



## **Brochure/Form ADV Part 2A**

### **Diapason Commodities Management S.A.**

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#### **I. Cover Page**

This Form ADV Part 2A/Brochure provides information about the qualifications and business practices of Diapason Commodities Management S.A. ("Diapason"). Diapason is registered as an investment adviser with the United States Securities and Exchange Commission (the "SEC"). If you have any questions about the contents of this brochure, please contact us by telephone at +41 21 621 1300 or by e-mail at [info@diapason-cm.com](mailto:info@diapason-cm.com). The information in this brochure has not been approved or verified by the SEC or by any state securities authority or by the United States Commodity Futures Trading Commission ("CFTC"). Additional information about Diapason is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). The information contained in this brochure relates only to specific questions to which the relevant agencies request answers. This document is not, and is not intended to be, a marketing brochure, nor is it to provide detailed information about all aspects of Diapason's business. There is no specific level of skill or training required to become a registered investment adviser with the SEC. Diapason requires its employees to have a high level of experience and education as described in more detail below. This Brochure has been prepared as of March 21, 2013

#### **II. Material Changes**

There have been no material changes since the date of Diapason's last brochure, dated March 26, 2012.

## Table of Contents

I. Cover Page.....	1
II. Material Changes.....	1
III. Table of Contents .....	2
IV. Advisory Business .....	3
<i>Services to Pooled Investment Vehicles (the “Funds”)</i> .....	3
<i>Services to Managed Accounts</i> .....	4
<i>Other Services</i> .....	4
V. Fees and Compensation.....	4
<i>Compensation for Services to the Funds</i> .....	5
<i>Compensation for Services to Third-Party Sponsored Pooled Investment Vehicles</i> .....	5
<i>Compensation for Services to Managed Accounts</i> .....	5
VI. Performance Based Fees and Side by Side Management.....	6
VII. Types of Clients .....	6
VIII. Methods of Analysis, Investment Strategies and Risk of Loss.....	6
<i>Investment Risks</i> .....	7
<i>Operational Risks</i> .....	8
IX. Disciplinary Information.....	10
X. Other Financial Industry Activities and Affiliations.....	10
XI. Code of Ethics, Participation in Client Transactions and Personal Trading.....	10
<i>Code of Ethics</i> .....	10
<i>Participation or Interest in Client Transactions</i> .....	11
XII. Brokerage Practices.....	11
<i>Research and other Soft Dollar Benefits</i> .....	12
<i>Directed Brokerage</i> .....	13
<i>Trade Errors</i> .....	13
XIII. Review of Accounts .....	14
XIV. Client Referrals and Other Compensation .....	14
XV. Custody .....	14
XVI. Investment Discretion .....	14
XVII. Voting Client Securities.....	15
XVIII. Financial Information .....	15

### III. Advisory Business

Diapason Commodities Management S.A. (“Diapason”) is a Swiss corporation based in Prilly, Switzerland. Diapason was established in 2003 and primarily is engaged in commodity asset management. Diapason creates, manages and distributes investment products and solutions designed around commodity indices and commodities in general. Diapason primarily provides commodity asset management solutions through acting as investment manager to pooled investment vehicles. Diapason also offers commodity asset management services to discretionary managed accounts as described below. Diapason’s principal owners are Lionel Motière, Stephan Wrobel and Guillaume Le Fur.

Diapason is a registered commodities trading advisor with the United States Commodity Futures Trading Commission (“CFTC”) and a member of the National Futures Association (“NFA”); however, Diapason is exempt from certain disclosure requirements in accordance with CFTC Rule 4.7 and is registered as a commodity pool operator (each commodity pool advised by Diapason satisfies the requirements for the exemption under CFTC Rule 4.7). Diapason is a registered investment adviser with the United States Securities and Exchange Commission (the “SEC”) under the United States Investment Advisers Act of 1940, as amended (the “Advisers Act”). However, in accordance with guidance from the SEC, many of the substantive provisions of the Advisers Act do not apply to Diapason’s non-U.S. clients, including the non-U.S. based pooled investment vehicles to which Diapason provides investment advice (*i.e.*, the Funds, as defined below).

