of a company's business and balance sheet, and the implication of changing market prices on the investment thesis. Therefore, our ability to generate consistent absolute returns on invested capital relies upon our experience, judgment and trading skills, as well as our ability to identify securities which contain potentially profitable structural elements.

Portfolio and Risk Management

We will adhere to several well-defined trading disciplines and risk controls.

Risk management is an integral part of our approach. Every trade is made in the context of the broader portfolio, and inherent risks in any given position are balanced against the presence of those same risks in the aggregate within the portfolio. Risk is managed at multiple levels through a combination of stress testing, sensitivity analysis, exposure limits, and qualitative analysis, with a keen attention to tail risk. We believe that responsive portfolio management is an important element of the risk management program.

We will generally limit a client's exposure to any one industry to 25% (measured at the time of investment).

We will also monitor leverage at both the portfolio level and the position level.

We will assess the liquidity of both a client's individual positions and the client's portfolio as a whole. Any less liquid positions must have higher potential returns to a client.

Short Term Investments

We may also invest in short-term investments for liquidity or defensive purposes, including, but not limited to, interest-earning money market accounts, government obligations, commercial paper and short-term certificates of deposit.

Flexibility

The development of a trading strategy is a continuous process and our trading strategy and methods and the types of financial instruments in which we may trade may therefore be modified from time to time.

Leverage

Where appropriate, we may employ leverage (e.g., by purchasing securities on margin) to achieve a larger and broader portfolio of securities positions. However, we will not borrow on behalf of a client account amounts in excess of the value of such account's portfolio (measured at the time the leverage is incurred). We will also use swaps and other derivative financial instruments that may have inherent leverage built into them.

Certain Risks Associated with Methods of Analysis and Investment StrategiesInvestment and Trading Risks

All securities trading risks the loss of capital. We believe that our trading program and research techniques will moderate this risk through a careful selection of securities and other financial instruments. However, no guarantee or representation is made that our program will be successful. Our trading program may utilize such techniques as trading in put and call options and other derivatives, short sales and forward contracts, which practices can, in certain circumstances, increase the adverse impact to which client accounts may be subject.

In certain transactions, clients may not be "hedged" against market fluctuations or, in reorganization or liquidation situations, may not accurately value the assets of the subject company or the degree of legal and regulatory risk.

Relative Value Strategies

The success of our relative value trades will be dependent on our ability to exploit relative mispricings among interrelated instruments. Although relative value positions are considered to have a lower risk profile than directional trades as the former attempt to exploit price differentials not overall price movements, relative value strategies are by no means without risk. Mispricings, even if correctly identified, may not converge within the time frame within which we maintain a client's positions. Even pure "riskless" arbitrage – which is rare – can result in significant losses if the arbitrage is not able to be sustained (due, for example, to margin calls) until expiration. Our relative value strategies will be subject to the risks of disruptions in historical price relationships, the restricted availability of credit and the obsolescence or inaccuracy of its or third party valuation models. Market disruptions may also force us to close out one or more positions. Such disruptions have in the past resulted in substantial losses for investors employing relative value strategies.

Arbitrage; Hedging and Spread Trading

Any arbitrage, hedging and spread trading strategies in which we engage are subject to the risk of divergent movement in the positions comprising the arbitrage, hedge or spread trade. For example, in the case of equity arbitrage, if the so-called "undervalued security" were to decrease in value and the so-called "overvalued security" were to increase in value, a client could suffer a substantial loss. In addition, if both securities were to increase in value, but the overvalued security increased in value at a rate faster than the undervalued security, a client could also suffer a substantial loss.

Special Situation Positions

We may from time to time purchase on behalf of our clients securities and other obligations of companies that are experiencing significant financial or business distress, including companies involved in bankruptcy or other reorganizations and liquidation proceedings. Although such transactions may produce significant returns to a client, they involve a high degree of risk over a potentially lengthy period of time, as well as less liquidity than many other investments. Trading in these types of securities requires sophisticated analysis (and it is often difficult to obtain information) and there can be no assurance that we will accurately predict various factors that could affect the prospects of a successful restructuring. Many of these positions remain stagnant until the company reorganizes and/or emerges from bankruptcy proceedings, and, as a result, may have to be held for an extended period of time.

