

# **Part 2A of Form ADV**

## **Prelude Capital Management, LLC**

### **Brochure**

437 Madison Avenue, 33<sup>rd</sup> Floor  
New York, NY 10022

Attention: Nicholas Tomasetti  
Telephone: (212) 546-1180  
Facsimile: (212) 546-1190  
Email: [info@preludecapital.com](mailto:info@preludecapital.com)  
Website: [www.preludecapital.com](http://www.preludecapital.com)

This brochure provides information about the qualifications and business practices of Prelude Capital Management, LLC. If you have any questions about the contents of this brochure, please contact us at (212) 546-1180 or at [info@preludecapital.com](mailto:info@preludecapital.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 Prelude Capital Management, LLC also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Prelude Capital Management, LLC may refer to itself as a registered investment adviser with the SEC pursuant to the Investment Advisers Act of 1940, as amended (the “Advisers Act”). These references do not imply a certain level of skill or training.

March 29, 2019

## **Item 2           Material Changes**

Prelude Capital Management, LLC (“Prelude,” “we,” “us” or “our”) has not made any material changes since those disclosed in our previous annual update, dated April 23, 2018.

## **Item 3           Table of Contents**

Item 1	Cover Page.....	1
Item 2	Material Changes.....	2
Item 3	Table of Contents.....	2
Item 4	Advisory Business.....	2
Item 5	Fees and Compensation .....	3
Item 6	<i>Performance-Based Fees</i> and Side-by-Side Management.....	5
Item 7	Types of Clients.....	6
Item 8	Methods of Analysis, Investment Strategies and Risk of Loss.....	6
Item 9	Disciplinary Information.....	13
Item 10	Other Financial Industry Activities and Affiliations.....	13
Item 11	Code of Ethics, Participation or Interest in Client Transactions and Personal Trading.....	14
Item 12	Brokerage Practices.....	16
Item 13	Review of Accounts.....	19
Item 14	Client Referrals and Other Compensation .....	19
Item 15	Custody.....	20
Item 16	Investment Discretion.....	20
Item 17	Voting Client Securities.....	20
Item 18	Financial Information.....	21

## **Item 4           Advisory Business**

### **A.   General Description of Advisory Firm**

Prelude is a specialized asset management firm focused on a defined set of global investment strategies. In particular, Prelude offers asset allocations to a variety of third party managers selected by Prelude. Such managers could be affiliated or unaffiliated with Prelude. Prelude has been in operation since March 2004 and has been providing the type of advisory services described herein since 2010. Prelude is managed by its principal owners and managing members, Gavin Saitowitz and Cisco J. del Valle. Prelude currently provides advice to three clients that together constitute a single fund structure, (i) the Prelude Opportunity Fund, LP (the “Master Fund”), (ii) the Prelude Investors Fund, LP (the “Partnership”), which acts as a designated feeder into the Master Fund, and (iii) Prelude Capital Offshore, Ltd. (the “Offshore Fund”, and together with the Partnership and the Master Fund, the “Funds”), which acts as a designated

feeder into the Partnership. Certain of the Funds' strategies are effected through special purpose vehicles, which are utilized opportunistically to effect the mandates of the Funds.

## **B. Description of Advisory Services**

Prelude provides investment advisory services focused on the securities markets through the allocations made to a variety of portfolio managers ("Sub-Advisors") through separate accounts within the Master Fund, which utilizes a multi-account structure. Each Sub-Advisor actively manages the assets allocated to it by Prelude in accordance with separate sub-advisory agreements and Prelude provides top-level oversight of the Funds. In particular, each sub-advisory agreement contains provisions and trading restrictions specific to the relevant Sub-Advisor, subject at all times to Prelude's supervision; Prelude's oversight is focused on ensuring that the applicable investment guidelines and parameters are observed. In addition, the Sub-Advisor or an entity related to the Sub-Advisor (each such entity a "Special Investor") generally invests in the Master Fund for the purpose of contributing a designated amount of subordinated risk capital with respect to the allocation it receives from the Master Fund. The investment strategy of each client of Prelude is set forth in each client's offering documents and/or partnership agreements (as the case may be). In addition, Prelude does, and could in the future continue to, provide separate office space to certain Sub-Advisors and/or their related parties and currently does, and in the future could continue to, provide to, or coordinate for, such parties certain support and services.

## **C. Availability of Tailored Investment Services**

At present, we advise only a single fund structure, as described above, with all investment activity taking place at the Master Fund or through certain limited-use special purpose vehicles. Investments are managed in accordance with the particular investment objectives, strategies, restrictions and guidelines, as described in the offering and governing documents for the fund structure, and are not tailored to the individualized needs of any particular investor. Investors generally cannot place any particular investment restrictions on Prelude's management of the fund structure and an investment in the fund structure does not create an adviser-client relationship between the investor and Prelude. Prospective investors wishing to impose restrictions or to tailor investment services may consider opening a separately managed account with Prelude in which instance our investment advisory services may be tailored to the individual needs of each such client. In particular, we would consider a client's size, investment mandate, interest in leverage, tax implications and sophistication when investing. Prelude does not, however, presently advise any separately managed accounts. Investors will be subject to the various risks described in the governing and offering documents and should determine whether such Fund meets their investment objectives and risk tolerance prior to investing.

## **D. Wrap Fee Programs**

Not applicable.

## **E. Assets Under Management**

As of February 28, 2019, Prelude managed on a discretionary basis approximately \$5,024,091,172 in client assets. Prelude does not presently provide investment advisory services for any clients on a non-discretionary basis.

# **Item 5 Fees and Compensation**

## **A. Fees Related to Advisory Services**

***The Partnership and the Offshore Fund:*** The Partnership currently has four types of limited partners: limited partners who own secured limited partnership interests (the “Secured Investors”), limited partners who own preferred limited partnership interests (the “Preferred Investors”), limited partners who own senior limited partnership interests (the “Senior Investors”) and limited partners who own subordinated limited partnership interests (the “Subordinated Investors”). Each class of limited partner has a different fee structure. The Offshore Fund invests the vast majority of its assets into the Partnership pursuant to four offered share classes, those which bear the characteristics of the Partnership’s secured interests, those which bear the characteristics of the Partnership’s preferred interests, those which bear the characteristics of the Partnership’s senior interests and those which bear the characteristics of the Partnership’s subordinated interests. The Offshore Fund’s secured, preferred, senior and subordinated share classes invest in the corresponding classes of interests in the Partnership. The Offshore Fund also offers a fifth class which makes investments in a variety of instruments or vehicles outside of the Partnership. Prelude’s fees and expenses, described in greater detail below, can be paid indirectly in part by the Offshore Fund through its investment in the Partnership. Fees paid by the Partnership and the Offshore Fund are negotiable.

Prelude charges a management fee to the preferred and subordinated class investors. The management fee is set at a fixed amount of \$1,750,000 per month, which is borne by the preferred and subordinated class investors and can be waived or reduced with respect to any individual or class of investor; a smaller percentage of this fee is borne by the Preferred Investors compared to the Subordinated Investors.