Diapason’s advisory and investment management services are typically limited to commodities. Diapason’s advice pertaining to investments in securities augments its commodity asset management service. Generally, Diapason will manage cash and assets used to collateralize its clients’ commodity trading positions. Diapason provides discretionary management of cash, commercial paper, money market and sovereign debt and corporate fixed income instruments along with engaging in hedging for foreign currency risk. Diapason manages assets with an objective to ensure liquidity whilst minimizing credit risk, counterparty risk, interest rate risk and foreign currency risk. Diapason does not invest in equities. Diapason’s clients generally are not permitted to place individual restrictions on specific investments but managed account clients can provide broad limitations on the investment universe (*i.e.*, minimum credit ratings).

Diapason’s services are offered to funds sponsored by Diapason (the “Funds”) and to pooled investment vehicles sponsored by other providers. Diapason offers its managed account service typically to, companies and pension funds. Each Fund imposes minimum investment limits upon investors in the Fund that can be waived in certain circumstances as set forth in each Fund’s Offering Documents.

#### *Services to Pooled Investment Vehicles (the “Funds”)*

As of the date of this Brochure, Diapason acts as the investment manager with discretionary authority for the following Funds it sponsors, each of which is an exempt commodity pool under CFTC Rule 4.7:

- Diapason Commodities Agriculture Index Fund
- Diapason Commodities Agriculture Non GMO Index Fund
- Diapason Commodities Index Enhanced Fund
- Diapason Commodities Index Fund

### Diapason Curve Optimized Fund

### Diapason Funds – Diapason Relative Value Petroleum Investment Fund

Diapason also manages active commodity strategies within Luxembourg fund structures under investment management delegation agreements (i.e. Diapason Commodities - Global).

Diapason also serves as investment manager to third-party pooled investment vehicles on a discretionary and non-discretionary basis.

#### *Services to Managed Accounts*

Under a discretionary management mandate, Diapason may have the authority to supervise and direct the investments of and for each client's managed account in connection with its commodity asset management without prior consultation with the client. Diapason determines which securities are bought and sold for the account and the total amount of the purchases and sales. Diapason generally places its securities orders through the prime broker with which the client has opened an account for the execution of the mandate or with another broker-dealer determined by Diapason based on its execution capabilities and with which a give-up agreement will have been signed with the Prime Broker. Please see the discussion of brokerage practices below. On a case by case basis, Diapason may provide this investment advisory service on a non-discretionary basis.

#### *Other Services*

Diapason does not issue periodic publications on securities, nor does Diapason prepare for distribution special reports or analysis relating to securities. Generally, Diapason does not issue any charts, graphs, formulas or other devices for use by clients in evaluating individual securities. Diapason calculates and publishes the following commodities indices and their related sub-indices when relevant:

- Diapason Commodities Index® (DCI®)
- DCI® BNP Paribas Enhanced
- UBS Diapason Global Biofuel Index (UBS-D GBFI)
- Diapason Commodities Index® Agriculture Non-GMO
- Rogers International Commodity Index® (RICI®), which is owned by a company of Mr. Jim Rogers and which Diapason calculates without being the official publisher

Diapason will not advise or act on behalf of clients in any legal proceeding, including bankruptcies or securities shareholder class action litigation involving securities held or previously held in client accounts. Accordingly, Diapason is not responsible for responding to, or forwarding to clients, any class action settlement offers relating to securities currently or previously held in the client account.

## **IV. Fees and Compensation**

Diapason generally does not charge fees specific to its securities investment advisory services. Rather, compensation for the securities investment advisory services that augment its commodity asset management service is included within the fee charged for its commodity asset management service.

Fees charged by Diapason do not include custodian fees, fees for trade settlement, brokerage commissions, or any other fee imposed by the custodian bank or the broker. Compensation is not payable in advance. Diapason may waive, discount and/or negotiate fees at its discretion. Diapason may also charge additional fees for services outside the scope of the services described above. Any additional fees are disclosed to the client.

Diapason may receive compensation from third parties in connection with its investment advisory services in addition to the fee paid by the client. Discounts, finder's fees or any other remuneration received by Diapason from third parties with respect to managed accounts will be disclosed to the client upon request.

#### *Compensation for Services to the Funds*

Diapason charges each Fund an annual management fee, accrued on a daily basis and paid on a monthly basis, for its investment advisory and commodity asset management service that ranges from 0.10% to 2% of assets under management depending upon the Fund and share class. Diapason also may receive an annual performance fee based on the terms of the respective Fund. In certain Funds or share classes, a performance fee applies in lieu of a performance allocation and is calculated on the basis of the outperformance of the Fund relative to a specific benchmark. Details of the precise management fee with respect to each Fund can be found in the offering memorandum for each Fund.

