

**FORM ADV PART 2A: FIRM BROCHURE**

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**August 13, 2013**

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**THIS BROCHURE PROVIDES INFORMATION ABOUT THE QUALIFICATIONS AND BUSINESS PRACTICES OF ARCHELON ASSET MANAGEMENT LLC. IF YOU HAVE ANY QUESTIONS ABOUT THE CONTENTS OF THIS BROCHURE, PLEASE CONTACT US AT 312-788-6393. 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 ARCHELON ASSET MANAGEMENT LLC ALSO IS AVAILABLE ON THE SEC'S WEBSITE AT [WWW.ADVISERINFO.SEC.GOV](http://WWW.ADVISERINFO.SEC.GOV).**

**REGISTRATION AS AN INVESTMENT ADVISER DOES NOT IMPLY A CERTAIN LEVEL OF SKILL OR TRAINING.**

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## MATERIAL CHANGES

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As Archelon Asset Management LLC (“**Archelon**”) has not previously filed a firm brochure with the U.S. Securities and Exchange Commission (“**SEC**”), there are no material changes to be disclosed to this brochure at the present time.

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## ADVISORY BUSINESS

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Archelon Asset Management LLC (“**Archelon**”) is a Delaware limited liability company and was formed on June 5, 2012. Archelon was formed to provide asset management services to investors and clients around the world. Archelon is managed, and principally owned, by Charles Tall. Archelon anticipates launching its advisory business (as described below) upon approval of its registration as an investment adviser. All answers contained in this brochure are provided with respect to Archelon’s anticipated operations.

Archelon will serve as the discretionary investment adviser to several private investment funds (“**Funds**”). The investment mandate for each Fund will be described in its confidential offering memorandum (the “**Offering Memorandum**”), and such Fund-specific mandate will guide Archelon’s role as the investment adviser to each Fund. In addition to advising the Funds, Archelon may also offer discretionary advisory services to certain clients through separately managed accounts (“**Managed Accounts**”). The terms, nature and scope of such advisory services may be negotiated by Archelon and each Managed Account client, based on such client’s specific financial and investment objectives, risks and goals.

Archelon primarily focuses on investments in exchange-listed options on equities, equity indices and exchange traded funds (collectively referred to herein as “**Equity Options**”) and, for hedging purposes, the underlying assets or related securities or futures products. The specific investment strategies that may be utilized by Archelon on behalf of its clients are described below. See “*Methods of Analysis, Investment Strategies and Risk of Loss*” below.

Archelon expects that, within 120 days of its registration as an investment adviser with the SEC, Archelon will have regulatory assets under management sufficient for it to be eligible to register with the SEC. As of the date hereof, Archelon does not advise any client assets on a discretionary basis.

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## FEES AND COMPENSATION

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### **Management Fees and Performance-Based Compensation**

Archelon will charge both an asset-based management fee and a performance-based fee or allocation to the investors in the Funds, as further described in each Fund’s Offering Memorandum. The management fee generally will accrue monthly based on the net asset value of an investor’s investment in the relevant Fund and be payable at the end of each calendar quarter, and will be pro-rated for partial periods. The management fee will be deducted from each investor’s account in arrears, rather than be billed or deducted in advance. The performance-based fee or allocation generally will be equal to a percentage of the net increase in value (if any) of an investor’s investment in the relevant Fund (including both realized and

unrealized gains and losses) over the applicable measurement period, after payment of the management fee described above and recovery of any losses experienced by such investment in prior measurement periods. The performance-based fee or allocation generally will be determined, and be payable, as of the end of each year or upon a withdrawal by an investor of all or part of its investment in a Fund. Like the management fee, the performance-based fee or allocation will be deducted from an investor's account in arrears. Archelon may, in its sole discretion, waive or reduce the management fee and/or the performance-based fee or allocation with respect to any investor in the Funds, including its affiliates or employees.

With respect to its management of a Managed Account, Archelon may charge either or both an asset-based management fee and a performance-based fee. The types and amounts of the management fee and/or performance-based fee payable in respect of a Managed Account will be set forth in an investment advisory agreement between Archelon and the applicable client and may be negotiated based on a variety of factors, including, but not limited to, the size, composition and complexity of the Managed Account, length and nature of Archelon's relationship with the client, special services agreed upon with the client or other factors that Archelon deems relevant.

Archelon's fee schedule is not included as part of this brochure because this brochure will only be delivered to qualified purchasers, as defined in the Investment Company Act of 1940, as amended and the rules thereunder, and to non-U.S. persons.

### **Other Fees and Expenses**

In addition to the management fee and/or performance-based fee or allocation that it will pay to Archelon, each client will bear all transaction fees, brokerage commissions, custody fees and other related costs and expenses that will be incurred with respect to the transactions that Archelon enters into for such client's account. See "*Brokerage Practices*" below.

