

## BROCHURE OF

### **Blau Capital Ltd.**

An Israel domiciled limited company registered with the Securities and Exchange Commission as an Investment Adviser (CRD #158295)

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The date of this brochure (the "**Brochure**") is

**March 2019**

The delivery of this Brochure at any time does not imply that the information contained herein is correct as of any time subsequent to the date shown above. This Brochure will supersede all other documents containing information about our Firm.

**Item 2. Material Changes:**

Blau Capital is filing this Form ADV Part 2A as part of its annual update for the calendar year ending December 31, 2018. Since the last amendment filed on March 28, 2018, this brochure has been amended to reflect updated assets under management in Item 4, among other general updates.

**Item 3. Table of Contents:**

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

**Item 4. Advisory Business:**

- (A) **Operational and Organizational Information:** Blau Capital Ltd. (“**Blau Capital**” or the “**Firm**”) is an Israeli limited company and a U.S. Securities and Exchange Commission (“**SEC**”) registered investment adviser. The Firm was formed in December 2003. The principal owner of the Firm is Shai Blau (the “**Principal**”).
- (B) **Types of Advisory Services Offered:** Blau Capital provides portfolio management services to high-net worth individuals and institutional clients through separately managed accounts (“**Separate Accounts**”) and privately offered pooled investment vehicles (each a “**Fund**” and collectively the “**Funds**”). The Firm provides advisory services to two Israel-domiciled limited partnerships: Blau (S.B.) Investments 2010, LP, and Blau Investments Leveraged, LP (the “**Israeli Funds**”). The investors in the Israeli Funds are all Israel persons. Additionally, Blau Capital provides advisory services to Blau Capital Onshore Fund L.P., a Delaware limited partnership (the “**Onshore Fund**”), and Blau Capital Offshore Fund Ltd., an exempted company incorporated under the laws of the Cayman Islands (the “**Offshore Fund**”), in a master-feeder structure where Blau Capital Master Fund L.P. serves as the master fund (the “**Master Fund**”).

Blau Capital also provides investment services to Blau Capital Discretionary Onshore Fund L.P., a Delaware limited partnership (the “**Discretionary Onshore Fund**”, and together with the “**Onshore Fund**” referred to as the “**Onshore Funds**”), and Blau Capital Discretionary Offshore Fund L.P., an exempted limited partnership formed under the laws of the Cayman Islands (the “**Discretionary Offshore Fund**”, and together with the “**Offshore Fund**” referred to as the “**Offshore Funds**”), in a master-feeder structure where Blau Capital Discretionary Master Fund L.P. (the “**Discretionary Master Fund**”, and together with the “**Master Fund**” referred to as the “**Master Funds**”) serves as the master fund.

Note: For purposes of this Brochure, “**Client**” may include a pooled investment vehicle, investors in such a vehicle (also called “**Limited Partners**” or “**Shareholders**”), and Separate Account clients.

The Firm does not hold itself out as specializing in a particular type of advisory service. Please review the Firm’s investment guidelines, specified below under “Client Investment Guidelines and Parameters.”

- (C) **Client Investment Guidelines and Parameters:** Advisory services include among other things, providing advice regarding asset allocation and the selection of investments. Blau Capital provides investment management and advisory services to Separate Accounts. Such services are not tailored to the specific needs of each Separate Account client. Each Separate Account client is managed according to the Firm’s strategies. The Firm’s advisory services to the Funds are provided pursuant to the terms of the relevant offering memorandum and investors in the Funds cannot obtain services tailored to their individual needs. The Firm provides discretionary investment advisory services to all fee paying Client accounts. Lower fees for comparable services may be available from other sources.

The following is a general description of the principal types of trades and investments which the Firm currently contemplates engaging in, certain techniques that it may employ, the investment criteria that it plans to apply, and the guidelines that it has

established regarding the composition of its investment portfolios. The following description is merely a summary and you should not assume that any descriptions of specific activities are intended in any way to limit the types of investment activities the Firm may undertake. The Firm seeks to maximize total returns through capital appreciation and current income from a diversified portfolio of investments. The Funds seek to achieve their investment objectives by investing in various long and short positions, primarily in equity securities, while attempting to hedge risk and limit correlation to the overall market. The Firm generally trades, depending on the applicable strategy, equities, exchange traded funds (“ETFs”), futures and options primarily in the U.S. and Canada, but may invest globally.

For Separate Accounts, the applicable investment management agreements provide investment guidelines and parameters that provide the context within which the Firm renders its investment management services.

- (D) **Wrap Fee Programs:** The Firm does not participate in wrap fee programs.
- (E) **Client Assets Under Management:** As of December 31, 2018, Blau Capital manages \$24,311,107 in discretionary regulatory assets under management. Blau Capital does not manage any non-discretionary assets.

**Item 5. Fees and Compensation:**

- (A) **Generally:** Separate Account fees may be individually negotiated. Circumstances considered when negotiating fees may include, without limitation, customary market rates, specialized guidelines, and other performance fee and/or incentive allocation arrangements with the Client.