Investors in the Funds may redeem their interests or shares in whole or in part from the applicable Fund in accordance with the withdrawal/redemption terms of the relevant offering memorandum. Depending on the Fund, or share class of the Fund, investors may generally redeem on each business day or on a weekly basis.

#### *Compensation for Services to Third-Party Sponsored Pooled Investment Vehicles*

Diapason will negotiate the fee it charges third-party pooled investment vehicles for its investment advisory and commodity asset management service. This fee will vary based on whether Diapason has discretionary or non-discretionary authority. Diapason generally will charge an annual management fee based on the assets under management. Diapason also may receive a quarterly or annual performance fee where it has discretionary authority. Details of the precise management fee with respect to each third-party pooled investment vehicle can be found in the respective offering memorandum.

#### *Compensation for Services to Managed Accounts*

With respect to managed accounts, fees charged by Diapason are negotiated with the client and typically carry a management fee of 0.50% and performance fee of 10%. Fees vary depending on the total assets under management and the investment strategy considered, as well as the existence and rate of a performance fee. Fees for non-discretionary service is negotiated and generally do not involve a performance fee. The management fee generally is charged quarterly in arrears and is calculated on the basis of the value of the assets under management. When applicable, performance fees are calculated on the basis of the outperformance of the managed account relative to the agreed mandate's benchmark, applied to the value of the assets under management at the beginning of the period (year) and taking into account any capital contribution/withdrawal during the period. Performance fees are payable at the end of each calendar year and are generally subject to a high water mark.

## **V. Performance Based Fees and Side by Side Management**

Conflicts related to side-by-side management of different managed accounts or the Funds may exist. For example, Diapason may manage more than one account according to the same or a substantially similar investment strategy. Side-by-side management of different types of accounts may raise conflicts of interest when two or more accounts invest in the same securities or pursue a similar strategy. Diapason has policies and procedures to manage any such potential and actual conflicts in the best interests of all clients, such as aggregation and allocation of investment opportunities. In addition, the results of the investment activities for one account may differ significantly from the results achieved for other accounts. Diapason may give advice or exercise investment responsibility or take other actions for some clients (including related persons) that may differ from the advice given, or the timing and nature of actions taken, for other clients. Investment results for different accounts, including accounts that are generally managed in a similar style, also may differ as a result of these considerations. Some clients may not participate at all in some investments in which other clients participate, or may participate to a different degree or at a different time. Diapason has policies and procedures in place aiming to ensure that all client accounts are treated fairly and equitably.

## **VI. Types of Clients**

Diapason provides investment advisory and commodity asset management service to the Funds, third-party sponsored non-U.S. pooled investment vehicles, and to managed accounts owned by high net worth individuals, corporations and other business entities, trusts, and pension funds. Diapason's managed account services are available to U.S. persons who are qualified eligible persons under CFTC Regulation 4.7. There is generally no account minimum for managed accounts. Details regarding investment minimums for each Fund are provided in the respective offering memorandum and subscription documents for each Fund.

## **VII. Methods of Analysis, Investment Strategies and Risk of Loss**

Please refer to each Fund's offering memorandum/prospectus for a more detailed discussion of Diapason's respective investment strategy and related risks.

Diapason uses both quantitative systematic investment strategies based on proprietary methodologies and discretionary strategies relying on its fundamental research capabilities and macro-economic analysis.

Diapason invests cash and assets serving as collateral to commodities positions in an effort to preserve capital and liquidity whilst obtaining modest investment performance. Diapason invests in U.S. Treasury Bills, government debt, money market funds, and corporate debt instruments as described above. Diapason may also engage in various transactions in, forward contracts, swaps, credit default swaps, interest rate swaps and other derivatives and instruments to manage or hedge interest rate and/or currency exchange risks.

Diapason evaluates investments in money market corporate and sovereign issue debt instruments based on credit risk, interest rate risk, time to maturity and foreign currency risk. Because the assets managed

by Diapason generally serve as collateral to commodities trades, the custodian or counterparty involved in the trade may impose limitations on the nature of investments of the collateralized assets. In such cases, Diapason must invest within such limitations. Diapason notably relies on credit ratings issued by third parties. Foreign currency risk is managed for hedging or replication purposes based on the Fund's mandate or guidelines.