In liquidations, bankruptcies, recapitalizations and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (for example, for failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new security the value of which will be less than the purchase price of the security in respect of which such distribution was made.

The U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) establishes the Orderly Liquidation Authority (the “OLA”), a new insolvency regime for large, interconnected financial companies, including broker-dealers, whose failure poses a significant risk to the financial stability of the United States. We may invest in, or transact with, such large, interconnected financial companies and therefore may face losses if such financial companies are put into receivership and then liquidated or reorganized upon a determination by the FDIC and the board of governors of the Federal Reserve. If a financial company becomes liquidated or reorganized by the OLA, our investments in such a financial company could be adversely affected. Compared to bankruptcy proceedings, creditors, shareholders and contract counterparties will have little or no input into or advance notice about the liquidation or reorganization of the financial company. While the FDIC has outlined certain aspects of its strategy with respect to the OLA, many of the procedural rules for the OLA have not yet been written, and it is unclear how financial companies that become subject to liquidation proceedings or reorganizations by the OLA will ultimately be affected.

Market Volatility; Changes to Companies

The securities markets are subject to volatility and may be influenced by various factors, including without limitation, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events. The volatility of the securities markets makes it difficult for us to accurately predict price movements. A client’s account may not be “hedged” against such market fluctuations.

In addition, entities in which we invest (via the securities of such entities or debt instruments issued by or relating to such entities) will be subject to changes in economic climate, technology and competition, as well as other operating risks. For these and other

reasons, capital appreciation sought by us may not actually be achieved and a client could sustain losses.

Small Cap Companies

At any given time, we may invest on behalf of our clients in smaller sized companies of a less seasoned nature whose securities are traded in the over-the counter market. While smaller companies generally have potential for rapid growth, they often involve higher risks because they may lack the management experience, financial resources, product diversification, and the competitive strength of larger companies. In addition, in many instances, the frequency and volume of their trading may be substantially less than is typical of larger companies.

Leverage

Subject to applicable regulations, we may use leverage when we deem appropriate, including the use of borrowed funds and investments in certain types of derivatives and options, such as puts, calls and warrants, which may be purchased for a fraction of the price of the underlying securities while giving the client the full benefit of movement in the market of those underlying securities. While such strategies and techniques increase the opportunity to achieve higher returns on the amounts invested, they also increase the risk of loss. To the extent we purchase securities for a client account with borrowed funds, such client's assets will tend to increase or decrease at a greater rate than if borrowed funds are not used. The level of interest rates generally, and the rates at which such funds may be borrowed in particular, could affect the return of client accounts. If the interest expense on borrowings were to exceed the net return on the portfolio securities purchased with borrowed funds, the use of leverage would result in a lower rate of return than if the accounts were not leveraged.

Convertible Securities

We may from time to time trade on behalf of client accounts in convertible securities. The market value of convertible securities, as with all fixed income securities, tends to decline as interest rates increase and, conversely, to increase as interest rates decline. However, when the market price of the common stock underlying a convertible security exceeds the conversion price, the convertible security tends to reflect the market price of the underlying common stock. As the market price of the underlying common stock declines, the convertible security tends to trade increasingly on a yield basis and thus, may not decline in price to the same extent as the underlying common stock. If a convertible security held by a client account is called for redemption, such will be required to permit the issuer to redeem the security, convert it into the underlying stock or sell it to a third party. Any of these actions could have an adverse effect on our ability to achieve a client's trading objective.

Fixed Income Securities

We may trade on behalf of client accounts in bonds or other fixed income securities of U.S. and non-U.S. issuers, including, without limitation, bonds, notes and debentures issued by corporations, or debt securities issued or guaranteed by a sovereign government or one of its agencies or instrumentalities. Fixed income securities pay fixed, variable or floating rates of interest. The value of fixed income securities will change in response to

fluctuations in interest rates. In addition, the value of certain fixed income securities can fluctuate in response to perceptions of credit worthiness, political stability or soundness of economic policies. Fixed income securities are subject to the risk of the issuer's inability to meet principal and interest payments on its obligations (*i.e.*, credit risk) and are subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (*i.e.*, market risk).

We may trade on behalf of client accounts in fixed-income securities which are not protected by financial covenants or limitations on additional indebtedness. In addition, evaluating credit risk for foreign debt involves greater uncertainty because credit rating agencies throughout the world have different standards, making comparisons across countries difficult.