***The Master Fund:*** The Partnership is a designated feeder into the Master Fund. Within the Master Fund, allocations are made by Prelude to Sub-Advisors. Sub-Advisors generally receive compensation from the Partnership for the advisory services provided. Generally, either the Sub-Advisor or its related Special Investor invests in the Master Fund for the purpose of contributing a designated amount of subordinated risk capital to the Master Fund with respect to the allocation it will receive from the Master Fund.

We do not currently charge management fees to the Master Fund.

Please see ***Item 6 Performance-Based Fees and Side-By-Side Management*** for additional information.

## **B. Payment of Fees**

Management fees at the Partnership level are deducted by us out of the Partnership’s assets with respect to the relevant class on a monthly basis. Clients may not select an alternative method of fee payment. Fees are deducted on the first day of each month.

## **C. Other Fees and Expenses**

The Partnership is responsible for expenses of the Partnership and the Master Fund, including a portion of the financing and/or brokerage-related expenses (including but not limited to custodial, brokerage, margin interest, expenses related to short sales, clearing and settlement, negative rebates, exchange fees, market access or technology fees, as well as any commitment fees with respect to committed but undrawn capital from any investor or financing counterparty); administrative and operational expenses (including but not limited to fund administration, tax, audit, legal (including but not limited to the legal expenses of any potential investor or counterparty and the costs of protecting the firm’s intellectual property), insurance, cash management, regulatory, compliance, due diligence (on Sub-Advisors and other counterparties, including related travel costs), monitoring, reporting (which shall include all applicable regulatory filing costs of the firm including, but not limited to, all costs associated with preparing and filing Form ADV, Form PF and any CFTC/NFA filings), data storage, firm record retention,

communications, risk management, Bloomberg terminals and fees, software); organizational expenses (including but not limited to expenses related to the drafting of the Partnership's constitutive documents, any agreement with any Sub-Advisor and any directly or indirectly related structuring costs); expenses related to the recruitment and retention of Sub-Advisors (including but not limited to travel, lodging, entertainment and meals (including with potential recruiting sources), conference/speaker fees, telecommunications (including but not limited to any and all equipment, monthly service fees, internet fees, data and service usage), industry association fees, executive search fees); the provision of any office space and support services to Sub-Advisors including but not limited to rent, electrical/utilities, lease or license negotiation, maintenance, contracting services, telecommunications, taxes, information technology, any and all equipment, machinery and appliances, insurance, office supplies, pantry supplies, furniture, fixtures, support services (including, without limitation, with respect to information technology, back and middle office support, legal and compliance, reception and office management) and any associated staffing for any of the foregoing (including but not limited to compensation and benefits) for the benefit of such Sub-Advisors; any Sub-Advisors' "Shared Expenses", without limitation, as defined in the Master Fund's governing documentation and similar expenses of the Partnership and the Master Fund. The Offshore Fund may be charged for its pro rata share of the Partnership's and the Master Fund's expenses, but is currently only charged for its own specific expenses.

#### **D. Prepayment of Fees**

Prelude's management fee is prepaid on the first day of each calendar month. Investors generally have the right to withdraw from the Partnership as of the last day of each calendar quarter. As such, there is expected to be no rebating of management fees.

#### **E. Compensation for the Sale of Securities**

Neither Prelude nor any of its supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

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

Each class of interest receives a certain percentage of the Partnership's profits and has a different level of exposure to the Partnership's losses. Prelude Capital Partners, LLC (the "General Partner"), an affiliate of Prelude that serves as the general partner to the Partnership, is entitled to receive a performance-based allocation of up to fifty percent (50%) of the overall net profits with respect to the subordinated class of investors (the "Performance Allocation"), payable at the end of each year or at the time of withdrawal of a Subordinated Investor from the Partnership. Payment of such Performance Allocation does not have an impact on other interest classes. The General Partner will deduct the Performance Allocation directly from each Subordinated Investor's capital account in arrears.

Prelude's affiliate's right to receive performance-based compensation could create an incentive for Prelude to cause a client to make investments that are riskier or more speculative than would be the case if Prelude's affiliate did not receive such compensation. In addition, Sub-Advisors at the Master Fund level earn performance-based compensation. The right of such Sub-Advisors to receive performance-based compensation could create an incentive for such Sub-Advisors to make investments that are riskier or more speculative than would be the case if such Sub-Advisors did not receive such compensation.

Given that Prelude operates one fund structure, we note there is no possibility at this time for favoritism of one client over the other related to the payment of performance-based compensation.

## **Item 7           Types of Clients**

We provide investment advisory services to private funds consisting of two limited partnerships and a foreign company.

Investors in the Partnership are required to meet certain suitability thresholds including being an accredited investor (as defined in Regulation D of the Securities Act of 1933, as amended (the “Securities Act”)), a qualified client (as defined in the Advisers Act), a qualified eligible person (as defined in the Commodity Exchange Act, as amended) and a qualified purchaser (as defined under the Investment Company Act of 1940), in each instance as applicable, and all investors are required to meet general sophistication requirements. All investors in the Partnership are required to invest a minimum amount of \$1,000,000, subject to the terms of its partnership agreement, which amount may be reduced in the sole discretion of the General Partner. There is no minimum amount required to be maintained in the Partnership.

US investors in the Offshore Fund are also required to meet certain suitability thresholds including being an accredited investor, a qualified eligible person and a qualified purchaser and all investors are required to meet general suitability requirements. The minimum initial subscription to invest in the Offshore Fund is \$100,000. There is no minimum amount required to be maintained in the Offshore Fund.

Investors in the Master Fund are required to meet certain suitability thresholds including being an accredited investor, a qualified client, a qualified eligible person and a qualified purchaser, in each instance as applicable, and all investors are required to meet general sophistication requirements. There is no minimum investment amount required initially with respect to the Master Fund, however, there are certain threshold investment amounts that Special Investors must maintain in their capital accounts at the Master Fund level. These are negotiated on a case-by-case basis with Prelude. In order for each Special Investor to maintain its investment, its related Sub-Advisor must remain in compliance with the risk guidelines and other terms outlined in its sub-advisory agreement.

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

### **A.   Methods of Analysis and Investment Strategies**

Prelude allocates assets of its clients to Sub-Advisors within the Master Fund who in turn invest in a variety of securities across a range of strategies. Sub-Advisors may be unaffiliated or affiliated with Prelude. The Partnership invests exclusively in the Master Fund. The Offshore Fund invests substantially all of its assets in the Partnership. Please see **Item 4 Advisory Business** for additional information.

Allocations that Prelude makes to Sub-Advisors are generally made in conjunction with an investment of subordinated capital in the Master Fund by such Sub-Advisor’s related Special Investor which is equal to a designated percentage of the overall allocation the Sub-Advisor initially receives. The Master Fund can waive the obligation to contribute subordinated capital with respect to any Sub-Advisor. The trading strategies vary and can consist of a variety of securities investments, whether long or short, and can incorporate derivatives, futures, currencies, commodities and other specialized investment techniques with the prior approval of Prelude.

Prelude employs a team of experienced professionals to conduct Sub-Advisor research. This team is responsible for meeting with prospective Sub-Advisors to ascertain whether or not they would be appropriate to receive a Prelude allocation. Initial meetings focus on the prospective Sub-Advisor’s history and track record, including the relevant employment experience of its management and/or portfolio

managers. Later-stage discussions include a more focused review of the prospective Sub-Advisor's investment strategy and portfolio holdings. If Prelude and the prospective Sub-Advisor decide to pursue a relationship, Prelude will conduct additional due diligence on the Sub-Advisor, including conducting background investigations of certain key personnel and employing an independent third-party to conduct additional operational due diligence.