Each Fund (and therefore, the investors in each Fund) will also pay all of its organizational, offering, administrative and operating expenses (as well as its *pro rata* portion of all such expenses of any master fund and/or other trading vehicles that such Fund invests through), which may include, without limitation:

- the expenses of the ongoing offering of interests;
- legal, bookkeeping, accounting, auditing, recordkeeping, administration and clerical expenses (including expenses incurred in preparing reports and tax information for investors and regulatory authorities and expenses for specialized administrative services);
- filing fees;
- printing and duplication expenses;
- investment related travel expenses, investment research expenses, and market data, newswire and data processing expenses;

- brokerage commissions, exchange transaction fees, bank charges, custody fees and borrowing costs;
- exchange, board of trade or other trading or execution facility membership, participation and/or access fees and expenses;
- computer hardware and systems expenses and telecommunication expenses;
- registration fees relating to broker-dealer registration and maintenance;
- Cayman Islands annual registration fees, directors' fees, and directors' and officers' liability insurance; and
- any applicable extraordinary expenses of such Fund (*e.g.*, taxes, indemnification costs, litigation costs, trade errors or damages).

In addition to the foregoing, each client will bear its allocable share of the expenses incurred by Archelon in connection with the development and maintenance of its information technology infrastructure (“**IT Overhead Expenses**”), including, without limitation, fees, expenses and upgrade costs related to hardware, infrastructure, software development, exchange API development, systems engineering, development and operation, development of risk management programs, trading tools, quote and order logic and management programs, hedging tools, and analytical programs, connectivity and data, and other similar items. IT Overhead Expenses will be allocated to the clients in proportion to the respective net asset values of their accounts. To the extent that any of Archelon’s affiliates uses Archelon’s information technology infrastructure for proprietary trading purposes, such party will pay Archelon a per contract fee calculated at the lowest rate charged by any third party broker to execute such contracts, and the IT Overhead Expenses charged to the clients will be reduced by the total amount of such execution fees paid by Archelon’s affiliates in connection with proprietary trades.

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## **PERFORMANCE BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

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As described in “Fees and Compensation” above, Archelon will charge a performance-based fee or allocation to each investor in the Funds. With respect to its management of a Managed Account, Archelon may charge a performance-based fee in addition to, or in lieu of, an asset-based management fee.

### **Conflicts of Interest Related to Performance-Based Compensation**

A significant percentage of the net appreciation in value (if any) that would otherwise be allocated to the investors in the Funds or to the Managed Account clients (to the extent such investors or Managed Account clients are subject to a performance-based fee or allocation) will be reallocated or paid to Archelon. This performance-based compensation will be based upon

unrealized, as well as realized, gains, and such unrealized gains may never be recognized by an investor in a Fund or a Managed Account client.

In the event that Archelon manages a client account for which Archelon or its affiliates receive performance-based compensation as well as another client account for which Archelon or its affiliates receive only an asset-based fee (or a lower amount of performance-based compensation), Archelon may have an incentive to favor the client account for which it or its affiliates receive performance-based compensation (or a larger amount of performance-based compensation) over the other client account by, for example, allocating more profitable investment opportunities to the client account for which Archelon or its affiliates receives greater performance-based compensation. To address this potential conflict of interest, Archelon generally intends to allocate all investment opportunities that may be appropriate for its clients in a manner that is fair and equitable to all clients over time by taking into account the investment mandate and investment strategy applicable to each client account, the appropriate risk and reward ratio for each client account, current investment positions of each client account, the relative capitalization and cash availability of each client account, the investment time horizon of each client account and other considerations, and has implemented procedures designed to ensure that allocations will be made in such manner.

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## **TYPES OF CLIENTS**

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Archelon will provide investment advice to the Funds operated by Archelon or its affiliates, which are considered to be “pooled investment vehicles” because numerous individuals and entities are invested in each Fund and their assets are commingled prior to being invested by the Fund. The Funds’ investors may include high net worth individuals, other pooled investment vehicles, pension plans, trusts, institutional investors and other types of business entities.

Archelon or its affiliates will operate the Funds in reliance upon the exclusion from the definition of an “investment company” described in Section 3(c)(7) of the Investment Company Act of 1940, as amended (the “**1940 Act**”). In order to qualify for this exclusion, investments in such Funds will generally be limited to U.S. persons who are “qualified purchasers,” as defined in Section 2(a)(51) of the 1940 Act, as well as non-U.S. persons. In general, the definition of “qualified purchaser” includes individuals with \$5,000,000 or more in “investments” (as defined by the SEC) and entities with \$25,000,000 or more in “investments,” as well as certain other specified categories of entities.

Generally, the Funds will require a minimum initial investment of \$5,000,000 per investor, although this minimum may be reduced or waived on a case-by-case basis.

Archelon may determine to offer investment advisory services to Managed Accounts for various types of clients, including, but not limited to, high net worth individuals, trusts and estates, institutional investors, corporations, pooled investment vehicles operated by third parties and other types of business entities. Managed Accounts will generally be subject to a minimum

initial investment of \$50,000,000, unless such minimum is waived by Archelon in its sole discretion.

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## **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

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### **Investment Strategies**

Archelon will attempt to generate returns uncorrelated to market direction for its clients. Archelon will attempt to achieve this investment objective primarily by employing a volatility strategy that results in a dynamic portfolio of long and short positions in exchange-listed Equity Options and, for hedging purposes, the underlying assets or related securities or futures products. Archelon will seek to identify implied volatility differences between the market price and its own price estimates based on its proprietary analysis of option price inputs on both an individual asset and portfolio basis, and buy or sell options that Archelon perceives as under- or over-valued.