Derivatives Generally

Derivative instruments, or "derivatives," include options, swaps, structured securities and other instruments and contracts that are derived from or the value of which is related to one or more underlying securities, financial benchmarks, currencies or indices. Derivatives allow an investor to hedge or speculate upon the price movements of a particular security, financial benchmark currency or index at a fraction of the cost of investing in the underlying asset. We may seek to acquire derivatives for client accounts for these reasons.

The value of a derivative is frequently difficult to determine and depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives of such asset. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives are "leveraged," and thus provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement can not only result in the loss of the entire investment, but may also expose a client account to the possibility of a loss exceeding the original amount invested. Over-the-counter derivatives generally are not assignable except by agreement between the parties concerned, and no party or purchaser has any obligation to permit such assignments. The over-the-counter market for derivatives is relatively illiquid.

The Dodd-Frank Act enables the CFTC and the SEC to enact new regulations on certain over-the-counter derivatives. Under the Dodd-Frank Act, certain over-the-counter derivatives contracts will be regulated through regulated clearing houses and subject to regulation by the SEC and the CFTC. Once this occurs, such contracts will be traded more like futures and options contracts and parties to such transactions will trade standardized contracts and will face clearing corporations as contractual counterparties, rather than facing the credit risk of counterparties under individually negotiated over-the-counter agreements.

In addition, swap dealers and major swap participants (entities that are not swap dealers, but are subject to rules governing dealers due to their levels of activity) will be subject to regulatory oversight and requirements with respect to over-the-counter derivatives, which will include business conduct requirements, such as know-your-customer rules, increased risk disclosure and rules requiring trades to be documented within certain timeframes.

Derivative contracts, whether cleared or traded over-the-counter, will have to be reported to the CFTC and/or the SEC. Despite these pending changes, parties to over-the-counter derivative trades (i.e., those not yet subject to the new clearing requirements) will continue to bear counterparty credit risk.

Many Dodd-Frank Act rules relating to swaps and securities-based swaps that will be promulgated by the SEC have not been finalized and the CFTC and SEC are both expected to conduct further rulemaking with respect to the Dodd-Frank Act. The effect that the foregoing regulatory changes will have on the price of derivative contracts, liquidity and administrative costs, among other things, remains unclear.

Credit Default Swaps

We may purchase and sell on behalf of client accounts credit derivatives contracts – primarily credit default swaps – both for hedging and other purposes. The typical credit default swap contract requires the credit protection seller to pay to the credit protection buyer, in the event that a particular reference entity experiences specified credit events, the difference between the notional amount of the contract and the value of securities and/or loans or a portfolio of securities and/or loans issued by the reference entity that are considered to be a “deliverable obligations” under the credit default swap. In return for payment upon a credit event, the buyer of credit protection makes periodic payments equal to a fixed percentage of the notional amount of the contract. In addition, the parties may be required to post collateral to secure their obligations, which can reduce the amount of collateral or funds available for other purposes.

As a seller of credit protection under credit default swaps, a client account incurs leveraged exposure to the credit of the reference entity and is subject to many of the same risks it would incur if it were holding debt securities or loans issued or borrowed by the reference entity. However, we will not have any legal recourse against the reference entity, and, unless it holds the debt securities or loans, will not have the rights of the holders of such reference entity’s debt securities or loans. In some cases, the holders of the reference entity’s debt securities may have rights and claims against the reference entity that may not inure to the benefit of a seller of credit protection.

In cases where there is broad based interest in a credit, generally a “determinations committee” comprised of certain market participants will resolve the issue of whether such a credit event has occurred. Generally, we will be bound by the determinations of the “determinations committee”, including with respect to whether an auction to determine the price of "deliverable obligations" will be held, and firms serving on such committee may have interests adverse to our clients. There can be no guarantee that any decision rendered by the "determinations committee" will be favorable to a client, or that we will have any ability to influence the decision of the "determinations committee".

In cases where is a buyer of credit protection under credit default swaps and the “determinations committee” fails to find that a credit event or certain other events have occurred, a client account may suffer a loss in the value of the credit default swap, in addition to losses incurred in connection with its periodic payments.