Investing in securities involves risk of loss (as described in greater detail below) and our clients, as well as the investors therein, should be prepared to bear any and all of such losses.

## **B. Risk of Loss**

Prelude's investment activities involve a significant degree of risk of loss that investors should be prepared to bear. While Prelude seeks to manage the Funds so that risks are appropriate to the return potential for the strategy, it is often not possible or desirable to fully mitigate risks. Any investment includes the risk of loss and there can be no guarantee that a particular level of return will be achieved. Prelude expects that interests in the Funds will not constitute any investor's entire portfolio and are generally not intended to provide a complete investment program. Investors are responsible for appropriately diversifying their assets to guard against the risk of loss.

This section contains a discussion of certain risks associated with Prelude's investment activities; a more complete description of risks is included in the applicable Fund governing and disclosure documents. The discussion below should not be viewed as a substitute for careful review of those documents.

Risk factors set forth which involve trading refer generally to trading effected by the Sub-Advisors on behalf of the Master Fund, unless the context otherwise requires. The following list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in the Funds. Risk factors set forth below are in alphabetical order and have not been organized by any other criteria.

*Cybersecurity Breaches and Disruptions.* "Cybersecurity" is a general term used to describe the technology, processes and practices designed to protect networks, systems, computers, programs and data from intentional cyber-attacks and hacking as well as unintentional damage or interruption that, in either case, can result in damage and disruption to hardware and software systems, loss or corruption of data, or misappropriation of confidential or sensitive data.

Prelude, the General Partner, the Funds, the Sub-Advisors and their respective service providers (including the Funds' administrator) depend on both outsourced and internal information technology systems to perform their duties and meet their obligations. Notwithstanding the diligence with which Prelude (as well as any Sub-Advisor) reviews their own information technology systems or those of its or their service providers, a party may not be in a position to verify the risks or reliability of such systems or to protect such systems. Similarly, despite any training or other measures that Prelude (or any Sub-Advisor) performs with regard to its employees, professionals or any service providers, such individuals may intentionally or inadvertently take action, or fail to act, in a manner that poses risks to Prelude, the General Partner or the Funds (or any Sub-Advisor). Therefore the Master Fund, any Sub-Advisor and their service providers could be subject to losses, damage and interruptions arising out of cyber incidents, phishing attempts, cybersecurity breaches, denial-of-service attacks, computer viruses, network failures, computer and telecommunication failures, employee and professional usage errors, power outages, and unauthorized access to computer networks and hardware and computer systems, in addition to catastrophic events, such as fires, hurricanes, floods and other natural disasters, and terrorist incidents.

If Prelude's or the Master Fund's hardware, systems, networks or software are compromised, become inoperable or cease to function properly due to cyber incidents or otherwise, the Master Fund could incur significant costs to fix or replace them. The damage to, or interruption or failure of, these information technology systems for any reason could cause significant interruptions in Prelude's, the Master Fund's (or any Sub-Advisor's) operations and result in a compromise of the security, confidentiality or privacy of confidential or sensitive data, including personal information relating to investors (and the beneficial owners of investors) and cause material financial loss or harm. Such an incident could harm Prelude's (or any Sub-Advisor's), the General Partner's or any of the Funds' reputation, subject any such entity and their respective affiliates to legal claims and otherwise affect its business and financial performance. Such damage to, or interruption or failure of, these information technology systems might cause losses to the Master Fund by interfering with the operations of Prelude or the Master Fund or by requiring a significant amount of Prelude's time.

The Master Fund could also incur substantial costs as the result of such an incident, including costs associated with forensic analysis of the origin and scope of the incident, increased and upgraded cybersecurity measures, identity theft, unauthorized use of proprietary information, litigation, adverse investor reaction, the dissemination of confidential or sensitive data, reputational damage and necessary or otherwise appropriate repairs or upgrades to damaged information technology systems. In addition, cybersecurity issues and risks are currently a major focus area of the SEC, the CFTC and other regulatory authorities. Any such regulatory authorities may in the future increase the scrutiny with which they examine and evaluate the policies, procedures, and systems of Prelude (or any Sub-Advisor) and interpret existing statutes and regulations. Any such incidents, or any actual or perceived shortcomings with respect to applicable statutes and regulations, could expose one or more of the Master Fund or Prelude (or a Sub-Advisor) to civil, legal or regulatory liability as well as regulatory inquiry or action.

*Forward Trading.* The Master Fund's investment program could include forward contracts. Forward contracts and options thereon, unlike futures contracts, are not traded on exchanges and are not standardized; rather banks and dealers act as principals in these markets, negotiating each transaction on an individual basis. Forward and "cash" trading is substantially unregulated; there is no limitation on daily price movements and speculative position limits are not applicable. The principals who deal in the forward markets are not required to continue to make markets in the currencies or commodities they trade and these markets can experience periods of illiquidity, sometimes of significant duration. There have been periods during which certain participants in these markets have refused to quote prices for certain currencies or commodities or have quoted prices with an unusually wide spread between the price at which they were prepared to buy and that at which they were prepared to sell. Disruptions can occur in any market due to unusually high trading volume, political intervention or other factors. The imposition of controls by governmental authorities might also limit such forward (and futures) trading to less than that which would otherwise be desired, to the possible detriment of the Master Fund. In respect of such trading, the Master Fund would be subject to the risk of counterparty failure or the inability or refusal by a counterparty to perform with respect to such contracts. Market illiquidity or disruption could result in substantial losses to the Master Fund.

*Futures.* The Master Fund at times engages in futures transactions. The Master Fund is not limited in the amount of futures activity in which it may engage. Futures contracts are usually made on a futures exchange which call for the future delivery of a specified "commodity" at a specified time and place. These contractual obligations, depending on whether one is a buyer or a seller, may be satisfied either by taking or making physical delivery of the "commodity" or by making an offsetting sale or purchase of an equivalent futures contract on the same exchange prior to the end of trading in the contract month.



Futures prices may be highly volatile. Financial instrument and foreign currency futures prices are influenced by, among other things, interest rates, changes in balances of payments and trade, domestic and international rates of inflation, international trade restrictions and currency devaluations and revaluations. The Master Fund's profitability will depend on the relevant Sub-Advisor's or Sub-Advisors' ability to analyze price movements in those markets. Because low margin deposits are normally required, an extremely high degree of leverage is obtainable in futures trading. A relatively small price movement in a futures contract, consequently, may result in large losses. Thus, like other highly leveraged investments, any purchase or sale of a futures contract may result in losses which exceed the amount invested.

*Hedging Transactions.* The Master Fund utilizes a variety of financial instruments such as derivatives, options, swaps and forward contracts, both for investment purposes and for risk management purposes. Hedging also involves special risks including the possible default by the other party to the transaction, illiquidity and, to the extent our assessment of certain market movements is incorrect, the risk that the use of hedging could result in losses greater than if hedging had not been used. The Master Fund is subject to the risk of the failure or default of any counterparty to its or their transactions. If there is a failure or default by the counterparty to such a transaction, the Master Fund will have contractual remedies pursuant to the agreements related to the transaction (which may or may not be meaningful depending on the financial position of the defaulting counterparty). The Master Fund may seek to minimize counterparty risk through the selection of financial institutions and types of transactions employed. However, the Master Fund's operational mechanisms may involve counterparty and other risk elements that may create unforeseen exposures.