On behalf of each client for which Archelon implements the Equity Options volatility strategy, Archelon will attempt to construct and maintain a dynamic and relatively balanced portfolio consisting of long and short positions in Equity Options. Such portfolio may be expected to turn over once every 10 to 50 trading days. Archelon will attempt to manage risk by aggregating risk data across the portfolio and dynamically hedging risk in single names and at the portfolio level throughout the day.

Notwithstanding anything to the contrary in the foregoing, Archelon may employ additional investment strategies and trade a variety of financial instruments on behalf of its as Archelon deems appropriate and consistent with a client's investment objective.

### **Certain Risk Factors**

Clients (including investors in the Funds) should understand that even the most rigorous processes do not ensure successful investing. Investing in securities, futures, derivatives or any other financial instruments involves the possibility of losing some, and possibly all, of a person's investment. This is true regardless of the amount of hedging undertaken and the diversification of a client's portfolio.

The following is a summary of some of the material risks specifically associated with Archelon's investment strategies and the financial instruments that Archelon primarily focuses on. Potential clients should consider the following risks before engaging Archelon to manage their assets. The Offering memorandum for each Fund will contain a more complete description of the risks associated with an investment in such Fund.

*General Risks of Arbitrage Transactions.* A significant portion of Archelon's investments on behalf of its clients will be based on arbitrage strategies. The success of arbitrage strategies depends often on the ability to execute two or more simultaneous transactions at desired prices. If the requisite elements of an arbitrage strategy are not properly analyzed, or unexpected events

or price movements intervene, losses can occur which can be magnified to the extent Archelon is employing leverage on behalf of a client. Moreover, arbitrage strategies often depend upon identifying favorable “spreads,” which can also be identified, reduced or eliminated by other market participants. Additionally, separate costs are incurred on both sides of an arbitrage transaction, and substantial favorable price moves may be required before a profit can be realized. There can be no assurances that the arbitrage strategies employed by Archelon will be successful.

*Directional Trading Strategies.* Certain of the positions that Archelon may take on behalf of its clients may be designed to profit from forecasting absolute price movements in a particular financial instrument. Predicting future prices is inherently uncertain and the losses incurred, if the market moves against a position, will often not be hedged. The speculative aspect of attempting to predict absolute price movements is generally perceived to exceed that involved in attempting to predict relative price fluctuations.

*Investments in Undervalued Equity and Equity-Related Securities.* Archelon may invest in undervalued equity and equity-related securities on behalf of its clients. The identification of investment opportunities in undervalued securities is a difficult task. While investments in undervalued securities offer the opportunities for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from such investments may not adequately compensate a client for the business and financial risks assumed. Archelon may take certain speculative investments in securities on behalf of a client which Archelon believes to be undervalued; however, there are no assurances that the securities purchased will in fact be undervalued. In addition, the client may be required to hold such securities for a substantial period of time before realizing their anticipated value. During this period, a portion of the client’s assets may be committed to the securities purchased, thus possibly preventing the client from investing in other opportunities. If the client takes long positions in stocks that decline and short positions in stocks that increase in value, then the client’s losses may exceed those of other portfolios that hold long positions only.

*Reliance on Fundamental Analysis.* Archelon may base its trading decisions on behalf of its clients, in whole or in part, on fundamental analysis. Fundamental trading systems consider factors, such as inflation, trade balances, inventories and interest rates, which do not have an impact on traditional technical trading systems, in an attempt to identify investment opportunities. To the extent that such factors provide mixed or conflicting signals, a fundamental trading system may not be able to detect and/or accurately predict price trends. There can be no guarantee that Archelon’s fundamental trading systems will enable Archelon to accurately value the financial instruments in which Archelon invests on behalf of its clients or that any anticipated price trends will materialize with respect to such investments.

*Reliance on Quantitative Analysis.* Archelon’s investment strategies also may rely upon quantitative models and systems. Such models and systems may entail the use of sophisticated statistical calculations and complex computer systems, and there is no assurance that Archelon will be successful in carrying out such calculations correctly or that the use of these quantitative models and systems will not expose its clients to the risk of significant losses. In addition, the analytical techniques used by Archelon cannot provide any assurance that its clients will not be

exposed to the risk of significant trading losses if the underlying patterns that form the basis for the quantitative models and systems employed by Archelon change in ways not anticipated by Archelon. The effectiveness of quantitative models and systems may diminish over time, and attempts to apply existing quantitative models and systems to new or different markets, strategies or financial instruments may prove ineffective.

*Trading in Options.* Archelon will trade options on behalf of its clients. An option is a right, purchased for a certain price, to buy or sell an underlying instrument or product during or at the end of a certain period of time (the “expiration”) for a fixed price (the “strike price”). The risks in trading options are different from the risks in trading the underlying instruments or products, and trading in options can provide a greater potential for profit or loss than an equivalent investment in the underlying asset. For example, if Archelon buys an option on behalf of a client, such client will be required to pay a “premium” representing the market value of the option. The value of an option may decline because of a decline in the value of the underlying asset relative to the strike price, the passage of time, changes in the market’s perception as to the future price behavior of the underlying asset or any combination thereof. Unless the price of the underlying instrument or product changes and it becomes profitable to exercise or offset the option before it expires, the client may lose the entire amount of the premium. Conversely, if Archelon sells an option on behalf of a client, the client will be credited with the premium, but will have to deposit margin due to its contingent liability to deliver or accept the underlying instrument or product in the event that the option is exercised. Sellers of certain options are subject to unlimited risk of loss, as the seller will be obligated to deliver, or take delivery of, an asset at a predetermined price which may, upon exercise of the option, be significantly different from the then-market value. The ability to trade in or exercise options may be restricted in the event that trading in the underlying instrument or product becomes restricted.