Foreign Investments

We may trade non-U.S. securities and other instruments denominated in non-U.S. currencies and/or traded outside of the U.S. Such transactions require consideration of certain risks not typically associated with trading in U.S. securities or other instruments. Such risks include unfavorable currency exchange rate developments, restrictions on repatriation of investment income and capital, imposition of exchange control regulation by the U.S. or foreign governments, confiscatory taxation and economic or political instability in foreign nations. In addition, there may be less publicly available information about certain non-U.S. companies than would be the case for comparable companies in the U.S., and certain non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those of U.S. companies.

Options

We may use a number of option strategies for client accounts. Put options and call options typically have similar structural characteristics and operational mechanics regardless of the underlying instrument on which they are purchased or sold. A put option gives the purchaser of the option, upon payment of a premium, the right to sell, and the writer the obligation to buy, the underlying security, commodity, index, currency or other instrument at the exercise price. A call option, upon payment of a premium, gives the purchaser of the option the right to buy, and the seller the obligation to sell, the underlying instrument at the exercise price.

If a put or call option purchased by us for a client account were permitted to expire without being sold or exercised, its premium would be lost by such account. The risk involved in writing a put option is that there could be a decrease in the market value of the underlying security. If this occurred, the option could be exercised and the underlying security would then be sold to the client at a higher price than its current market value. The risk involved in writing a call option is that there could be an increase in the market value of the underlying security. If this occurred, the option could be exercised and the underlying security would then be sold at a lower price than its current market value. Purchasing and writing put and call options and, in particular, writing "uncovered" options are highly specialized activities and entail greater than ordinary investment risks.

Risks of Trading Option Indices

We may from time to time sell call and put options on stock indices. A stock index fluctuates with changes in the market values of the stocks included in the index. The effectiveness of purchasing or writing stock index options will depend upon the extent to which price movements in a portfolio correlate with price movements of the stock indices selected. Because the value of an index option depends upon movements in the level of the index rather than the price of a particular stock, whether our client accounts will realize gains or losses from the purchase or writing of options on indices depends upon movements in the level of stock prices in the stock market generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular stocks. Accordingly, successful use by us of options on stock indices will be subject to our ability to correctly predict movements in the direction of the stock market

generally or of particular industries or market segments. This requires different skills and techniques than predicting changes in the price of individual stocks.

Short Sales

We may sell securities short for client accounts. Short-selling involves the sale of a security that the client does not own and must borrow in order to make delivery in the hope of purchasing the same security at a later date at a lower price. Selling securities short risks losing an amount greater than the proceeds received. Theoretically, securities sold short are subject to unlimited risk of loss because there is no limit on the price that a security may appreciate before the short position is closed. In addition, the supply of securities that can be borrowed fluctuates from time to time. A client may have losses if a security lender demands return of the lent securities and an alternative lending source cannot be found.

Exchange Traded Funds ("ETFs")

We may invest on behalf of client accounts in ETFs. ETFs are generally structured to invest in all or a representative sample of the securities that generally replicate the price and yield performance of an underlying market index or sector such as a broad stock market, industry sector, domestic or international equity or fixed income, or U.S. or foreign government bond. ETF shares are traded on stock exchanges and markets at open market prices that generally track the net asset value per share of the ETF. Direct issuances and redemption of ETF shares at the ETF's net asset value per share only occur in large blocks (or creation units) transacted between the ETF and authorized institutional purchasers on an in-kind basis. An exchange traded sector fund may be adversely affected by the performance of that specific sector or group of industries on which it is based. International investments may involve risk of capital loss from unfavorable fluctuations in currency values, differences in generally accepted accounting principles, or economic, political instability in other nations and/or other factors. Although index-based ETFs are designed to provide investment results that generally correspond to the price and yield performance of their respective underlying indices, ETFs may not be able to replicate exactly the performance of the indices because of their expenses and other factors. ETF shares may trade at either a discount or premium to their underlying net asset value. The purchase or sale of ETF shares on the secondary market involves the payment of brokerage commissions, and the purchase and redemption of creation units involves other transaction costs and brokerage commissions. Investors in ETFs also directly bear the ETF's costs associated with its payment of investment manager fees and fees for administrative, custodial or other services and thus clients will indirectly incur an additional layer of fees and expenses.