*Leverage and Short Selling.* The Master Fund's investment program includes such investment techniques as leverage and short selling which practices can, in certain circumstances, maximize the adverse impact to which the Master Fund's investments may be subject.

*Leverage.* The Master Fund utilizes leverage in its investment program within the confines of applicable regulations. Sub-accounts employ leverage insofar as they are established by Prelude through the use of equity and margin financing provided by the Master Fund's various prime brokers. As such, the amount of such leverage will at times be substantial. Leverage creates an opportunity for greater yield and total return, but at the same time increases exposure to capital risk and higher current expenses. If the Master Fund or any Sub-Advisor purchases securities on margin and the value of those securities declines, the Master Fund could be obligated to pay down the margin loans to avoid liquidation of the securities. If loans to the Master Fund are collateralized with portfolio securities that decrease in value, the Master Fund could be obligated to provide additional collateral to the lender in the form of cash or securities to avoid liquidation of the pledged securities. Any such liquidation could result in substantial losses. Further, as a result of trading with a high degree of leverage, a relatively small price movement in a security may result in immediate and substantial losses to the Master Fund or to any sub-account (which could immediately trigger a loss of the total amount of subordinated risk capital posted by any Sub-Advisor through its affiliated Special Investor). As a result, any trade could result in losses in excess of the amount invested, which would likely have a detrimental impact on a Sub-Advisor's sub-account and could result in losses for the Partnership, notwithstanding the fact that such Sub-Advisor may have posted subordinated risk capital. It is also possible that the Master Fund will lose more than its initial margin deposit on a trade. Further, counterparties of the Master Fund, in their sole discretion, may change the leverage limits that they extend to the Master Fund, which could have a detrimental impact on any positions currently maintained through the use of leverage by any Sub-Advisor.

*Short Selling.* The Master Fund might sell short securities of an issuer in the expectation of covering the short sale with securities purchased in the open market at a price lower than that received in the short sale. If the price of the issuer's securities declines, the Master Fund could then cover the short position with securities purchased in the market. The profit realized on a short sale will be the difference between the price received in the sale and the cost of the securities purchased to cover the sale. The possible losses from selling short a security differ from losses that could be incurred from a cash investment in the security; the former could be unlimited, whereas the latter can only equal the total amount of the cash investment. Short selling activities are also subject to restrictions imposed by the federal securities laws and the various national and regional securities exchanges, which restrictions could limit a client's investment activities. There can be no assurance that securities necessary to cover a short position will be available for purchase.

*Model Risk.* Certain of the investment strategies employed by Sub-Advisors on behalf of the Master Fund are highly dependent on quantitatively based pricing theories and valuation models, which the Sub-Advisors use to evaluate investment opportunities. Such models generally seek to forecast future price changes based upon a limited number of factors and inputs. The forecasts generated by these models can differ substantially from actual future price realizations, resulting in material losses to the Master Fund. There can be no assurance that such models will be effective or that they will be effectively utilized by the relevant Sub-Advisors. The models used by the Sub-Advisors often depend upon inputs from various sources, and in the event such inputs are not accurate, unexpected losses could be incurred. The Sub-Advisors anticipate the continued modification, enhancement and development of models. Each new generation of models (including incremental improvements to current models) exposes the Master Fund to the possibility of unforeseen losses from a variety of factors, including conceptual failures and implementation failures.

*Options.* The Master Fund engages from time to time in various types of options transactions. An option gives the purchaser the right, but not the obligation, upon exercise of the option, either (i) to buy or sell a specific amount of the underlying security at a specific price (the "strike" price or "exercise" price), or (ii) in the case of a stock index option, to receive a specified cash settlement. To purchase an option, the purchaser must pay a "premium," which consists of a single, nonrefundable payment. Unless the price of the securities underlying the option changes and it becomes profitable to exercise or offset the option before it expires, the Master Fund could lose the entire amount of the premium. The purchaser of an option runs the risk of losing the entire investment. Thus, the Master Fund could incur significant losses in a relatively short period of time. The ability to trade in or exercise options also could be restricted in the event that trading in the underlying securities interest becomes restricted. Options trading could also be illiquid in the event the Master Fund's assets are invested in contracts with extended expirations. The Master Fund can purchase and write put and call options on specific securities, on stock indices or on other financial instruments and, to close out its positions in options, can make a closing purchase transaction or closing sale transaction. In theory, the exposure to loss is potentially unlimited in the case of an uncovered call writer (i.e., a call writer who does not have and maintain during the term of the call an equivalent long position in the stock or other security underlying the call), but in practice the loss is limited by the term of existence of the call. The risk for a writer of an uncovered put option (i.e., a put option written by a writer that does not have and maintain an offsetting short position in the underlying stock or other security) is that the price of the underlying security may fall below the exercise price.

*Political Uncertainty Risk.* Markets in which the Master Fund is invested or to which it is exposed may experience political uncertainty (e.g., Brexit), that subjects investments to heightened risks, even when made in established markets. These risks include: greater fluctuations in currency exchange rates;

increased risk of default (by both government and private issuers); greater social, economic, and political instability (including the risk of war or natural disaster); increased risk of nationalization, greater governmental involvement in the economy; less governmental supervision and regulation of the securities markets and participants in those markets; controls on foreign investment, capital controls and limitations on repatriation of invested capital and on the ability to exchange currencies; inability to purchase and sell investments or otherwise settle security or derivative transactions (i.e., a market freeze); unavailability of currency hedging techniques; slower clearance; and difficulties in obtaining and/or enforcing legal judgments. During times of political uncertainty, the securities, derivatives and currency markets may become volatile. There also may be a lower level of monitoring and regulation of markets while a country is experiencing political uncertainty, and the activities of investors in such markets and enforcement of existing regulations may be limited.

Markets experiencing political uncertainty may have substantial, and in some periods extremely high, rates of inflation for many years. Inflation and rapid fluctuations in inflation rates may have negative effects on such countries' economies and securities markets. There can be no assurance that adverse political changes will not cause the Master Fund to suffer a loss of any or all of its investments or, in the case of fixed income securities, interest thereon.

*Risks of Derivatives.* The Master Fund at times trades derivatives. The risks posed by derivatives include (1) credit risks (the exposure to the possibility of loss resulting from a counterparty's failure to meet its financial obligations); (2) market risks (adverse movements in the price of a financial asset or commodity); (3) legal risks (an action by a court or by a regulatory or legislative body that could invalidate a financial contract); (4) operations risks (inadequate controls, deficient procedures, human error, system failure or fraud); (5) documentation risks (exposure to losses resulting from inadequate documentation); (6) liquidity risks (exposure to losses created by the inability to prematurely terminate a derivative); (7) system risks (the risk that financial difficulties in one institution or a major market disruption will cause uncontrollable financial harm to the financial system); (8) concentration risks (exposure to losses from concentration of closely-related risks such as exposure to a particular industry or exposure linked to a particular entity); and (9) settlement risks (the risk that a client faces when it has performed its obligations under a contract but has not yet received value from its counterparty).