### *Investment Risks*

*Commodities:* Commodity trading involves substantial risks due in part to the highly speculative nature of such trading. As a result, an investment in a commodity trading account is only suitable for clients with adequate means and who can bear the economic risk of losing their entire investment. Trading in commodities is not intended as a replacement for investing in traditional asset classes, but rather as a possible enhancement/diversification to a traditional portfolio. Diapason does not provide investment advice in connection with the creation of traditional portfolios or to provide diversification of investment risk in securities. Diapason's solely advises in connection with investments in securities to manage cash and collateral in connection with a commodities investment portfolio. Past performance is not an indication as to future results.

*Securities:* Clients should bear in mind that investing in securities involves a risk of loss. Among other risks, investments will be subject to market risk, liquidity risk, credit and counterparty risk, interest rate risk, risk in fluctuations of commodity pricing, risk of loss due to political and economic developments in foreign markets, and risks involving movements in the currency markets. Clients should be prepared to bear the risk of losing their investment in securities. Past performance is not an indication as to future results.

*Leverage:* A derivative instrument or transaction may have the effect of disproportionately increasing an account's exposure to the market for the securities or other assets underlying the derivative position and the sensitivity of an account's portfolio to changes in market prices for those assets. Leverage will tend to magnify both the positive impact of successful investment decisions and the negative impact of unsuccessful investment decisions by Diapason on an account's performance.

*Counterparty Credit Risk:* An account's ability to profit from a derivative contract depends on the ability and willingness of the other party to the contract (a "Counterparty") to perform its obligations under the contract. Although exchange-traded futures and options contracts are generally backed by a guarantee from a clearing corporation, an account could lose the benefit of a contract in the unlikely event that the clearing corporation becomes insolvent. A Counterparty's obligations under a forward contract, over-the-counter option, swap or other over-the-counter derivative contract are not so guaranteed. If the Counterparty to an over-the-counter contract fails to perform its obligations, and if these obligations are not collateralized, an account may lose the benefit of the contract and may have difficulty reclaiming any collateral that an account may have deposited with the counterparty.

*Lack of Correlation:* The market value of a derivative position may correlate imperfectly with the market price of the asset underlying the derivative position. To the extent that a derivative position is being used to hedge against changes in the value of assets in an account, a lack of price correlation between the derivative position and the hedged asset may result in an incomplete hedge.

*Illiquidity:* Over-the-counter derivative contracts are usually subject to restrictions on transfer, and there is generally no liquid market for these contracts. Although it is often possible to negotiate the termination of an over-the-counter contract or enter into an offsetting contract, a Counterparty may be unable or unwilling to terminate a contract with an account, especially during times of market instability or disruption. The markets for many exchange traded futures, options and other instruments are quite liquid during normal market conditions, but this liquidity may disappear during times of market instability or disruption.

*Less Accurate Valuation:* The absence of a liquid market for over-the-counter derivatives increases the likelihood that Diapason will not be able to correctly value these interests.

*Futures:* Futures markets are highly volatile and are influenced by factors such as changing supply and demand relationships, governmental programs and policies, national and international political and economic events and changes in interest rates. Because of the low margin deposits normally required in futures trading, a high degree of leverage is typical of a futures trading account, and a relatively small price movement in a futures contract may result in substantial losses to the trader. Futures positions are marked to the market each day and variation margin payments must be paid to or by Diapason. Futures trading may also be illiquid, and certain exchanges do not permit trading in particular contracts at prices that represent a fluctuation in price during a single day's trading beyond certain set limits. Should prices fluctuate during a single day's trading beyond those limits, which conditions might last for several days with respect to certain contracts, Diapason could be prevented from promptly liquidating unfavorable positions and thus be subjected to substantial losses. The CFTC and various exchanges impose speculative position limits on the number of positions that Diapason may hold or control in particular contracts.