Management fees for separately managed or pooled investment accounts are calculated based on a periodic percentage of the value of the assets under management (the “**Management Fee**”), and generally between 1.0% to 2.0% per annum.

In addition, the Firm may collect incentive fees/allocations based on the performance of investments. Please refer to Item 6, below, for a more detailed description of incentive fees/allocations, and related conflicts of interest.

**Payment of Fees:** With respect to the Separate Accounts, Management Fees are billed periodically, generally quarterly in arrears, as specified in the relevant investment management agreement or applicable pooled vehicle transaction document.

The Master Funds will pay to the general partner a Management Fee payable quarterly in advance.

The Firm also receives a performance based fee or incentive fee/allocation (the “**Performance Fee**”) which is tied to the capital appreciation within the Client account as evaluated at the end of each calendar year. The Performance Fee will be payable annually, in arrears.

**Deducting of Fees:** Blau Capital will indirectly deduct Management Fees and Performance Fees from the Funds pursuant to authorization through the Administrator. With respect to the Separate Account clients, the Separate Account owner may authorize

fees to be paid to the Firm for Management Fees and Performance Fees by signing off within the terms of the Investment Management Agreement. Blau Capital does not have the authority to directly withdraw money from the Separate Account for Management Fees and/or Performance Fees.

- (B) **Additional Fees and Expenses:** Blau Capital is responsible for and pays or causes to be paid overhead expenses including: office space and utilities; furniture and fixtures; stationary; salaries; administrative services; and secretarial, clerical and other personnel; travel expense; entertainment expenses; employee insurance and payroll taxes. All other expenses are paid by the Fund and include, subject to an “expense cap,” as more fully outline each relevant Fund’s offering documents, the following: Fund’s relevant expenses and its pro rata share of the Master Funds’ expenses, including, without limitation, the Management Fee; the Master Funds’ investments expenses (such as brokerage commissions, expenses relating to short sales, clearing and settlement charges, custodial fees, bank services fees and interest expenses); professional fees (including, without limitation, expenses of consultants, investment bankers, attorneys, accountants and other experts) relating to the Master Funds’ investments; fees and expenses of the Governance Committee; fees and expenses relating to software tools, programs or other technology utilized in managing the Fund and the Master Funds (including, without limitation, third-party software licensing, implementation, data management and recovery services and custom development costs); research and market data (including, without limitation, any computer hardware and connectivity hardware (*e.g.*, telephone and fiber optic lines) incorporated into the cost of obtaining such research and market data); administrative expenses (including fees and expenses of the Administrator); legal expenses; external accounting and valuation expenses (including, without limitation, the cost of accounting software packages); audit and tax return preparation and filing expenses; costs related to errors and omissions insurance for the general partner and the Firm; fees and expenses of any governance board appointed by the Fund and/or the Master Funds; costs of printing and mailing reports and notices; entity level taxes; corporate licensing; regulatory expenses of the Fund, the general partner and the Firm (including, without limitation, consulting fees, legal fees and filing fees); organizational expenses; expenses incurred in connection with the offering and sale of the interests (including travel expenses) and other similar expenses related to the Fund; indemnification expenses; and extraordinary expenses.
- (C) **Fees Paid in Advance:** The Firm does not permit the Separate Account clients to pay any fees in advance. However, the Funds pay in advance in accordance with the relevant Investment Management Agreement.
- (D) **Additional Compensation of Supervised Persons:** No supervised person accepts compensation for the sale of securities or other investment products.

**Item 6. Performance Based Fees and Side-by-Side Management:**

Blau Capital will receive an annual Performance Fee between 10% - 30% of the net profits (including realized and unrealized gains), if any, attributable to each investor’s and each Separate Account client’s capital account, if any, subject to a loss carry-forward provision and adjusted for deposits and withdrawals.

**Generally:** In order for the Firm to receive a Performance Fee, the Firm must achieve capital appreciation within the account. The Firm will charge Performance Fees in

adherence with a high water mark, which means that no Performance Fee will be earned unless the performance exceeds the previously achieved high water mark where Performance Fees were charged. The high water mark will be used in order to prevent a scenario whereby the Firm could receive a Performance Fee merely for recouping prior losses. A full description of the entire fee arrangement will be disclosed to the Client in such Client's investment management agreement or the applicable offering documents. Fees generally are deducted directly from the Client's account, as specified in the relevant investment management agreement or the applicable offering documents. The Firm's receipt of Performance Fees is intended to align the Firm's interests with those of its Clients, and, to provide the Firm with a greater incentive to manage assets well. The nature of the Performance Fee, however, creates potential conflicts of interest among the Firm, its associated persons, and Clients.

Such fees will be structured and charged in a manner consistent with the requirements of applicable law. An incentive fee arrangement may create an incentive for the Firm to make investments that are riskier or more speculative than would be the case in the absence of a Performance Fee. To the extent the Firm values any such securities or instruments it has a conflict of interest as the Firm will receive higher management fees and Performance Fees if it gives such securities and instruments a higher valuation. The Firm does not represent that the amount of the Performance Fees or the manner of calculating the Performance Fees is consistent with other performance related fees charged by other investment advisers under the same or similar circumstances. The Performance Fees charged by the Firm may be higher or lower than the Performance Fees charged by other investment advisers for the same or similar services.