*Liquidity Risk Associated with Options Trading.* As a result of various limits established by exchanges and the inherent limits of the facilities of exchanges and/or The Options Clearing Corporation (the “OCC”), there may not be a liquid secondary market for an option contract that Archelon enters into on behalf of a client holds when Archelon or the client wishes to close out such position prior to the contract’s expiration or exercise. These limits include:

- restrictions imposed by exchanges on opening transactions or closing transactions or both;
- restrictions imposed by exchanges limiting the maximum number of positions on the same side of the market and limits on the maximum net long or net short position;
- restrictions imposed by an exchange on the amount of fluctuation in the price of the underlying security during a single trading day;
- trading halts, suspensions or other restrictions imposed with respect to particular options;
- interruption of normal operations on an exchange due to unusual or unforeseen circumstances;

- the inadequacy of the facilities of an exchange or the OCC to at all times handle current volume and process options transactions; and
- the decision of an exchange to discontinue the trading of certain options, or a particular class or series of certain options, for economic or other reasons.

If there is no liquid secondary market for an option contract or other position held in a client's account, Archelon may not be able to close out such position prior to the contract's expiration or exercise and may have to purchase or sell the underlying security, make or receive a cash settlement or meet ongoing margin requirements. A suspension would render it temporarily or permanently impossible to liquidate positions and could thereby expose the client to significant losses. A reduction in the level of liquidity in the Equity Options market in general would reduce overall transaction volume and, therefore, adversely affecting the profit opportunities available to each client.

*Equity Securities.* Archelon will trade equity securities on behalf of its clients. Common stock and similar equity securities generally represent the most junior position in an issuer's capital structure and, as such, generally entitle holders to an interest in the assets of the issuer, if any, remaining after all more senior claims to such assets have been satisfied. Holders of common stock generally are entitled to dividends only if and to the extent declared by the governing body of the issuer out of income or other assets available after making interest, dividend and any other required payments on more senior securities of the issuer. The value of equity securities may fluctuate in response to specific situations for each company, industry market conditions and general economic environments. On behalf of its clients, Archelon may acquire long and short positions in listed and unlisted common equities, preferred equities and convertible securities of issuers domiciled in developed or in emerging market countries, and may invest in equity securities regardless of market capitalization, including micro- and small-cap companies. The securities of smaller companies may involve more risk and their prices may be subject to more volatility. Archelon may also invest in distressed equity securities, which are generally considered to be riskier, speculative and relatively illiquid, on behalf of its clients.

*Trading in ETFs.* Archelon may invest in ETFs, both long and short, on behalf of its clients. ETFs are funds that track a particular basket or index of securities traded on a public exchange. ETF investments are subject to the risks arising from the portfolio of underlying stocks, including market and issuer risks, but may also present certain unique risks. It is possible for the value of ETFs to fall or to rise more slowly than the stock market as a whole even when stock prices in general are rising. In addition, the fees and expenses charged by such ETFs result in an additional level of fees and greater expense to clients than would be associated with direct investment.

*Futures Trading.* Archelon may invest in certain futures contracts on behalf of its clients. Substantially all trading in futures has as its basis a contract to purchase or sell a specified quantity of a particular asset for delivery at a specified time, although certain instruments, such as market index futures contracts, may be settled only in cash based on the value of the underlying composite index. Futures prices may be highly volatile, and can be influenced by a wide range of macro- and micro-economic variables. Futures trading also is subject to various

regulatory limitations, including limitations on the maximum net long or net short positions that any trader (such as Archelon) may hold or control in particular futures contracts and limitations on daily price movements, which could limit Archelon's ability to trade futures on behalf of its clients under certain circumstances. Because futures contracts are typically traded on "margin" (*i.e.*, only a small portion of the total value of the futures contract must be posted with a broker to establish a futures position), a comparatively small commitment of cash or its equivalent may permit trading in futures contracts of substantially great value. As a result, price fluctuations may result in a contract profit or loss that is disproportionate to the amount of funds deposited as margin.

*Fixed-Income Investments.* Archelon may invest in fixed-income financial instruments on behalf of its clients. The value of fixed-income financial instruments will change as the general levels of volatility and interest rates fluctuate. When interest rates decline, the value of fixed-income financial instruments can be expected to rise. Conversely, when interest rates rise, the value of such financial instruments can be expected to decline. Investments in lower rated or unrated fixed-income financial instruments, while generally providing greater opportunity for gain and income than investments in higher rated financial instruments, usually entail greater risk (including the possibility of default or bankruptcy of the issuers of such financial instruments).