*Currency Exposure:* The capital Diapason manages generally is denominated in U.S. Dollars and generally will be issued and redeemed in U.S. Dollars. From time to time, Diapason may invest in securities and other investments that are denominated in other currencies. Accordingly, the value of such assets may be affected favorably or unfavorably by fluctuations in currency rates. Diapason may seek to hedge the foreign currency exposure but such hedging strategies may not necessarily be available or effective and may not always be employed. Accordingly, the capital we manage may at times be, directly or indirectly, subject to foreign exchange risks. Therefore, prospective investors whose assets and liabilities are denominated predominantly in other currencies should take into account the potential risk of loss arising from fluctuations in value between the U.S. Dollar and such other currencies.

### *Operational Risks*

*Changes in Applicable Laws:* Diapason's investment activities are subject to compliance with various legal requirements, including requirements imposed by the U.S. Federal securities laws. Should any of those laws change, the legal requirements to which accounts and its holders may be subject could differ materially from current requirements.

*Effects of Substantial Redemptions:* Substantial voluntary redemptions of investments by Fund investors within a limited period of time could require the Fund to liquidate its securities positions more rapidly than would otherwise be desirable, which could adversely affect the value of both the investments being redeemed and the remaining investments. In addition, regardless of the period of time in which redemptions occur, the resulting reduction in the Fund's net asset value, and thus in its equity base, could



make it more difficult for the Fund to generate trading profits or recoup losses, and could even cause the Fund to liquidate positions prematurely.

*Assets held by Prime Brokers:* The prime broker for each Fund has a lien over the assets of the Fund held by such prime broker, some of which are deposited as collateral. Should a prime broker become insolvent, those assets deposited as collateral may become available to the creditors of such prime broker. The insolvency of any such prime broker could seriously damage the operations of the Fund, and the Fund could lose a substantial portion or all of its assets.

*Execution Risks and Investment Manager Error:* The execution of the trading and investment strategies employed by Diapason can often require rapid execution of trades, high volume of trades, complex trades, difficult to execute trades, use of negotiated terms with counterparties such as in the use of derivatives and the execution of trades involving less common or novel instruments. In each case, Diapason seeks best execution and has trained execution and operational staff devoted to executing, settling and clearing such trades. However, in light of the high volumes and complexity involved, some slippage, errors and miscommunications with brokers and counterparties are inevitable and may result in losses to the accounts. Such losses may be caused by the accounts' brokers and counterparties or Diapason or by a combination of the broker or counterparty and Diapason. Diapason may, but is not required to, attempt to recover losses from brokers or counterparties. Diapason is not liable to the accounts for losses caused by brokers or counterparties, by Diapason's own negligence or by a combination of the broker or counterparty and Diapason. To the fullest extent permitted by law (including the U.S. Federal securities laws), Diapason will not be liable to the accounts except for acts that constitute bad faith or fraud, willful misconduct or gross negligence. Investments in the accounts are only available for subscription by investors who understand that they and the accounts are waiving potential claims for damages arising from the operation of the accounts, including damages resulting from Diapason's own negligence, and expect some execution losses to the accounts.

*Increases in Assets under Management:* Diapason has not presently agreed to limit the amount of additional assets it may manage and new investment strategies it may launch. Diapason will continue to seek new investment capital. The greater the amount of assets Diapason manages, the more difficult it may be for Diapason to invest profitably for the accounts because of the difficulty of trading larger positions without adversely affecting prices and managing risks associated with larger positions. In addition, there can be no assurance that there will be appropriate investment opportunities to accommodate future increase in assets under management, which may force Diapason to modify its investment decisions.

*Location and Infrastructure:* Most of Diapason's key personnel are located in one building in Prilly, Switzerland. Loss of the building and/or key personnel, whether through fire, terrorist action, earthquake or some other catastrophic event, could adversely affect Diapason's operations and the investment returns of the accounts. A serious impairment to the infrastructure of the building such as extended loss of power or a prolonged restriction of physical access to the building by governmental authorities also could adversely affect Diapason's operations and investment returns of the accounts. Similar risks may apply to the brokers, and dealers and other custodians of the accounts' assets.

### **VIII. Disciplinary Information**

On December 17, 2009, Diapason paid a fine of \$5,000 to the CFTC in settlement of an alleged violation of Chicago Mercantile Exchange Rule 443 involving exceeding limits on speculative positions (CMEcase number 08-04232-MS-BC). Diapason neither admitted nor denied the findings of the Panel of the Chicago Mercantile Exchange Business Conduct Committee that Diapason on July 1, 2, and 3, 2008, exceeded the single month speculative limit of 1,000 contracts in Lumber futures as set forth in CME Rule 20102.E., by 16 contracts and on July 3, 2008, increased that position by 7 contracts before reducing the position below the limit. Further information involving this matter can be found on the National Futures Association's website at <http://www.nfa.futures.org>

Aside from this matter, Diapason has not been involved in any other legal or disciplinary events.