The Firm may receive increased compensation with regard to unrealized appreciation as well as realized gains in the Client's account, depending on the specific time periods and the nature of any preferred returns. Where any part of the Firm's compensation is based in part on the unrealized appreciation of securities or instruments for which market quotations are not readily available, the Firm shall disclose how such securities or instruments will be valued and the extent to which the valuation will be determined independently.

In addition, in the event that the Firm manages an account from which it collects Performance Fees and also manages at the same time an account from which it does not collect Performance Fees, the Firm has an incentive to favor accounts for which it receives the Performance Fees because it will receive a greater profit from the accounts which are charged Performance Fees. Therefore, the Firm has an incentive to allocate investments that are expected to be more profitable to accounts from which it collects Performance Fees, on the one hand, and that are riskier on the other hand, since in both scenarios, the Firm may receive greater fees if the investment generates a positive return. Notwithstanding the foregoing, the Firm does not favor accounts that pay Performance Fees.

**Item 7. Types of Clients:**

The Firm's Clients are separately managed accounts and privately offered pooled investment vehicles that offer to sophisticated investors, high net worth individuals and institutional clients. In general, the minimum initial investment in the Onshore Fund or the Offshore Fund is \$1,000,000. Additionally, the minimum initial investment in the Discretionary Onshore Fund or the Discretionary Offshore Fund is \$500,000, and the

minimum additional contribution is \$100,000. The minimum initial investment in a Separate Account is \$2,500,000. These minimum amounts may change from time to time at the Firm's discretion.

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

**(A) Master Fund**

The objective is to generate high absolute, superior risk-adjusted returns with low correlation to equity markets and other investment strategies by employing an equity long/short systematic trading strategy. Commonly classified as statistical arbitrage, the strategy will utilize mean reversion and trend following-based models. The Master Fund expects to trade equities and ETFs primarily in the U.S. and Canada, but may invest globally. The ETF universe that the Master Fund will trade is comprised of the largest 150 ETFs in various sectors, markets, futures, currencies and commodities listed in ARCA, NYSE and Amex exchanges. Additionally, the Master Fund may trade futures (including “ES Mini” futures for hedging purposes), from time to time, although it generally will not trade in other types of derivatives. The Master Fund will deploy a systematic strategy to capitalize on mean reversion and trend following opportunities. The Master Fund expects to be diversified among liquid, exchange-traded Level 1 securities. The Master Fund's models use historical price and volume to identify statistical arbitrage opportunities by forecasting relative asset price movements. No fundamental data is considered. New trades will not be entered via mean reversion models for any specific equities after earnings reports, for a period of 48 trading hours, to avoid fundamentally-justified trading behavior. No pair trading strategies will be employed. The Firm expects that the average holding period of securities will be approximately 2.5 trading days with the shortest and longest periods expected to be a couple of hours and 21 days, respectively. Hedging and net exposures are managed through long/short S&P Index positions. It is expected that average net/gross exposures will be 5% and 90%, respectively, meaning that the Master Fund will rarely be fully invested and is expected to be non-directional. Signals will be generated and executed through a fully automated process managed by three proprietary programs. The first program houses 30 different groups of proprietary algorithmic models (approximately 400 in total) that analyze historical price and volume to identify mean reversion opportunities, and to a lesser extent trend following ones. The second program is responsible for executing these buy/sell signals through API with the Prime Broker. The third program monitors these automated activities and will immediately alert the Firm of any anomalies that arise. While analysis, signaling and execution are fully automated, human oversight assists with the programs' integrity as a final layer of monitoring.

**Discretionary Master Fund**

The objective is to generate high absolute, superior risk-adjusted returns with low correlation to markets and other investment strategies by employing a long/short trading strategy. The Discretionary Master Fund expects to trade equities, ETFs, futures and options primarily in the U.S. and Canada, but may invest globally. The Discretionary Master Fund will deploy a discretionary strategy that utilizes systematic models as well as chart patterns and price/trading activity to capitalize on mean reversion and trend following opportunities. The Discretionary Master Fund expects to be diversified among liquid, exchange-traded securities (no OTC instruments). No fundamental data is considered. The Firm expects that the average holding period of securities will be



approximately 2.5 trading days with the shortest and longest periods expected to be a couple of hours and 21 days, respectively. Hedging and net exposures are managed through long/short S&P Index positions. It is expected that average gross exposure will be 200%. Signals will be generated by programs developed by the Firm. The program houses 20 different groups of proprietary algorithmic models (approximately 1000 in total) that analyze historical price and volume to identify mean reversion opportunities, and to a lesser extent trend following ones. The program monitors the trading activities and will immediately alert the Firm of any anomalies that arise. Human discretion ultimately determines which positions will be entered and their sizes. Not all signals generated will be entered and not all positions entered will have signals generated for them.