*Side Letters.* The Funds will from time to time, to the fullest extent permitted by the relevant Fund's constitutive documents and applicable law, seek to induce investment in such Fund by offering investment terms to certain prospective or current investors which are not generally available to investors in that Fund. In such cases the parties will enter into a written side arrangement varying the standard terms of an investment in such Fund. Such variations could include, without limitation but as permitted by the relevant Fund's constitutive documents and applicable law, variations to fees, minimum investment or redemptions, with the effect that not all investors in such Fund will invest on the same terms and some investors may be expected to enjoy more favorable terms than others.

*Sub-Advisor Office Space.* Prelude provides certain Sub-Advisors with office space. Prelude (as well as any counterparty retained to provide any part of the services, as described in the Master Fund's offering documents) takes all steps reasonably practicable to maintain the privacy of each Sub-Advisor or other counterparty and as a general matter, it is not permissible for Prelude and/or any Sub-Advisor or other counterparty to share such parties' information. Notwithstanding the foregoing, provision of the services could make it challenging for Prelude or any one Sub-Advisor or other counterparty to maintain effective communication barriers and information barriers, and could result in technological issues and/or conflicts of interest. The potential risks of this arrangement include, without limitation, that the receipt of any

material nonpublic information by any Sub-Advisor or other counterparty may restrict another Sub-Advisor or other counterparty from effectuating a trade, that ineffective or inadequate technological barriers could result in cybersecurity breaches and that various conflicts of interest could arise.

*Subordinated Risk Capital Investment.* A Special Investor's investment in the Master Fund, which constitutes a contribution of risk capital to the Master Fund relevant to the allocation its related Sub-Advisor manages on behalf of the Master Fund, sits in a subordinated position with respect to losses incurred by such related Sub-Advisor's sub-account. Any losses incurred by the Sub-Advisor's sub-account will be borne first by such Special Investor's risk capital contribution and as such, a Special Investor must be prepared to bear the potential loss of such capital, up to the entire amount of its investment, as described in detail in the Master Fund's offering document and partnership agreement, as well as any sub-advisory agreement to which it is a party. Furthermore, in the event a Sub-Advisor's trading results in the loss of the entirety of its related Special Investor's risk capital contribution, losses in excess of such contribution will be allocated to the Partnership and subsequently borne by its investors.

*Transaction Expenses.* The Master Fund may make frequent trades in securities. Frequent trades may impact investment performance, as this practice typically results in correspondingly high transaction costs.

*Use of Data.* Prelude uses, and in the future could use, data generated by the Master Fund, including trading data, for its own account, including for its own trading or modeling purposes (referred to herein as "Data Use"). Such data, as a whole or with respect to one or more Sub-Advisors (on an anonymous basis), currently is and in the future could also be licensed by Prelude or its affiliates to third parties (referred to herein as "Data Sharing") in exchange for fees. The recipients of such fees could include Prelude and any of its affiliates and/or certain investors in the Partnership. No Sub-Advisor or Special Investor should have any expectation of sharing in any fees generated by Prelude through Data Use or Data Sharing. Data Use and Data Sharing may be with a time delay as short in duration as the day after any trading day. As a result, such Data Use or Data Sharing could potentially affect the Master Fund's returns and the returns of other accounts or vehicles managed by a Sub-Advisor if the user and/or recipient of the information were to engage in trading that impacts the trading of any Sub-Advisor (whether intentionally or unintentionally). Notwithstanding the foregoing, Prelude will only engage in Data Sharing with counterparties who agree to act in compliance with applicable laws, including with respect to laws regarding specific trading practices (and shall similarly act in compliance with any such laws in the case of Data Use). Further, Data Sharing could be in the form of general information about the Master Fund's trading or it could be more specific, to enable the third party to determine one or more of the trading strategies implemented by the Master Fund. In connection with such Data Sharing, Prelude will not share the names or any personal information of any of its Sub-Advisors with any such third parties without the specific consent of such Sub-Advisors, nor shall it take any other action regarding Data Use or Data Sharing that violates any Sub-Advisory Agreement then in effect.

*Use of Sub-Advisors.* The Master Fund is in part dependent upon the expertise and abilities of the Sub-Advisors, who each have investment discretion over a portion of the Master Fund's assets. Therefore, the investment decisions made by any Sub-Advisor or its principals, as well as the death, incapacity or retirement of any Sub-Advisor or its principals, could potentially adversely affect investment results of the Master Fund. While Prelude performs due diligence and conducts risk analyses on each Sub-Advisor prior to providing it with an allocation, and while Prelude closely monitors the investment parameters and performance of each Sub-Advisor's allocation, it should be noted that Prelude may not be able to prevent substantial losses from being incurred by a Sub-Advisor. Furthermore, it could be difficult for Prelude to

uncover fraudulent activity, violations of laws, rules or regulations, or breaches of sub-advisory agreements perpetrated by one or more Sub-Advisors.

*In view of the foregoing considerations, an investment with Prelude is suitable only for investors who are capable of bearing the relevant risks (including a total loss of investment) and conflicts of interest. To the extent that prospective investors would benefit from an independent review, such benefit is not available through Prelude or any of its affiliates. Prospective investors are encouraged to seek the advice of independent legal counsel in evaluating the risks of any offering. In addition, as an investment program develops and changes over time, an investment with Prelude may be subject to additional and different risks.*

### **C. Risk Associated with a Particular Type of Security**

Not applicable.

### **Item 9 Disciplinary Information**

Not applicable.

### **Item 10 Other Financial Industry Activities and Affiliations**

#### **A. Registration as a Broker-Dealer**

Neither Prelude nor any of Prelude's management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.

#### **B. Registration as a Futures Commissions Merchant, Commodity Pool Operator or Commodity Trading Advisor**

Prelude is not registered as a futures commission merchant, commodity pool operator (a "CPO"), a commodity trading advisor or an associated person of any of the foregoing. The General Partner, which is Prelude's related person, is registered as a CPO with the National Futures Association (the "NFA"). Gavin Saitowitz and Cisco J. del Valle, the Managing Members of Prelude and the General Partner, are registered as associated persons of the General Partner.

#### **C. Material Relationships**

The General Partner, a related person of Prelude, serves as the Partnership's general partner. This relationship creates an incentive for Prelude to make investment allocations that are riskier or more speculative than would be the case if the General Partner did not receive incentive compensation from the Partnership for serving as the general partner to the Partnership.

#### **D. Conflicts of Interest in Selecting Other Investment Advisers for which Prelude Receives Compensation**

The Master Fund can allocate capital to be managed by related parties, including by Prelude or third-parties retained by Prelude, as discussed herein. There is a conflict of interest in Prelude, an affiliated Sub-Advisor or a third-party agent on behalf of Prelude managing a sub-account for the Master Fund as Prelude typically negotiates agreement terms with Sub-Advisors and in such a situation an arms' length negotiation would not be possible. In light of these potential conflicts, should such circumstances arise, Prelude will work internally to determine, in its reasonable judgment, that any proposed action and

negotiated terms are consistent with the best interests of the Master Fund and are on terms that are commercially reasonable. Prelude will do this by convening a meeting or meetings of certain members of senior management who comprise its conflicts of interest committee, which will be tasked with considering the facts and ensuring the course of conduct decided upon is one which Prelude would approve if it were not a party to the transaction. The purpose of the conflicts of interest committee's analysis in such circumstances is to determine whether the Master Fund's investors are at all times being treated fairly and equitably, that the terms of such arrangements are commercially reasonable and that actions taken by Prelude or any third parties are reasonably believed to be in the Master Fund's best interests.