Risk of Default or Bankruptcy of Third Parties

We intend to engage in transactions for client accounts in securities and financial instruments that involve counterparties. Under certain conditions, client accounts could suffer losses if a counterparty to a transaction were to default or if the market for certain securities and/or financial instruments were to become illiquid. In addition, client accounts could suffer losses if there were a default or bankruptcy by certain other third parties, including brokerage firms and banks with which we do business, or to which securities have been entrusted for custodial purposes. For example, if one of the account's prime brokers or custodians were to become insolvent or file for bankruptcy,

such account could suffer significant losses with respect to any securities held by such firm.

Competition

The securities industry and the varied strategies and techniques to be engaged in by us are extremely competitive and each involves a degree of risk. We will compete with firms, including many of the larger securities firms, which have substantially greater financial resources and research staffs.

Changes and Uncertainty in U.S. and International Regulation

Client accounts may be adversely affected by uncertainties such as international and domestic political developments, changes in government policies, taxation, restrictions on foreign investment and currency repatriation, currency fluctuations and other developments in the laws and regulations of the countries to which client assets are exposed through their investments or investor base. During this period of uncertainty, market participants may react quickly to unconfirmed reports or information and as a result there may be increased market volatility. This unpredictability could cause us to alter investment and trading plans, including the holding period of positions and the nature of instruments used to achieve a client's trading objectives.

In the United States, we and our clients may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC, the Financial Stability Oversight Council, and other U.S. governmental regulatory authorities or self-regulatory organizations that supervise the financial markets. In addition, the securities and futures markets are subject to comprehensive statutes and regulations including margin requirements. Regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The Dodd-Frank Act could result in additional regulatory compliance burdens and trade reporting, which may add significant cost to clients. The Dodd-Frank Act endows the SEC, CFTC, and other regulators with discretionary authority to write and interpret new rules. The ultimate impact of the Dodd-Frank Act on us and our clients is unclear and will depend in large part on the final regulations that the CFTC and SEC promulgate.

Item 9 - Disciplinary Information

There have been no legal or disciplinary events that are material to a client's or prospective client's evaluation of Pomelo's advisory business or the integrity of Pomelo's management.

Item 10 - Other Financial Industry Activities and Affiliations

Affiliated Management Company

PAL is the general partner of the Onshore Fund and the adviser of the Master Fund. While the General Partner is not separately registered as an investment adviser with the SEC, all of its investment advisory activities are subject to the Investment Advisers Act of 1940, as amended (the "Advisers Act") and the rules thereunder. In addition, employees and persons acting on behalf of the General Partner, if any, are subject to the supervision and control of Pomelo.

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

We have adopted a Code of Ethics (the “Code of Ethics”) which provides that we are committed to conducting our business in accordance with all applicable laws and regulations and in an ethical and professional manner. In addition, we recognize that we will have a fiduciary duty to our clients, and that all of our employees must conduct their business on our behalf in a manner that enables us to fulfill this fiduciary duty. In this regard, we have developed policies and procedures in our Code of Ethics that are premised on fundamental principles of openness, integrity, honesty and trust. In addition, among other things, our Code of Ethics governs all personal securities transactions by our employees, our policies with respect to gifts and entertainment, compliance with applicable federal securities laws, the manner in which violations of our Code of Ethics are to be reported, and certain other outside activities of our employees. We will provide a copy of our Code of Ethics to any client or prospective client upon request.

Cross Trading

Subject to applicable law, we may effect transactions between client accounts (generally for rebalancing purposes and to correct misallocations of trades) whereby one client account will purchase securities from or sell securities to another client account. This may result in a conflict of interest because a potential transaction may result in benefits to one transacting party that may be greater than the benefits to the other transacting party. In order to mitigate such conflicts, we will effect such transactions only when we believe that such transactions are in the best interests of the applicable clients. Such transactions shall be effected for cash consideration, at the market price and transacted through an executing broker. No brokerage commission or transfer fee shall be paid to us or our related persons in connection with any such transaction.