*Trading in Currencies.* Archelon may trade currencies on behalf of its clients in interbank and forward contract markets that Archelon believes to be well-established and of recognized standing. Nonetheless, clients may be exposed in the interbank market to risks associated with any government or market action that might suspend or restrict trading or otherwise render illiquid, in whole or in part, the client's position, with little or no prior notice. Among other things, price movements of foreign currencies are influenced by interest rates, changes in balance of payments and trade, domestic and international rates of inflation, international trade restrictions and currency devaluations and revaluations and various other unpredictable factors. Although certain currency trades may be effected through exchange-traded instruments, the foreign currency market remains predominantly an over-the-counter market, and is therefore subject to the risks typical to over-the-counter trading. Archelon may effect such trades with brokers, banks and other market participants that it believes to be creditworthy.

*Over-the-Counter and Other Derivative Instruments in General.* Archelon may trade on behalf of its clients various derivative instruments, including futures, options, forward contracts, swaps and other derivatives which may be volatile and speculative. Certain positions may be subject to wide and sudden fluctuations in market value, with a resulting fluctuation in the amount of profits and losses. Derivative instruments may not be liquid in all circumstances, so that in volatile markets Archelon may not be able to close out a position on behalf of a client without incurring a loss. Trading in derivative instruments also may result in large amounts of leverage, which may magnify the gains and losses experienced by Archelon's clients, as well as the volatility in their investment portfolios. Archelon may trade over-the-counter derivative instruments including swap transactions, forward foreign currency transactions and derivatives on bonds and other fixed income securities. Over-the-counter instruments, unlike exchange traded financial instruments, are negotiated, two-party contracts. Because performance of over-the-counter instruments is not guaranteed by any exchange or clearinghouse, Archelon's clients

will be subject to the risk of the inability or refusal to perform with respect to such instruments on the part of the trading counterparties.

*Market Inactivity.* At various times the market volumes experienced by the financial instruments in which Archelon may trade on behalf of its clients may be low by historical standards, thereby reducing the availability of profitable trading opportunities. Among other things, it may be more difficult for Archelon's traders and trading systems to identify and take advantage of market trends or mispricings when market volumes are reduced.

*The Markets and Financial Instruments Traded by Archelon May be Illiquid.* Generally, Archelon will invest in highly liquid financial instruments on behalf of its clients. However, at various times, the markets for the financial instruments purchased or sold by Archelon on behalf of its clients may be "thin" or illiquid, making purchase or sale at desired prices or in desired quantities difficult or impossible. As part of its emergency powers, an exchange or regulatory authority can suspend or limit trading in a particular instrument, order immediate liquidation and settlement of a particular contract, or order that trading in a particular contract be conducted for liquidation only. The possibility also exists that governments may intervene to stabilize or fix exchange rates, restricting or substantially eliminating trading in the affected currencies.

*Leverage.* The low margin and collateral deposits required to trade certain financial instruments may permit a high degree of leverage. In addition, Archelon may utilize broker-provided financing in its trading on behalf of its clients and may utilize borrowings for purposes of covering margin requirements applicable to the clients' futures and related positions. The degree of leverage that Archelon may utilize on behalf of a client may not be limited to any predetermined level, but will be subject to applicable legal, regulatory or broker imposed leverage limitations, to the extent applicable. As a result of trading with a high degree of leverage, a relatively small price movement in a financial instrument's price may result in immediate and substantial losses to Archelon's clients, and could result in the mandatory liquidation of certain positions if margin requirements are not satisfied. If Archelon trades for a client's account on a leveraged basis, any losses would be more pronounced than if leverage were not used and, under particularly adverse circumstances, could exceed such client's capital under Archelon's management.

*Turnover.* Archelon may invest a client's capital on the basis of short-term market considerations. The portfolio turnover rate of those investments may be significant, potentially involving substantial brokerage commissions, mark-ups and fees. These commissions and fees will reduce such client's profits.

*Concentration of Investments.* There generally is no limit on the amount of a client's capital under management with Archelon that Archelon may invest in any particular position or strategy. Accordingly, a loss in any single position or strategy could have a material adverse impact on a such client's capital.

There generally is no limit on the amount of assets that the Fund can invest in any particular position or strategy. Accordingly, a loss in any single position or strategy could have a material adverse impact on the Fund's capital.

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The foregoing list of risk factors does not purport to be a complete enumeration or explanation of the risks involved with Archelon's investment programs or an investment in any Fund or Managed Account advised by Archelon. Prospective investors must consult their own advisers before deciding whether to make such an investment. Prospective investors in the Funds should carefully review the risk factors section of the Offering Memorandum of the applicable Fund. The Offering Memorandum of each Fund is available only to prospective investors who are eligible to invest in such Fund, as determined by Archelon in its sole discretion.

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### **DISCIPLINARY INFORMATION**

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There has not been any legal or disciplinary action that is material to a prospective client's evaluation of Archelon's advisory business or the integrity of Archelon's management.

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### **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

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Archelon is an affiliate of Archelon L.L.C. and Archelon Deutschland, GmbH ("AD"). Archelon L.L.C is an options market making and proprietary trading firm. Archelon Deutschland GmbH is an options market making and trading proprietary trading firm operating primarily in Europe. Mr. Charles Tall is the principal owner of Archelon, Archelon L.L.C, and AD.