#### Generally

*Investors should carefully consider the risks involved in an investment with Blau Capital, including, without limitation, those discussed below. Additional or new risks not addressed below may affect the Firm's strategy. Investors should consult their own legal, tax and financial advisers about the risks associated with Blau Capital's investment strategy.*

**Retention and Motivation of Key Employees.** The success of the Firm is dependent upon the talents and efforts of highly skilled individuals employed by the Firm and the Firm's ability to identify and willingness to provide acceptable compensation to attract, retain and motivate talented investment professionals and other employees.

There can be no assurance that the Firm's investment professionals will continue to be associated with the Firm, and the failure to attract or retain such investment professionals could have a material adverse effect on the Firm's investments therein. Competition in the financial services industry for qualified employees is intense and there is no guarantee that, if lost, the talents of the Firm's investment professionals could be replaced.

**Systems and Operational Risks.** The Firm depends on its ability to develop and implement appropriate systems for the investment strategy. The Firm relies heavily and on a daily basis on financial, accounting and other data processing systems to execute, clear and settle transactions across numerous and diverse markets and to evaluate certain securities, to monitor its portfolio and capital, and to generate risk management and other reports that are critical to oversight of the Fund's activities. Certain of the Firm's activities will be dependent upon systems operated by third parties, including the broker, the Administrator, market counterparties and other service providers, and the Firm may not be in a position to verify the risks or reliability of such third-party systems. Failures in the systems employed by the Firm, the broker, the Administrator, counterparties, exchanges and similar clearance and settlement facilities and other parties could result in mistakes made in the confirmation or settlement of transactions, or in transactions not being properly booked, evaluated or accounted for. Disruptions in the Firm's operations may cause the portfolio to suffer, among other things, financial loss, the disruption of its business, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing failures or disruptions could have a material adverse effect on the portfolio and the investments therein.

**Volatility Risk.** The Firm's investment program may involve the purchase and sale of relatively volatile securities and/or investments in volatile markets. Fluctuations or

prolonged changes in the volatility of such securities and/or markets can adversely affect the value of investments held by the Firm.

**Currency Exchange Exposure.** The Firm may invest in securities denominated in currencies other than the U.S. Dollar. The Firm, however, values its securities in U.S. Dollars. The Firm may or may not seek to hedge its non-U.S. currency exposure by entering into currency hedging transactions. There can be no guarantee that securities suitable for hedging currency or market shifts will be available at the time when the Firm wishes to use them, or that hedging techniques employed by the Firm will be effective. Furthermore, certain currency market risks may not be fully hedged or hedged at all. To the extent unhedged, the value of the Firm's positions denominated in currencies other than the U.S. Dollar will fluctuate with U.S. Dollar exchange rates as well as with the price changes of the investments in the various local markets and currencies.

**Risk of Loss.** No guarantee or representation is made that the Firm's investment program, including, without limitation, the Fund's investment objective, diversification strategies or risk monitoring goals, will be successful. Investment results may vary substantially over time. *No assurance can be made that profits will be achieved or that substantial or complete losses will not be incurred. Past investment results of the investments otherwise made by the investment professionals of the Firm are not necessarily indicative of future performance.*

**General Economic and Market Conditions.** The success of the Firm's activities will be affected by general economic and market conditions, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in laws (including laws relating to taxation of the portfolio's investments), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the trading strategies which are based on the predicated outcomes of macroeconomic themes.

**Short Selling.** A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Firm of buying those securities to cover the short position. There can be no assurance that the Firm will be able to maintain the ability to borrow securities sold short. In such cases, the Firm can be "bought in" (*i.e.*, forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss. Short strategies can also be implemented synthetically through various instruments and be used with respect to indices or in the over-the-counter market and with respect to futures and other instruments. In some cases of synthetic short sales, there is no floating supply of an underlying instrument with which to cover or close out a short position and the Firm may be entirely dependent on the willingness of over-the-counter market makers to quote prices at which the synthetic short position may be unwound. There can be no assurance that such market makers will be willing to make such quotes. Short strategies can also be implemented on a leveraged basis. Lastly, even though the Firm will secure a "good borrow" of the security sold short at the time of execution, the lending institution may recall the lent security at any time, thereby forcing the Firm to purchase the security at the then-prevailing market price, which may be higher than the price at which such security was originally sold short by the Firm.

## **Leverage and Borrowing.**

*Leverage for Investment Purposes.* The Firm may use leverage in its own discretion. The use of leverage will allow the Firm to make additional investments, thereby increasing its exposure to assets, such that its total assets may be greater than its capital. However, leverage will also magnify the volatility of changes in the value of the Firm's portfolio. The effect of the use of leverage by the Firm in a market that moves adversely to its investments could result in substantial losses to the portfolio, which would be greater than if the portfolio were not leveraged.

*Borrowing for Cash Management Purposes.* The Firm has the authority to borrow for cash management purposes, such as to satisfy withdrawal requests.