In the event that we effect a cross trade between an account in which we or our controlling persons own more than twenty five percent (25%) and another client account, such transaction may be deemed to be a principal transaction under the Advisers Act. Such transactions may create a conflict of interest for us because we may put our or our control persons’ interests in such accounts before the interests of our clients in the other account. In order to mitigate this conflict of interest, we will monitor the interests of our principals, their immediate family members and their affiliates in our client accounts, and we will not effect any cross trades between accounts if we believe that such trade would result in a principal transaction unless:

- 1) We believe that such transaction is in the best interest of the clients participating in the transaction; and
- 2) We obtain the prior consent of the applicable clients on a transaction by transaction basis as required by the Advisers Act.

Personal Trading Policy

Our personnel may buy and sell securities for their own account with the consent of the Chief Compliance Officer (Eric Kostrowski). However, investments in registered open-

end investment companies (*i.e.*, mutual funds), direct obligations of the Government of the U.S., bankers' acceptances, bank certificates of deposit, commercial paper, short-term, and high quality debt securities, including repurchase agreements will not require the Chief Compliance Officer's consent.

Generally, the Chief Compliance Officer will not approve any investment in a security or debt instrument (or any derivative thereof) issued by or relating to any company in which our clients have an investment, or have exposure, or any company in which we (on behalf of our clients) are considering investing or having exposure. If an employee/principal and a client hold an investment relating to the same company (because, for instance, the employee/principal held such investment prior to joining us or we later decided to invest in a security or financial instrument which we were originally not considering and thus the Chief Compliance Officer granted consent to the employee's/principal's purchase), the employee/principal will generally not be able to sell such security or financial instrument absent special circumstances.

Allocation of Investment Opportunities

We may buy or sell securities for one client at the same time that we or our related persons buy or sell the same security for one or more other clients. This will typically happen when more than one client is capable of purchasing or selling a particular security based on investment objectives, available cash and other factors. This may create a conflict of interest if one account may benefit from making the trade before or after the other account.

We intend to make investments for the Funds and the Managed Account on a *pari passu* basis. Therefore, when we determine that a particular investment opportunity would be desirable for more than one account, we will allocate such opportunity pro rata among the accounts. We generally determine the pro rata allocation of a particular investment opportunity based on the aggregation, across all positions comprising such opportunity, of an exposure metric that we deem will result in a fair and equitable allocation.

We may conclude that an allocation of an investment opportunity should be made on other than a pro rata basis under certain circumstances. The factors that we may consider when allocating opportunities on a non-pro rata basis include, but are not limited to, the investment objectives and restrictions of each client account; the overall portfolio composition of the client accounts; relative capital available for investment in the applicable client account; liquidity of the security; market capitalization and/or enterprise value of the underlying credit; position size; industry exposure; market exposure; gross, net, long and short exposure; and applicable tax considerations. New issues (as defined by FINRA rule 5130) are allocated to client accounts in accordance with the criteria set forth above.

Item 12- Brokerage Practices

Selection of Brokers

In placing portfolio transactions for our clients, we will seek to obtain the best execution for clients' accounts, taking into account the following factors: the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); the operational efficiency with which transactions are effected,

taking into account the size of order and difficulty of execution; the financial strength, integrity and stability of the broker; the firm's risk in positioning a block of securities; the quality, comprehensiveness and frequency of related services considered to be of value; and the competitiveness of commission rates in comparison with other brokers satisfying our selection criteria.

Brokers sometimes suggest a level of business they would like to receive in return for the various services they provide. We will not commit to provide any level of brokerage business to any broker, and actual brokerage business received by any broker may be less than the suggested allocations, but can (and often does) exceed the suggestions, because total brokerage is allocated on the basis of all the considerations described above.

Our trading review committee (which includes our Chief Investment Officer, Chief Operating Officer/Chief Compliance Officer, Head of Trading and an Analyst) will periodically evaluate the execution performance of the broker-dealers we use to execute client transactions. The trading review committee will also evaluate, and seek to resolve, any conflicts of interest that we may have in selecting brokers to execute client transactions.

Research and Other Soft Dollar Benefits

We do not intend to enter into soft dollar arrangements.

One or more of our prime brokers will provide us with front and back office services, including trading, securities lending, clearing, reporting, and settlement for equities, fixed income, foreign currency and options, among others. Subject to applicable law, our prime brokers may also provide us with capital introduction services.