Mr. Tall and certain other personnel of Archelon may devote a substantial portion of their time to the management and strategic direction of, and/or options market making and other proprietary trading activities on behalf of, Archelon L.L.C and AD. The sharing of personnel and other resources between Archelon, Archelon L.L.C and AD creates certain potential conflicts of interest, as it could enable Archelon L.L.C or AD to use investment information originated from Archelon's personnel to the disadvantage of Archelon's clients (for example, by acting on an investment opportunity identified by Archelon's personnel, and thereby adversely impacting the price or availability of such investment opportunity to Archelon and its clients). Further, as owner of both Archelon, Archelon L.L.C, and AD, Mr. Tall could have an incentive to attempt to direct investment opportunities to Archelon L.L.C or AD (rather than to Archelon and its clients) based upon the relative income generated by the opportunities, rather than considering the appropriateness or fairness of any such allocation of investment opportunities. To address this potential conflict of interest, the trading operations of Archelon L.L.C. and AD will be separated and operated independently from those of Archelon. The trading personnel of each firm generally will not be involved in the other firm's day-to-day trading operations. Archelon will at all times retain independent investment discretion over its clients' assets, including determination of the investments to be made on behalf of its clients and the timing and price of transactions in their respective portfolios. It is generally anticipated that none of Archelon (on behalf of its clients) and Archelon L.L.C or AD will regularly compete with one another for investment opportunities.

## **Management of Other Client Accounts**

Certain inherent conflicts of interest may arise from the fact that Archelon may carry on substantial investment activities for multiple clients simultaneously and that Archelon's principal(s) and affiliates may act as investment adviser to private investment funds as well as other types of clients. Investment decisions and allocations will not necessarily be made in parallel among all such client accounts. Investments made for a particular client account may not, and are not intended in all cases to, replicate the investments, or the investment methods and strategies, of other client accounts. Certain client accounts managed by Archelon, its principal(s) or affiliates may make investments and utilize investment strategies that may not be made or utilized for other clients, and may take positions that are opposite to the positions taken for other clients. Accordingly, the client accounts managed by Archelon, its principal(s) and affiliates may produce materially different investment results, and the records of any investment management activities that Archelon, its principal(s) and/or affiliates may engage in on behalf of their clients will not be available to any such client.

Archelon has established policies and procedures for allocation of investment opportunities among the various client accounts in a fair and equitable manner over time, taking into account the different investment mandates and investment strategies applicable to such clients, current investment positions of a client, the relative capitalization and cash availability of a client, investment time horizon, leverage ratios and other considerations.

## **Other Activities of Archelon and Related Persons**

As described above, Charles Tall and certain other personnel of Archelon may devote a substantial portion of their time to the management and strategic direction of, and/or options market making and other proprietary trading activities on behalf of, Archelon L.L.C. and AD. Although these individuals are expected to commit an appropriate amount of their business efforts to Archelon, they are not required to devote all of their time to the affairs of Archelon or of a particular client.

Archelon, its principal(s) and affiliates may engage in, invest in, participate in or otherwise enter into other business ventures of any kind, nature or description, alone or with others, and Archelon's clients will not have any right in or to any such activities or the income or profits derived therefrom.

Archelon, its principal(s) and affiliates may invest and trade for their own accounts. As a result, Archelon, its principal(s) and affiliates may from time to time have proprietary investments in securities in which a client may take a position, may trade and invest simultaneously with clients and may take investment positions that are different or opposite from the positions taken by clients. As a result, conflicts of interest may arise between Archelon, its principal(s) and affiliates and their clients with respect to matters such as the allocation of investment opportunities, purchases and sales of securities in connection with particular trading situations and allocation of personnel, resources and expenses. The records of trading by Archelon, its principal(s) and affiliates generally will not be made available to their clients, except to the

extent required by law. However, personal trading activities by Archelon's principals and other personnel will be subject to Archelon's Code of Ethics and personal trading policy, which seeks to mitigate the conflicts described above. See "*Code of Ethics, Participation or Interest in Client Transactions and Personal Trading*" below.

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

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### **Code of Ethics**

Archelon has adopted a code of ethics (the "**Code of Ethics**") for all supervised persons of Archelon describing its high standard of business conduct, and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, reporting requirements for certain gifts and business entertainment items, and personal securities trading procedures, among other things. All supervised persons of Archelon must acknowledge the terms of the Code of Ethics annually, or as amended. Clients or prospective clients may request a copy of Archelon's Code of Ethics by contacting John Koltes, Archelon's Chief Compliance Officer, at (312) 788-6393.

### **Principal Trades and Cross Trades**

Archelon generally will not permit any "cross transactions" between client accounts. However, circumstances may arise in which Archelon may deem it appropriate to direct one client to buy from, or sell securities to, another client through a cross transaction in which neither Archelon nor any related person will receive a commission or similar compensation in connection with such trade. Any such cross transaction will be effected based on the then-current arm's length price and consistent with valuation procedures established by Archelon. Cross transactions involve a conflict of interest among the parties to the transaction and Archelon. In any cross transaction, Archelon will have a potentially conflicting division of loyalties and responsibilities regarding both clients that are parties to such cross transaction. To mitigate this potential conflict of interest, Archelon may engage an independent professional services firm to act as the "independent client representative" on behalf of its clients. The role of the independent client representative is to act as the agent of a client of Archelon, to review the proposed transaction and determine whether such transaction is being effected on an arm's-length basis, and to grant or deny consent (on behalf of the client) to such transaction.