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

### **A.    Code of Ethics**

In accordance with Rule 204A-1 of the Advisers Act, Prelude has adopted a code of ethics (the "Code"). The Code sets forth standards of conduct expected of advisory personnel, addresses safeguarding material nonpublic information about client transactions and addresses conflicts that arise from personal trading by advisory personnel. For the avoidance of doubt, the Code is applicable to Prelude's employees only and is not applicable to the Sub-Advisors. Each Sub-Advisor is responsible for the compliance program of its organization.

It is our policy that our operations be conducted in compliance with the law and with the highest ethical standards. This policy applies to all employees and others working on behalf of Prelude wherever located. Each employee has an obligation to act at all times in an honest and ethical manner and with the highest integrity in dealings with clients and/or any third party.

The Code is designed to, among other things, provide a statement of the general standards of conduct required by us of our employees, including in such areas as conflicts of interest, confidential information, use of Prelude property, personal securities investing and illegal insider trading.

The foundation of the Code consists of three underlying principles: (1) employees must at all times place the interests of Prelude's clients before their own interests, (2) employees must make sure that all personal securities transactions are conducted consistent with the Code and the Prelude employee investment policy (the "EIP"), and in such a manner as to avoid any actual or potential conflicts of interest or any abuse of an individual's position of trust and responsibility and (3) employees should not take inappropriate advantage of their positions (for example, the receipt of investment opportunities, perquisites or gifts from persons seeking business with Prelude could call into question the exercise of an employee's independent judgment).

As with all policies and procedures, the Code is designed to cover a variety of circumstances and conduct; however, no policy or procedure can anticipate every potential conflict of interest that can arise in connection with personal trading. Consequently, employees are expected to abide not only by the letter of the Code, but also by the spirit of the Code.

Because our policies, governmental regulations and industry standards relating to personal trading and potential conflicts of interest can change over time, we may modify any or all of the policies and procedures set forth in the Code. Employees will be given written notification in the event that Prelude revises the Code. It is the responsibility of each employee to become familiar with any modifications to the Code.

We will provide a copy of the Code to any investor or prospective investor upon request. Such a request should be submitted by contacting Prelude at (212) 546-1180 or at [info@preludecapital.com](mailto:info@preludecapital.com).

## **B. Potential Conflicts Regarding Securities Recommendations**

The Offshore Fund and the Partnership invest their assets into the Master Fund. We do not believe that this creates a conflict of interest. To the extent other conflicts arise from time to time, Prelude addresses them in accordance with upholding its fiduciary duty to its clients. Please see *Item 4 Advisory Business* for additional information.

## **C. Personal Trading and Related Issues**

We permit our employees to engage in personal trading, subject to the provisions of the Code and the EIP. Prelude takes various steps to limit potential conflicts of interest and to monitor employee trading. Specifically, we prohibit any employee from representing Prelude or a client in any transaction where the employee's outside business interests could compromise his or her ability to fairly represent Prelude or its clients. Our employees are prohibited from owning interests in any corporation or participating in any outside business activity which Prelude reasonably believes could compromise the employee's loyalty to Prelude or its clients. Employees have a duty to notify the Chief Compliance Officer of any outside business activity, so the Compliance team may monitor the situation for potential conflicts.

Our employees must pre-clear all trades with the Compliance team (with limited exceptions for non-covered accounts or securities, such as open-ended mutual funds or ETFs). Employees provide the Compliance team with their brokerage statements on an annual and quarterly basis and complete quarterly holding reports. Employees also provide the Compliance team with the account information of all covered trading accounts so they may be accurately monitored.

Since it is not possible to contemplate all situations that might involve conflicts of interest, it is our policy that if an employee has any doubts or questions about the appropriateness of any interests or activities, that employee should contact the Chief Compliance Officer immediately.

With respect to potential conflicts regarding an employee's personal trading and, in a broader sense financial interests in general, no employee or other person working on behalf of Prelude, individual members of the employee's immediate family, or persons living in the employee's household is permitted to own, directly or indirectly, any interest in any corporation or other entity if ownership of such interest could compromise the loyalty or judgment of such employee or person working on behalf of Prelude. Whether a particular financial interest will constitute a conflict of interest or the appearance thereof will vary depending on the circumstances.

We strictly prohibit employees from engaging in any activity that could be considered illegal insider trading. We specifically forbid, among other things: (1) any trading while in possession of material, non-public information, (2) recommending the purchase or sale of any securities while in possession of material, non-public information and (3) communicating material, non-public information to others. Prelude attempts to curb any illegal insider trading by monitoring, and requiring the pre-clearance of, its employees' trades and by educating its employees as to what could constitute illegal insider trading, what actions are prohibited and what the potential penalties are for engaging in such illegal conduct.

Compliance and Code training for employees is held at least annually and may be held periodically as determined by the Chief Compliance Officer in relation to any relevant legal developments which could impact Prelude. Training can include a thorough review of Prelude's relevant policies and procedures, as

well as current regulatory topics, conducted by either the Compliance team or an independent third-party hired for such purpose. Specifically, employee training focuses on those issues Prelude deems most crucial related to its employees, including extensive discussions of the definition of insider information and the practices which may constitute illegal insider trading, employee conflicts of interest and trading policies, firm expense policy, cybersecurity policy, political contribution policy and gift policy.

#### **D. Transactions in Securities Recommended to Clients**

In addition, certain of our employees and related persons invest in the Partnership and/or the Offshore Fund. To the extent they do, they have a direct interest in the success of the Partnership. In addition, Prelude employees could from time to time invest in securities in their personal accounts that are held in the Master Fund by one or more Sub-Advisors.

### **Item 12 Brokerage Practices**

#### **A. Broker-Dealer Selection and Reasonableness of Compensation**

Prelude does not generally trade on behalf of the Master Fund, although it retains the right to do so, as such trading is conducted by the individual Sub-Advisors. Each Sub-Advisor may clear and settle securities transactions through various brokers, subject to Prelude's approval and the terms of each sub-advisory agreement. The relevant sub-account will be charged commissions by any broker or dealer it utilizes to effect trading in the sub-account on each trade executed in the sub-account per the terms of the applicable sub-advisory agreement.

Generally, portfolio transactions for the Master Fund are cleared through brokerage accounts maintained at various brokerage institutions, each of which may or may not also act as a custodian for the Master Fund. In Prelude's discretion, portfolio assets will at times be held for the benefit of the Master Fund by other financial institutions, including any brokers or dealers or other institutions through which a Sub-Advisor effects transactions on the Master Fund's behalf. The Master Fund may engage and pay fees and/or commissions to other or additional custodians, prime brokers and/or brokers, including without limitation, affiliates of Prelude, at any time. We can replace existing brokers without notice to the limited partners.