*Collateral.* The instruments and borrowings that may be utilized by the Firm to leverage investments may be collateralized by all or a portion of the portfolio. Accordingly, the Firm may pledge its securities in order to borrow or otherwise obtain leverage for investment or other purposes. Should the securities pledged to brokers to secure the Firm's margin accounts decline in value, the portfolio could be subject to a "margin call", pursuant to which the Firm must either deposit additional funds or securities with the broker or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. The banks and dealers that provide financing to the Firm can apply essentially discretionary margin, "haircut", financing and collateral valuation policies. Changes by counterparties in any of the foregoing may result in large margin calls, loss of financing and forced liquidations of positions at disadvantageous prices. Lenders that provide other types of asset-based or secured financing to the Firm may have similar rights. There can be no assurance that the Firm will be able to secure or maintain adequate financing.

*Costs.* Borrowings will be subject to interest, transaction and other costs, and other types of leverage also involve transaction and other costs. Any such costs may or may not be recovered by the return on the portfolio.

**Hedging Transactions.** The Firm may utilize securities for risk management purposes in order to: (i) protect against possible changes in the market value of the investment portfolio resulting from fluctuations in the markets and changes in interest rates; (ii) protect the portfolio's unrealized gains in the value of its investment portfolio; (iii) enhance or preserve returns, spreads or gains on any security in the portfolio; (iv) hedge against a directional trade; (v) hedge the currency exchange rate on any of the portfolio's securities; (vi) protect against any increase in the price of any securities the Firm anticipates purchasing at a later date; or (vii) act for any other reason that the Firm deems appropriate. The Firm will not be required to hedge any particular risk in connection with a particular transaction or its portfolio generally. The Firm may be unable to anticipate the occurrence of a particular risk and, therefore, may be unable to attempt to hedge against it. While the Firm may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Firm than if it had not engaged in any such hedging transaction. Moreover, the portfolio will always be exposed to certain risks that cannot be hedged.

(B) ***Risks Related to Methods of Analysis***

**Quantitative Analysis.**

*Model and Data Risk.* The Firm relies on proprietary quantitative models developed by the Firm and information and data supplied by third parties (“**Models and Data**”) rather than granting trade-by-trade discretion to the Firm’s investment professionals. Models and Data are used to construct sets of transactions and investments, to value investments or potential investments (whether for trading purposes, or for the purpose of determining the net asset value of the portfolio), to provide risk management insights, and to assist in hedging the portfolio’s investments.

When Models and Data prove to be incorrect, misleading or incomplete, any decisions made in reliance thereon expose the portfolio to potential risks. For example, by relying on Models and Data, the Firm may be induced to buy certain investments at prices that are too high, or sell certain other investments at prices that are too low, or miss favorable opportunities altogether. Similarly any hedging based on faulty Models and Data may prove to be unsuccessful.

Some of the models used by the Firm are predictive in nature. The use of predictive models has inherent risks. For example, such models may incorrectly forecast future behavior, leading to potential losses on a cash flow and/or a mark-to-market basis. In addition, in unforeseen or certain low-probability scenarios (often involving a market disruption of some kind), such models may produce unexpected results, which can cause losses to the portfolio. Furthermore, because predictive models are usually constructed based on historical data supplied by third parties, the success of relying on such models may depend heavily on the accuracy and reliability of the supplied historical data.

All models rely on correct market data inputs. If incorrect market data is entered into, even a well-founded model may produce incorrect market valuations. Furthermore, even if market data is input correctly, “model prices” will often differ substantially from market prices, especially for securities with complex characteristics.

*Obsolescence Risk.* The Firm is unlikely to be successful unless the assumptions underlying the models are realistic and either remain realistic and relevant in the future or are adjusted to account for changes in the overall market environment. If such assumptions are inaccurate or become inaccurate and are not promptly adjusted, it is likely that profitable trading signals will not be generated. If and to the extent that the models do not reflect certain factors, and the Firm does not successfully address such omission through its testing and evaluation and modify the models accordingly, major losses may result. The Firm will continue to test, evaluate and add new models, as a result of which the existing models may be modified from time to time. Any modification of the models or strategies will not be subject to any requirement that the clients and investors will receive notice of the change or that they consent to it. There can be no assurance as to the effects (positive or negative) of any modification on the portfolio’s performance.

*Crowding/Convergence.* There is significant competition among quantitatively-focused managers and the ability of the Firm to deliver returns that have a low correlation with global aggregate equity markets and other hedge funds is dependent on its ability to employ models that are simultaneously profitable and differentiated from those

employed by other managers. To the extent that the Firm is not able to develop sufficiently differentiated models, the Firm's investment objectives may not be met, irrespective of whether the models are profitable in an absolute sense. In addition, to the extent that the Firm's model comes to resemble those employed by other managers, the risk that a market disruption that negatively affects predictive models will adversely affect the portfolio is increased, as such a disruption could accelerate reductions in liquidity or rapid repricing due to simultaneous trading across a number of funds in the marketplace.