Archelon, its principal(s) and its affiliates will not purchase or sell any securities for their own accounts to or from a client account managed by Archelon (any such transaction, a "principal transaction"). In the event that a cross transaction may be viewed as a principal transaction due to the ownership interest in a client by Archelon, its principal(s) or its affiliates, Archelon will effect such transaction only in compliance with the requirements of Section 206(3) of the Investment Advisers Act of 1940, as amended (the "Advisers Act").

Archelon may, in appropriate circumstances when deemed consistent with a client's investment objectives, cause such client to purchase or sell securities in which Archelon, its principal(s) or affiliates, directly or indirectly, have a position or interest. See *"Other Financial Industry Activities and Affiliations – Other Activities of Archelon and Related Persons"* above.

### **Personal Trading Policy**

Principals, officers, directors and employees of Archelon and its affiliates may trade securities for their own accounts, including securities which are recommended to and/or purchased for clients. See *"Other Financial Industry Activities and Affiliations"* above. However, every personal securities transaction must comply with the personal securities trading policy set forth in the Code of Ethics, which are designed to mitigate and manage potential or actual conflicts of interest that may arise from personal securities transactions. Archelon's policy requires all of Archelon's "Access Persons" (as described in the Code of Ethics) to pre-clear securities transactions in such personal trading accounts with the Chief Compliance Officer (or his designee), except for transactions in certain non-reportable securities (e.g., U.S. government securities, money market fund shares and large-cap publicly traded equities (provided that such equities are not included on the firm's "restricted list")), and requires that the interests of client accounts be placed ahead of those of Archelon's Access Persons in their personal trading. Although it is not expected to occur frequently, if at all, in the event that Archelon has material non-public information regarding an issuer, the Chief Compliance Officer will place such issuer's securities on Archelon's "restricted list" of securities that may not be traded by Access Persons. Access Persons are required to file reports of their personal securities holdings on an annual basis, as well as quarterly securities transaction reports.

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## **BROKERAGE PRACTICES**

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### **Selection of Brokers-Dealers**

Archelon will select the broker-dealers to be utilized by the Funds, and will have discretion to select different brokers to be used for each transaction and to negotiate the rates and commissions that the Funds will pay. Archelon may not adhere to any rigid formulae in making the selection of brokers, but will weigh a combination of criteria consistent with its obligation to seek "best execution" for its clients, including, among other things, transaction costs, the sizes and types of transactions executed, access to liquidity, execution efficiency, capital utilization, the value of brokerage and services provided, clearance and settlement services provided, financial responsibility/counterparty credit statistics, responsiveness to inquiries or issues, confidentiality, knowledge of specific securities and industry groups, the availability of securities to borrow for short sales, block trading capabilities and access to markets and the ability to limit market impact.

### **Research and Other Soft Dollar Benefits**

In exchange for the direction of commission dollars to certain brokers, credits (or “soft dollars”) may be generated which may be used by Archelon to pay for certain products and services provided or paid for by such brokers, including special execution capabilities, clearance, settlement, other transaction charges, block trading and block positioning capabilities, financial strength and stability, efficiency of execution and error resolution, the availability of stock to borrow for short trades, custody, recordkeeping and similar services (“**Products and Services**”). Although the commission rates charged by such brokers may not be represented as reflecting such additional Products and Services, the commission rates charged by such brokers may be higher than the commission rates charged by other brokers, and clients may be deemed to be paying for such other Products and Services provided by such brokers which are included in the commission rate (*i.e.*, “paying up”). In particular, Archelon may enter into “soft dollar” arrangements with one or more brokers in connection with securities transactions undertaken on behalf of its clients, pursuant to which such brokers will provide Archelon with certain research and execution analytics and portfolio management and report generation tools. Archelon does not intend to enter into any soft dollar arrangement that would fall outside of the “safe harbor” rules set forth in Section 28(e) under the Securities Exchange Act of 1934, as amended.

Archelon may derive substantial direct or indirect benefit from these Products and Services, particularly to the extent it uses soft dollars to pay for research or other expenses which it would otherwise be required to pay. To the extent that Archelon receives the benefits of such Products and Services, a potential conflict of interest exists between Archelon’s duty to seek “best execution” for its clients, and Archelon’s desire to receive the potential benefits of such Products and Services. In addition, Archelon may use such Products and Services in servicing some or all of its clients, and some Products and Services may not necessarily be used by a particular client even though such Products and Services were paid for using soft dollars generated by trades executed on behalf of such client’s account.

As of the date of this brochure, Archelon does not manage any client accounts and, as such, has not acquired any Products and Services through the use of soft dollars as described herein, but may do so in the future.