Portfolio transactions are executed by brokers and dealers selected on behalf the Master Fund on the basis of their ability to effect prompt and efficient executions at competitive rates and also in consideration of such brokers' provision or payment of brokerage or research services (referred to as payment made by "soft dollars," as further discussed herein). Reasonableness of commissions is assessed based on numerous factors, including but not limited to the nature of the services provided and the rates charged by competitors for the same or similar services.

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

Section 28(e) of the United States Securities Exchange Act of 1934, as amended, establishes a safe harbor (the "Section 28(e) safe harbor") allowing investment managers to use client funds, by way of commission dollars, to purchase certain brokerage and research services. The use of such commission dollars to obtain research or other products or services benefits the clients, who do not have to produce or pay for such research, products or services. Further, the amount of commissions paid by a client, if any (directly or indirectly), must be reasonable in light of the value of the brokerage or research services offered, taking into account various factors, including commission rates, financial responsibility and strength and ability of the broker to efficiently execute transactions. This practice could create an incentive to select or



recommend a broker-dealer based on research or other products rather than on a client's interest in best execution.

While Prelude does not currently directly utilize soft dollars, we do permit those Sub-Advisors managing assets for the Master Fund to do so, provided that all such benefits are within the Section 28(e) safe harbor. Under such circumstances, given that it is a Sub-Advisor and not Prelude or the Master Fund incurring (and putting to direct use) these soft dollar commissions, the soft dollar benefits at issue are monitored, and any invoices are paid, at the prime broker level for each sub-account (i.e., the Sub-Advisor maintains a soft dollar account with the prime broker where the sub-account is maintained). Any research or other permissible expenses are paid by the prime broker and Prelude is not provided with specific details regarding the benefit received at the Sub-Advisor level. When a Sub-Advisor uses brokerage commissions to obtain research or other products or services, the Sub-Advisor receives a benefit because it does not have to produce or pay for the research, product or services. Each prime broker that the Master Fund maintains a relationship with is aware that any soft dollar commissions must be utilized for services within the Section 28(e) safe harbor.

To the extent the Master Fund is required to pay commissions, if Prelude determines in good faith that the amount of commissions that a broker charges a Sub-Advisor seem reasonable in relation to the value of the brokerage or research services provided by such broker, then the Sub-Advisor would be permitted to trade with such broker. The Master Fund is enabled to pay commissions (or markups or markdowns) to a broker in an amount greater than the amount another broker might charge under such circumstances, in return for soft dollar benefits. Prelude has not directed client transactions to any particular broker-dealer in return for soft dollar benefits; however, individual Sub-Advisors are enabled to direct transactions to particular broker-dealers for a variety of reasons, which could include obtaining soft dollar benefits.

The Section 28(e) safe harbor is only available under certain circumstances and covers research services provided by brokers which generally include advice, analyses and reports, and could specifically include traditional research reports analyzing the performance of a particular company or stock, certain financial newsletters and trade journals, quantitative analytical software and software that provides analyses of securities portfolios, seminars, conferences and other services that reflect substantive content (i.e., the expression of reasoning or knowledge relating to the subject matter of Section 28(e)) and provide lawful and appropriate assistance to Prelude in the performance of its investment decision-making responsibilities on behalf of a client.

The Section 28(e) safe harbor is available only when a Sub-Advisor, on behalf of the Master Fund, conducts business with a broker that is involved with "effecting" the trades and which "provides" the research. "Effecting" trades generally involves executing, clearing or settling the trade. A broker "provides" the product or service if the broker that is effecting transactions for the advised accounts is either legally obligated to pay for the research or, is not legally obligated to pay, but pays the research preparer directly and takes steps to ensure that the services being paid with client commissions are eligible under the Section 28(e) safe harbor.

To the extent applicable, Prelude permits the use soft dollars within the parameters of the Section 28(e) safe harbor, for items including but not limited to research advice, analyses and reports and products and services that relate to the execution of a trade (e.g., connectivity services and trading software). Soft dollar items, whether provided directly or indirectly, can be utilized for the benefit of any of a Sub-Advisor's client accounts, not strictly the Master Fund. Such items need not be allocated proportionately to client accounts which generated the soft dollar credits and it is possible that the Master Fund will not

obtain the full benefit to which it would otherwise be entitled due to a Sub-Advisor's trading. Prelude permits the use of client commissions to acquire soft dollar items that a Sub-Advisor could otherwise be obligated to provide to, or acquire at its own expense for, its clients. In such an instance, the relevant party will analyze and determine that such soft dollar items may provide such client with benefits by supplementing the research and services otherwise available to such client.

To confirm that Sub-Advisors comply with the requirement that all soft dollar benefits fall within the Section 28(e) safe harbor, Prelude contacts each Sub-Advisor that utilizes commissions for soft dollar items at least annually to document the brokers with which such Sub-Advisors accrue soft dollar commission credits, the additional per share (or basis point) amount each Sub-Advisor is accruing and the nature of the soft dollar items acquired. If Prelude were to determine that the soft dollar items at issue did not fall within the Section 28(e) safe harbor, the relevant Sub-Advisor would be restricted from utilizing soft dollar items in connection with its sub-account going forward. Additionally, Prelude will contact the brokers utilized by Sub-Advisors on an as-needed basis to discuss their controls and procedures around the use of soft dollar commission credits.

## ***2. Brokerage for Client Referrals***

In addition to the factors described above, Prelude could consider a broker's referrals or the potential for future referrals when selecting brokers. As with client commission payments for brokerage and research services and/or products, a conflict of interest could arise as in some cases the transaction compensation paid might be higher than that obtainable from another broker-dealer who did not provide (or undertake to provide) referrals, although Prelude will seek to avoid such a result and will seek best execution. Awarding transaction business to brokers in recognition of past or future referrals could create an incentive for Prelude to cause a client to effect more transactions than it might otherwise do in order to stimulate more referrals.

In the last fiscal year Prelude did, in some instances, refer potential Sub-Advisors (and consequently the transactions they executed on behalf of the Master Fund) to specific brokers, generally under circumstances where such broker made the initial introduction to the Sub-Advisor.

## ***3. Directed Brokerage***

Not applicable.

## **B. Trade Aggregation**

Prelude does not generally at the present time directly enter into securities transactions, although it is able to and will do so from time to time. Furthermore, Prelude does not concurrently advise multiple trading vehicles and as such does not have occasion to aggregate trade orders. Should circumstances change in the future, however, we expect to adhere to the policy set forth below. It is Prelude's policy that trades be aggregated to facilitate best execution, or the execution of securities transactions for its clients in such a manner that the clients' total costs or proceeds in each transaction are the most favorable under the circumstances. As a matter of fiduciary duty, advisers must ensure that, when aggregating and allocating securities transactions, clients are treated in a fair and equitable manner over time.

Prelude's aggregation policy requires that all clients be treated fairly and equitably over time and that unless otherwise noted, each participating account receives pro rata the average price while transaction costs are shared pro rata based on participation. Further, we will not aggregate transactions unless to do

so is consistent with our duty to seek best execution for our clients and participating clients (as well as the allocation methods) are specified before entering into an aggregated order.