We might execute securities transactions on behalf of client accounts with broker-dealers that provide us with access to proprietary research reports (such as standard investment research and credit reports). To our knowledge, these services are generally made available to all institutional investors doing business with such broker-dealers. These bundled services are made available to us on an unsolicited basis and without regard to the rates of commissions charged or paid by client accounts or the volume of business that we direct to such broker-dealers.

Brokerage for Client Referrals

Subject to applicable law, we may direct some client brokerage business to brokers who refer prospective investors to the Funds that we might manage, consistent with best execution. Because such referrals, if any, are likely to benefit us but will provide an insignificant (if any) benefit to our clients, we will have a conflict of interest with our clients when allocating client brokerage business to a broker who has referred investors to us. To prevent client brokerage commissions from being used to pay investor referral fees, we will not allocate client brokerage business to a referring broker unless we determine in good faith that the commissions payable to such broker are not materially higher than those available from non-referring brokers offering services of substantially equal value to the client account.

Trade Error Policy

We will reimburse a client for net losses that occur as a result of trade errors in accordance with the terms set forth in the advisory contract with such client. However, as a general matter, we will reimburse the applicable client account(s) for net losses that occur as a result of trade errors resulting from our gross negligence or willful misconduct.

We may correct misallocations of trades among client accounts by re-allocating the applicable trade using the intended allocation methodology prior to the trade's settlement date. If an erroneous allocation cannot be corrected prior to or after settlement, we may, if appropriate and subject to applicable law, correct such erroneous allocation by effecting a cross trade between client accounts at the price at which the initial trade was effected.

Aggregation of Orders

We will generally aggregate client trades, subject to best execution. Aggregation, or "bunching," describes a procedure whereby an investment adviser combines the orders of two or more clients into a single order for the purpose of obtaining better prices and lower execution costs. Aggregation opportunities for us will generally arise when more than one client is capable of purchasing or selling a particular security based on investment objectives, available cash and other factors. In such event, securities purchased or sold will generally be allocated among client accounts on an average price basis. When an aggregated order is only partially filled, we will allocate the investment opportunity as described in Item 11, above.

Item 13 - Review of AccountsReview of Accounts

Client portfolios will be reviewed daily, and their performance analyzed, by our investment professionals, including, but not limited to, Philip Rosenstrach (the Chief Investment Officer), Raj Sood (a Portfolio Manager), Jeffrey Marcus (the Head of Trading) and Marc Aylett (the Head of Research). Client portfolios will also be reviewed by members of our operations team to monitor compliance with the applicable trading mandate and any applicable risk and/or operating guidelines. The Chief Compliance Officer, Eric Kostrowski, will also be involved in the review of trading activity and account allocations. Client investments will be evaluated based on performance, company fundamentals, news and press releases, regulatory filings, general market conditions and such other considerations as we deem appropriate.

Client/Investor Reporting

Investors in the Funds receive monthly statements from the Funds' administrator. We will provide investors with a monthly report containing selected risk exposures, the applicable Fund's track record and other comments from us. If requested by an investor, we will provide weekly and monthly performance estimates. In addition, the Funds provide their respective investors with audited financial statements and tax reports within 120 days of the end of each fund's fiscal year.

The Funds may enter into side letter agreements with certain investors pursuant to which we may provide such investors with preferential terms with respect to their investment in the Funds, including, without limitation, with respect to management fees, performance allocations, withdrawal terms (including the frequency of withdrawals and/or required notice periods) and/or transparency (including portfolio transparency).

In addition, we may provide certain additional information to any investors or prospective investors who request such information. This information may be provided in response to questions and requests and in connection with due diligence meetings and other communications, but will not be distributed to other investors and prospective investors who do not request such information. Each investor is responsible for asking such questions as it believes are necessary in order to make its own investment decisions and must decide for itself whether the limited information provided by us is sufficient for its needs.

We will provide the owners of any separately managed accounts we manage with periodic unaudited reports at such times as the owners of such accounts and we agree. The custodians of such accounts send account statements to the owners of such accounts no less frequently than monthly. In addition, since a managed account investor will directly own the positions in its separately managed account, such investor may have full, real-time transparency as to all transactions and holdings in such account, and may be better able to assess the future prospects of a portfolio that may be substantially similar to the portfolio of the private investment funds that we manage. The investors in such separately managed accounts may have the right to withdraw all or a portion of their capital from such managed accounts on shorter notice and/or with more frequency than the terms applicable to an investment in any private investment funds that we manage.