### **Directed Brokerage**

Archelon currently does not intend to permit its clients or investors to direct brokerage, which is the practice of requiring Archelon to execute transactions through specific brokers selected by a client. As noted above, Archelon considers numerous factors in determining which brokers to use to execute transactions on behalf of its clients, and looks to obtain best execution for its clients at all times. Archelon may in the future provide investment advisory services to clients who may want Archelon to execute transactions through a specific broker. Such clients should understand that compliance with a directed brokerage arrangement may result in Archelon’s being unable to achieve the most favorable execution of the client’s trades. Archelon generally will not negotiate commission rates with those brokers selected by the client. Furthermore, if a client directs brokerage, such client’s account may not be able to participate in reduced commission rates which may be available to aggregated or “bunched” orders, and orders for such client generally may be placed after orders for other clients that leave the selection of brokers to Archelon’s discretion.

### **Aggregation and Allocation of Client Orders/Investments**

In some cases, Archelon may seek to buy or sell the same security or other investment on behalf of multiple clients. In those cases, Archelon intends to combine purchase and sale orders on behalf of such clients and other accounts, and all such participants in the transaction will receive the average price (net of transaction costs) in the transactions. Although aggregation may operate to the disadvantage of particular clients in a given transaction, such aggregation is intended to promote fairness over the longer term among all accounts or entities involved in the transaction, including client and proprietary accounts.

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## **REVIEW OF ACCOUNTS**

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### **Account Reviews**

The Funds will engage a third-party fund administrator to provide day-to-day administrative and bookkeeping services to the Funds. Archelon will conduct daily trade reconciliations and reviews of the positions held by the Funds. These reviews will be conducted by Archelon's Chief Financial Officer. Procedures for the review of Managed Account positions will be determined at the time of engagement.

### **Client Reporting**

Archelon will furnish audited financial statements annually to all investors in the Funds. Such investors will also be provided with periodic unaudited reports including information regarding the Fund's net asset value and performance. Archelon reserves the right to make such periodic and annual statements available to investors solely in electronic form. Reporting obligations with respect to Managed Accounts will be determined at the time of engagement.

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## **CLIENT REFERRALS AND OTHER COMPENSATION**

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Archelon has not entered into any arrangements whereby it will receive an economic benefit from any person who is not a client for providing investment advice or other advisory services to clients, and does not directly or indirectly compensate any third-parties for client referrals.

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## **CUSTODY**

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Archelon will be deemed to have custody of the funds and securities of the Funds, which will be maintained at one or more "qualified custodians" as defined under Rule 206(4)-2 of the Advisers Act. A "qualified custodian" generally is a bank or savings association that has deposits insured

by the U.S. Federal Deposit Insurance Corporation, an SEC registered broker-dealer, a futures commission merchant or a foreign financial institution that holds segregated customer assets. An independent public accountant will audit each of the Funds on an annual basis, and copies of the audited financial statements will be sent to the investors in the Funds, as described above in *“Review of Accounts.”*

In the event that Archelon provides advisory services to Managed Account clients, depending on the terms of the investment advisory agreement in respect of a particular Managed Account, Archelon may be deemed to have custody of such client’s assets. In such a case, the assets will be maintained with a “qualified custodian.” Managed Account clients whose assets are under Archelon’s custody should receive at least quarterly statements from the qualified custodian that holds and maintains such client’s investment assets. A Managed Account client should carefully review such statements and compare such official custodial records to any account statements that Archelon may provide to such client, as account statements prepared by Archelon may vary from custodial statements based on accounting procedures, reporting dates or valuation methodologies of certain securities or other instruments.

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## **INVESTMENT DISCRETION**

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Unless otherwise agreed with a particular client, Archelon will exercise full discretionary authority over the accounts of its clients. Archelon usually will receive discretionary authority from the client at the outset of an advisory relationship, by means of an investment advisory or similar agreement, or, in the case of certain Funds, through the constituent documents of such Funds, which will grant a power of attorney in favor of Archelon to select the identity and amount of any investments to be bought or sold for such client’s account. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client.

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## **VOTING CLIENT SECURITIES**

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Archelon will have the authority to vote proxies on behalf of the Funds; however, it is generally not Archelon’s practice to vote such proxies, as it is Archelon’s view that the outcome of such corporate decisions related to the financial instruments in which the Funds invest typically will not materially impact the implementation of Archelon’s investment strategies. Archelon will periodically analyze the estimated costs associated with casting such proxies on behalf of the Funds against any estimated potential benefits of doing so, and reserves the right to vary this practice where it determines that doing so is in the best interests of the Funds (although it is not anticipated that Archelon will do so). The Funds generally may not direct Archelon’s vote in a particular solicitation.

Unless otherwise agreed with a particular Managed Account client, as a matter of firm policy and practice, Archelon will not, and will not have any authority to, vote proxies on behalf of

Managed Account clients, nor does Archelon intend to advise Managed Account clients in any manner regarding such votes. Managed Account clients will receive proxies and other solicitations directly from their custodian or transfer agents and retain the responsibility for voting proxies for any and all financial instruments maintained in their accounts.

Clients may obtain a copy of Archelon's complete proxy voting policies and procedures by contacting John Koltes at (312) 788-6393.

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## **FINANCIAL INFORMATION**

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Archelon is required to provide to its clients certain financial information or disclosures about its financial condition. Archelon has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

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