Orders on behalf of clients which will be aggregated, as well as orders on behalf of future client accounts whose orders will be aggregated, will be deposited with one or more banks or broker-dealers, and neither the client's cash nor their securities will be held collectively any longer than is necessary to settle the purchase or sale in question on a delivery versus payment basis; cash or securities held collectively for the clients will be delivered out to the custodian or broker-dealer as soon as practicable following the settlement. Our books and records will reflect securities held by, or bought or sold for, clients that participate in an aggregation. No additional compensation will be due as a result of aggregation.

## **Item 13            Review of Accounts**

### **A. Periodic Review of Client Accounts**

Prelude's Managing Members review client accounts periodically and on an as-needed basis. Such meetings involve discussing whether particular strategies or investment limitations would suit a client. Prelude's research team meets regularly to discuss current and potential Sub-Advisors and their strategies. In addition, our risk team consistently monitors the trading activity within client accounts to ensure compliance with the applicable investment strategies and limitations.

### **B. Non-Periodic Reviews**

A Sub-Advisor's material or repeated violation of its risk parameters, or a decrease below a certain level in its related Special Investor's capital account balance, generally triggers a non-periodic review of the relevant account by Prelude's Managing Members. Such a review would, at such time, involve working with the Sub-Advisor at issue to understand the circumstances and devise an appropriate solution.

### **C. Client Reporting**

As soon as practicable following completion of the annual audit of the Funds and within the timeframes dictated by applicable laws, Prelude will prepare and mail, or will cause to be prepared and mailed, to each limited partner or shareholder a written financial report presented in accordance with US generally accepted accounting principles ("GAAP"), together with the report thereon submitted by the accountants selected by the General Partner, setting forth, as of the end of such Fiscal Year and for each Fund in which they are invested: (a) a balance sheet, (b) an income statement and (c) a statement showing the aggregate fund gains and aggregate fund losses for such year.

In addition, as soon as practicable following the end of each month, Prelude prepares and mails, or causes to be prepared and mailed, to each investor a statement of such investor's capital account balance.

Tax information, including, but not limited to a Form K-1, is provided and sets forth in sufficient detail such information as shall enable each limited partner, or former limited partner, as necessary, to prepare its respective income tax returns in accordance with the laws, rules and regulations then prevailing.

## **Item 14            Client Referrals and Other Compensation**

### **A. Economic Benefits Provided by Non-Clients**

Broker-dealers (including, without limitation, prime brokers) and other counterparties generally provide a variety of services, including capital introduction services and introductions to potential Sub-Advisors. Prelude is not required to direct any volume of business in return for these services. However, it has an incentive to maintain relationships with these firms based on their prior and continued services and thus to not use or consider other counterparties even though such other counterparties may offer different or arguably superior products and services. Notwithstanding the foregoing, Prelude periodically reassesses its relationships with its counterparties and always acts in accordance with its fiduciary duty to its clients taking into account all the relevant facts and circumstances.

## **B. Compensation for Client Referrals**

While not presently retained, we reserve the right to retain one or more affiliated or non-affiliated Placement Agent(s). Our Chief Compliance Officer will determine whether any such arrangements are subject to SEC Rule 206(4)-3 and if so, whether the arrangements comply with such rule and any other applicable laws.

### **Item 15 Custody**

The General Partner, an affiliate of Prelude, serves as the general partner of the Partnership and the Master Fund and as such is deemed to have custody of the Partnership and the Master Fund clients' funds and securities. The General Partner may also be deemed to have custody of the client assets of the Offshore Fund, as the General Partner serves as the CPO to the Offshore Fund by way of a delegation agreement. Investors in the Offshore Fund, the Partnership and the Master Fund receive audited financial statements prepared in accordance with GAAP within 90 days of each of the relevant Funds' fiscal year end, due to the fact that the Funds' CPO is registered with the NFA. Investors should contact us if they have any questions about the audited financial statements or fail to receive them timely.

### **Item 16 Investment Discretion**

We have broad discretionary authority to manage securities accounts on behalf of the limited partners who are investors in our funds under management. Prelude is delegated such authority in the Partnership Agreements of the Partnership and the Master Fund, which each limited partner must execute prior to becoming an investor in the relevant Fund, as well as in the Investment Management Agreement of the Offshore Fund. The Master Fund grants each Sub-Advisor a limited power of attorney to exercise investment discretion only with respect to the assets that the Sub-Advisor has been allocated.

Prelude is not restricted in its discretionary authority, however it abides by the risk profile and investment guidelines of each client entity under its management. All Sub-Advisors managing allocations on behalf of Prelude clients are subject to risk guidelines and investment restrictions, which are tailored to protect the investments of all investors in any of the funds under management. For additional information on Prelude's advisory services in general, please see ***Item 4 Advisory Business***.

### **Item 17 Voting Client Securities**

Prelude has been given discretionary authority for investment decisions by its clients, and thus has authority to vote proxies on behalf of its clients unless an investment advisory agreement stipulates otherwise. If Prelude has discretionary authority, clients do not direct voting in any particular proxy solicitation.

Were Prelude to vote proxies, where applicable and when given authority, it would do so in the best interests of its clients in terms of maximizing clients' rate of return on investment. In certain cases, this may involve refraining from voting when the cost of voting exceeds the expected benefit. Prelude has authority to vote proxies on behalf of the Funds, however it does not as a general matter do so given the structure and strategies of the Funds. The Sub-Advisors who have been delegated trading authority are able to vote any relevant proxies and maintain their own proxy voting policies.

In the event Prelude does have occasion to vote proxies, potential material conflicts of interests may arise with any particular proxy solicitation. Such conflicts may include, but are not limited to, the following: the individual designated to vote proxies owns an interest in the company in which Prelude will vote on a proxy; the individual designated to vote proxies will receive some unusual compensation or profit based on how Prelude votes on a proxy; the individual designated to vote proxies serves as a director in the company in which Prelude will vote on a proxy; the individual designated to vote proxies has an immediate family member (spouse, child, parent, sibling, or in-law) that is a director in the company in which Prelude will vote on a proxy; the individual designated to vote proxies has a personal relationship with an executive or director in the company in which Prelude will vote on a proxy; and the individual designated to vote proxies has a personal relationship with a candidate to be a director in the company in which Prelude will vote on a proxy. In the event of such a conflict of interest, Prelude's proxy voting committee may determine that the individual designated to vote proxies has such a conflict of interest and is to be recused from voting the proxy at issue. In such cases, the remaining non-conflicted members will vote the proxy.

To comply with SEC Rule 206(4)-6 and amended Rule 204-2, Prelude maintains a copy of its Proxy Voting Policy and Procedures; it also maintains records of proxy statements received pertaining to client securities and records of votes cast by Prelude, any documents prepared by Prelude that were material to making a decision how to vote or that memorialized the basis for the decision and records of each client request for proxy voting records as well as Prelude's response to such requests.

We will provide a copy of Prelude's Proxy Voting Policies and Procedures and information on how Prelude has voted proxies to any investor or prospective investor upon request. Such a request should be submitted by contacting Prelude at (212) 546-1180 or at [info@preludecapital.com](mailto:info@preludecapital.com).

## **Item 18 Financial Information**

### **A. Balance Sheet**

Not applicable.

### **B. Financial Conditions that Could Impair Contractual Commitments to Clients**

Not applicable.

### **C. Bankruptcy**

Not applicable.