Item 14 - Client Referrals and Other Compensation

We do not receive economic benefits from non-clients for providing investment advice or other advisory services.

We have entered into an arrangement with a placement agent for the Funds. Pursuant to this arrangement, we will pay the placement agent a portion of the management fees that we receive with respect to certain investors referred by the placement agent to the Funds. In certain cases, investors referred by the placement agent pay fees directly to the placement agent, and we do not separately compensate the placement agent for introducing such investors to the Funds. Investors introduced to the Funds through the placement agent may be subject to a lower minimum capital contribution than other investors. Each investor introduced to the Funds by the placement agent receives detailed disclosure regarding the compensation and arrangements between us and the placement agent, and is required to acknowledge this disclosure before investing in the Funds.

Item 15- Custody

We are deemed to have custody of the Funds' assets because of the authority that we and/or our affiliated entities have over those assets. The Funds' financial statements are subject to an annual audit by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and the audited financial statements are distributed to each investor. The audited financial statements are prepared in accordance with generally accepted accounting principles.

Item 16 - Investment Discretion

We have discretionary authority to manage securities accounts on behalf of our clients. On a case by case basis, the owner of a separately management account may negotiate certain investment, risk and/or operating guidelines that we will adhere to when exercising our discretionary authority over such account. The Funds and Pomelo may enter into agreements with investors that may impose certain investment, risk and/or operating guidelines that we will adhere to when exercising our discretionary authority over such Funds' accounts.

Item 17 - Voting Client Securities

We will generally have voting discretion over securities held in clients' accounts. Clients will generally not be able to direct their votes in a particular situation. We will exercise our discretion in the best interests of our clients. In fulfilling our obligations to our clients, we will act in a prudent and diligent manner intended to enhance the economic value of the securities. We have adopted a proxy voting policy which is summarized below.

We will be responsible for determining how to vote all proxy statements received by us with respect to securities held in client accounts. We may retain a third party to assist us in voting and/or coordinating and delivering proxies.

In the absence of specific voting guidelines from clients or conflicts of interest, we will vote all proxies in the manner that we believe is in the best interests of each client account, which may result in different voting results for proxies for the same issuer. In addition, we may determine to abstain from voting a proxy if we believe that such action is in or not opposed to the best interests of a particular client account.

We may take into account the following factors, among others, in determining if a specific proposal is in the best interests of a particular client: (a) management of the issuer's views and recommendations on such proposal; (b) whether the proposal may have the effect of entrenching existing management and/or making management less responsive to shareholders' concerns (*e.g.*, instituting or removing a poison pill, classified board of directors and/or other anti-takeover measure); and (c) whether we believe that the proposal will fairly compensate management for its and/or the issuer's performance.

If we believe the issue being voted upon is not material for us and our clients, we will not be obligated to vote on such matter.

Our Chief Compliance Officer will attempt to identify any conflicts of interest between us and our clients with respect to any proxy statements we receive. This examination will include a review of the relationships, if any, between us and our principals, affiliates and clients, on the one hand, and the issuer of the subject security and such issuer's affiliates, on the other hand.

If our Chief Compliance Officer believes that a material conflict exists between us and any of our clients, we will do the following:

- (i) in the case of the separately managed account(s) that we will manage, either (a) have us disclose the conflict to the affected client(s) and give such client(s) the

opportunity to vote the securities itself, or (b) rely exclusively in making his or her voting decision on the recommendation of an independent third party who is experienced in advising investment managers regarding proxy voting decisions; and

- (ii) in the case of any private investment funds that we may manage, rely exclusively in making our voting decision on the recommendation of an independent third party who is experienced in advising investment managers regarding proxy voting decisions.

A client may obtain information about how we voted securities with respect to such client's account by contacting us at the address set forth on the cover page of this brochure.

Item 18- Financial Information

Pomelo does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, and therefore is not required to include a balance sheet for its most recent fiscal year. Pomelo does not have any financial condition that is reasonably likely to impair its ability to meet contractual commitments to clients and has not been the subject of a bankruptcy petition at any time during the past ten years.

Item 19 - Requirements for State-Registered Advisers

Pomelo is not a State-Registered Adviser