*Risk of Programming and Modeling Errors.* The research and modeling process engaged in by the Firm is extremely complex and involves financial, economic, econometric and statistical theories, research and modeling; the results of that process must then be translated into computer code. Although the Firm seeks to hire individuals skilled in each of these functions and to provide appropriate levels of oversight, the complexity of the individual tasks, the difficulty of integrating such tasks, and the limited ability to perform "real world" testing of the end product raises the chances that the finished model may contain an error; one or more of such errors could adversely affect the portfolio's performance and likely would not constitute a trade error under the Firm's policies or the organizational documents.

*Involuntary Disclosure Risk.* The ability of the Firm to achieve its investment goals is dependent in large part on its ability to develop and protect its models and proprietary research. The models and proprietary research and the Models and Data are largely protected by the Firm through the use of policies, procedures, agreements, and similar measures designed to create and enforce robust confidentiality, non-disclosure, and similar safeguards. However, aggressive position-level public disclosure obligations (or disclosure obligations to exchanges or regulators with sufficient privacy safeguards) could lead to opportunities for competitors to reverse-engineer the Firm's models, and thereby impair the relative or absolute performance of the portfolio.

*Proprietary Trading Methods.* Because the trading methods employed by the Firm on behalf of the portfolio is proprietary to the Firm, a client or investor will not be able to determine any details of such methods or whether they are being followed.

**Fundamental Analysis.** Certain trading decisions made by the Investment Manager may be based on fundamental analysis. Data on which fundamental analysis relies may be inaccurate or may be generally available to other market participants. Fundamental market information is subject to interpretation. To the extent that the Investment Manager misinterprets the meaning of certain data, the Fund may incur losses.

**(C) *Risks Related to Specific Investments***

**ETFs.** ETFs are publicly traded unit investment trusts, open-ended funds or depository receipts that seek to track the performance and dividend yield of specific indexes or companies in related industries. These indexes may be either broad-based, sector or international. However, ETF shareholders are generally subject to the same risk as holders of the underlying securities they are designed to track. ETFs are also subject to certain additional risks, including, without limitation, the risk that their prices may not correlate perfectly with changes in the prices of the underlying securities they are designed to track, and the risk of trading in an ETF halting due to market conditions or other reasons, based on the policies of the exchange upon which the ETF trades.

Generally, each shareholder of an ETF bears a *pro rata* portion of the ETF's expenses, including management fees. Accordingly, in addition to bearing their proportionate share of the expenses, the portfolio may also indirectly bear similar expenses of an ETF.

**Index or Index Options.** The value of an index or index option fluctuates with changes in the market values of the securities included in the index. Because the value of an index or index option depends upon movements in the level of the index rather than the price of a particular security, whether the portfolio will realize appreciation or depreciation from the purchase or writing of options on indices depends upon movements in the level of instrument prices in the security market generally or, in the case of certain indices, in an industry or market segment, rather than movements in the price of particular securities.

**Futures Contracts.** The value of futures contracts depends upon the price of the securities, such as commodities, underlying them. The prices of futures contracts are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, as well as national and international political and economic events and policies. In addition, investments in futures contracts are also subject to the risk of the failure of any of the exchanges on which the Fund's positions trade or of its clearing houses or counterparties. Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits." Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the Fund from promptly liquidating unfavorable positions and subject the Fund to substantial losses or prevent it from entering into desired trades. Also, low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss. In extraordinary circumstances, a futures exchange or the U.S. Commodity Futures Trading Commission (the "CFTC") could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

**Item 9. Disciplinary Information:**

There are no legal or disciplinary events in which the Firm or any supervised persons have been involved that are material to a Client's or prospective Client's evaluation of the Firm's advisory business or management.

**Item 10. Other Financial Industry Activities and Affiliations:**

- (A) Neither the Firm nor its management persons has any existing or pending affiliations with a broker-dealer or registered representative of a broker-dealer.
- (B) Neither the Firm nor its management persons has any existing or pending financial industry affiliations, such as with a broker-dealer, Futures Commission Merchant (FCM), Commodity Pool Operator (CPO), Commodity Trading Advisor (CTA) or other

investment adviser. The Funds are currently relying on a de minimis exemption, 4.13(a)(3), which exempts Blau Capital from registration as a commodity pool operator.

- (C) Blau Capital GP Ltd. (the “**General Partner**”) serves as the general partner with respect to one or more of the Funds.
- (D) The Firm does not recommend or select other investment advisers for Clients.

**Item 11. Code of Ethics, Participation or Interest in Client Transactions, Personal Trading, and Privacy Policy:**

Blau Capital has adopted a written Code of Ethics (“**Code**”) designed to address and avoid potential conflicts of interest as required under Rule 204A-1 of the Advisers Act, which requires that investment advisers adopt a code of ethics setting forth standards of business conduct and compliance with federal securities laws by all employees. The Code sets the following:

- A statement of the standard of business conduct;
- Limits and reporting requirements for personal accounts and holdings;
- Limits and reporting requirements for gifts and entertainment;
- Limits and reporting requirements on political contributions;
- Whistleblower and Anti-Retaliation Policy; and
- Employees must acknowledge in writing having received and read a copy of the Code.

Blau Capital has set high standards with the intention of protecting its clients’ interests at all times and to demonstrate the Firm’s commitment to its fiduciary duties.

Blau Capital will provide a copy of its Code of Ethics upon request to any advisory client or potential advisory clients.

**Item 12. Brokerage Practices:**

The factors that the Firm considers in selecting or recommending broker-dealers for Client transactions and determining the reasonableness of their compensation are described below:

- (A) **Factors Considered in Selecting or Recommending Broker-Dealers:** Securities transactions for Clients are executed through brokers selected by the Firm in its sole discretion and without the consent of Clients, unless, if specified in the applicable investment management agreement, a particular separately managed account Client is authorized to instruct the Firm to execute some or all securities transactions for its account with or through one or more brokers designated by such Client (please see Item 12.(A)3.(b) below). In placing portfolio transactions, the Firm will seek to obtain best execution, taking into account the following factors: the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); the operational efficiency with which transactions are effected and the efficiency of error resolution, taking into account the size of order and difficulty of execution; the financial strength, integrity and stability of the broker; special execution capabilities; clearance; settlement; reputation; on-line pricing; block trading and block

positioning capabilities; willingness to execute related or unrelated difficult transactions in the future; order of call; on-line access to computerized data regarding Clients' accounts; performance measurement data; the availability of stocks to borrow for short trades; and the competitiveness of commission rates in comparison with other brokers satisfying the Firm's other selection criteria. Blau Capital does not receive research or other products or services (known as "soft dollar benefits") other than execution from a broker-dealer or a third party in connection with Client securities transactions.

Any separately managed account Clients shall bear brokerage costs as set forth in the relevant investment management agreement.

**1. Brokerage for Client Referrals:**

- (a) The Firm reserves the right to pay a fee or commission, in its sole discretion, to brokers or other persons who introduce Clients to the Firm, provided that any such fee or commission will be paid solely by the Firm or its affiliates and no portion thereof will be paid by Clients. As a result, the Firm may have an incentive to select or recommend a broker based on the Firm's interest in receiving Client referrals rather than on Clients' interest in receiving most favorable execution. Because such referrals, if any, are likely to benefit the Firm but will provide an insignificant (if any) benefit to Clients, the Firm will have a conflict of interest with Clients when allocating Client brokerage business to a broker who has referred a Client. To prevent Client brokerage commissions from being used to pay referral fees, the Firm will not allocate Client brokerage business to a referring broker unless the Firm determines in good faith that the commissions payable to such broker are not materially higher than those available from non-referring brokers offering services of substantially equal value to Clients.
- (b) The procedures used during the last fiscal year to direct Client transactions to a particular broker-dealer in return to Client referrals were: *Please refer to Item 12.(A)2.(a).*

**2. Directed Brokerage:**

- (a) The Firm does not recommend, request, or require a Client to direct the Firm to execute transactions through a specified broker-dealer.
  - (b) The Firm does not permit a Client to direct the Firm to execute transactions through a specified broker-dealer except, for a separately managed account Client, if agreed to in the relevant investment management agreement.
- (B) **Aggregation of Orders:** Transactions implemented by the Firm for accounts may be effected independently or on an aggregated basis. The Firm anticipates that frequently it will decide to purchase or sell the same securities for several Clients at approximately the same time. The Firm will aggregate orders when it believes aggregation may prove advantageous to Clients. Typically, the process of aggregating Client orders is done in order to achieve better execution, to negotiate more favorable commission rates or to allocate orders among Clients on a more equitable basis in order to avoid differences in prices and transaction fees or other transaction costs that might be obtained when orders



are placed independently. Under this procedure, transactions will be averaged as to price and execution cost and will be allocated among the Firm's Clients in proportion to the purchase and sale orders placed for each Client account on any given day. When the Firm aggregates Client orders for the purchase or sale of securities, including securities in which its associated person(s) may invest, the Firm will do so in a fair and equitable manner. It should be noted that the Firm does not receive any additional compensation or remuneration as a result of aggregation.

- (C) **Allocation of Trades:** The Firm may at times determine that certain securities will be suitable for acquisition by Clients and by other accounts managed by the Firm, possibly including the Firm's own accounts or accounts of an affiliate. If that occurs, and the Firm is not able to acquire the desired aggregate amount of such securities on terms and conditions which the Firm deems advisable, the Firm will endeavor in good faith to allocate the limited amount of such securities acquired among the various accounts for which the Firm considers them suitable. The Firm may make such allocations among the accounts in any manner which it considers to be fair under the circumstances, including but not limited to allocations based on relative account sizes, the degree of risk involved in the securities acquired, and the extent to which a position in such securities is consistent with the investment policies and strategies of the various accounts involved.

**Item 13. Review of Accounts:**

- (A) All Client accounts managed by the Firm are reviewed on a daily basis by the Firm's Chief Compliance Officer, to assure conformity with Client objectives and guidelines. In addition, all accounts are reviewed in light of emerging trends and developments as well as market volatility. Separate Account Clients are responsible for keeping the Firm informed as to any changes in their personal financial condition. The Firm cannot make any material changes to a Client's portfolio if it is not informed of the Client's particular developments.
- (B) The calendar is the main triggering factor of a review of an account, although more frequent reviews may be also be triggered by changes in a Client's circumstances, by Client request, or by unusual market activity. Clients may be contacted periodically by the Firm to discuss the management and performance of their account. All accounts are monitored by the risk monitor during trading hours. If any unusual activity is detected, the risk monitor is responsible for bringing it to the attention of the Chief Investment Officer and the Chief Compliance Officer. If a material error occurs, then the Client will be notified.
- (C) Reports showing performance are sent yearly to the Funds by the independent auditing firm, and to investors in the Funds by the Firm. Separately managed account Clients may have access to monthly statements and/or trade confirmations from independent custodians. In addition, the Firm offers monthly portfolio statements. From time to time, the Firm may also provide additional information upon a Client's request. In addition, realized gains/losses, interest and dividends earned are reported to Clients annually. Each investor in a Fund also will receive the following: (i) annual financial statements of such Fund, audited by an independent certified public accounting firm; (ii) in the discretion of the Firm or an affiliate of the Firm, a periodic letter and/or report discussing the results of the accounts; (iii) copies of such investor's Schedule K-1 to such Fund's tax returns (US investors only); and (iv) other reports as determined by the Firm or an affiliate of the Firm in its sole discretion.

**Item 14. Client Referrals and Other Compensation:**

- (A) The Firm does not receive, from any non-Client, any economic benefit associated with advising Clients.
- (B) The Firm may use independent third party solicitors to refer Clients and/or investors to the Funds and pay a portion of its advisory fees to such solicitors, in accordance with the Investment Advisers Act of 1940. The Firm may engage underwriters, brokers, dealers or finders to assist in the offering of interests in the Funds. Except for commissions on brokerage transactions (which will be paid by Clients), the Firm will pay (and will not charge Clients) fees and commissions that may be payable to any such brokers or finders for assisting in the offering or sale of interests in the Funds.

**Item 15. Custody:**

To confirm compliance with Rule 206(4)-2 under the Advisers Act, Blau Capital has retained qualified custodian to maintain its advisory client assets. Also, with respect to the private funds with U.S. investors, Blau Capital has appointed an independent certified public accounting firm that is both registered with, and subject to regular inspection by, the Public Companies Accounting Oversight Board that distributes audited financial statements to investors of the Funds within 120 days of the fiscal year-end. These Funds will be audited annually and financial statements of the Funds are prepared in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”). These reports will be in written form and clients should carefully review those statements.

**Item 16. Investment Discretion:**

Blau Capital has full discretion to manage the Funds. This authority is granted pursuant to an Investment Management Agreement (“IMA”) between Blau Capital and the relevant Fund. Individual investors grant authority to the Fund to enter into an IMA with the Firm by signing a subscription agreement.

Blau Capital has full discretionary authority of the Separate Accounts, which is granted pursuant to its IMA between the Firm and the Separate Account client.

**Item 17. Voting Client Securities – Proxy Policy:**

As a matter of policy and as a fiduciary to its Clients, Blau Capital is responsible for voting proxies for portfolio securities consistent with the best economic interests of its Clients. Blau Capital understands and appreciates the importance of proxy voting. The Firm will vote all proxies in the best interests of its clients and investors (as applicable) and in accordance with the procedures outlined below (as applicable), unless otherwise mandated by an investment management agreement or applicable law (e.g. ERISA).

- All proxies sent to clients that are received by any employee (to vote on behalf of the Clients) are given to the Chief Compliance Officer.
- Prior to voting any proxies, the Chief Compliance Officer will determine if there are any conflicts of interest related to the proxy in question. If a conflict is identified, the Chief Compliance Officer will then make a determination (which may be in consultation with outside legal counsel) as to whether the conflict is material or not.

- If no material conflict is identified pursuant to these procedures, the Chief Investment Officer responsible for covering the subject security will make a decision regarding how to vote the proxy in question in accordance with the guidelines put forth below.

Voting Guidelines: In the absence of specific voting guidelines mandated by a particular Client, Blau Capital will endeavor to vote proxies in the best interests of each Client.

Clients that wish to obtain a record of the Firm's proxy voting policy or proxy voting history may contact the Chief Compliance Officer.

**Item 18. Financial Information:**

- (A) The Firm does not solicit prepayment of more than \$1,200 in fees per Client six months or more in advance, and thus has not provided a balance sheet according to the specifications of 17 CFR Parts 275 and 279.
- (B) Because the Firm has discretionary authority over and/or custody of Client funds or securities, the Firm has disclosed, as follows, any financial condition that is reasonably likely to impair its ability to meet contractual commitments to Clients: **None.**
- (C) Firm has not been the subject of a bankruptcy petition during the past ten years.