### **IX. Other Financial Industry Activities and Affiliations**

Diapason is regulated by the Swiss Financial Market Supervisory Authority ("FINMA"). In addition, Diapason is a registered commodities trading advisor with the CFTC and a member of the NFA. Diapason is a registered commodity pool operator.

Diapason's subsidiary in London, Diapason Commodities Management UK LLP, is registered with the U.K. Financial Services Authority (the "FSA").

Diapason and its management personnel are neither registered, nor have an application pending to register as, broker-dealers, registered representatives of a broker-dealer, future commissions merchants, commodity pool operators or associated persons of the foregoing entities.

Diapason is the manager of the Funds detailed above.

### **X. Code of Ethics, Participation in Client Transactions and Personal Trading**

#### *Code of Ethics*

Diapason has adopted a Compliance Manual and Code of Ethics (the "Code") and attendant policies and procedures which are designed to foster compliance with the applicable federal statutes and regulatory requirements, prevent circumstances that may lead to or give the appearance of conflicts of interest with clients, insider trading or unethical business conduct as well as promote a culture of high ethical standards. Among other things, the Code of Ethics governs personal securities trading by Diapason employees. Due to the nature of the types of securities Diapason invests in, the personal trading policy of Diapason does not restrict its personnel's ownership of securities but does require its employees to conduct personal trading activities in a manner that does not interfere with a client's portfolio transactions or take improper advantage of a relationship with any client. The Code also provides guidance and instruction to Diapason and its personnel on their ethical obligations in fulfilling their duties of loyalty, fairness and good faith towards the clients. The Code also contains sections concerning gifts and business entertainment and outside business activities.

The Code also provides for Diapason's execution of supervisory policies and procedures, and the review and enforcement processes of such policies and procedures. Diapason has designated a Chief Compliance Officer responsible for maintaining, reviewing and enforcing Diapason's Code of Ethics and corresponding policies and procedures.

Diapason forbids employees from trading, either personally or on behalf of others (including client accounts managed by Diapason), on material non-public information or communicating material non-public information ("inside information") to others in violation of the U.S. Federal securities laws.

Diapason will provide a copy of the Code of Ethics to any client or prospective client upon request.

#### *Participation or Interest in Client Transactions*

From time to time, Diapason personnel and principal owners may invest alongside the firm's clients, both to align the interest of firm and personnel and firm clients and as an expression of confidence in our services. This may include investments made in the Funds and in securities or other assets in which the Funds or other clients invest subject to applicable law and the firm's Code of Ethics.

Diapason, its related persons and employees may have financial interests in one or more of the Funds either as direct investments, carried interests, indirectly through intermediaries or through the rights of deferred compensation under a deferred incentive fee agreement that Diapason or its related person may have with certain of its Funds (all such interests will be referred to herein as "proprietary interests").

Diapason may use its discretionary authority to invest the cash of a Fund or of a managed account into Diapason's other Funds (*i.e.* money market funds). To the extent that Diapason invests assets in a client's managed account in a Fund or to the extent that Diapason invests a Fund's assets into another Fund, Diapason would receive both a management fee for the management of the client's managed account or for the management of the Fund, respectively, and will receive a management fee for managing the Fund. Diapason has a conflict of interest and an incentive to invest client assets in a Fund because Diapason increases its compensation by doing so. Diapason believes that the fees charged by its Funds are substantially similar to the expenses incurred with investments in similar third party Funds. Nevertheless, Diapason's investments decisions will be influenced by its conflict of interest in receiving greater compensation through investments of clients' funds in a Fund.

### **XI. Brokerage Practices**

The primary consideration for Diapason in selecting and working with broker-dealers is to obtain, and maintain the availability of best execution for its commodities trades. In most cases, the prime broker for commodities trades placed by Diapason requires collateral to be maintained with the prime broker or an affiliate of the prime broker. As a result, Diapason generally places its trades in securities through the same prime broker. However, on occasion, Diapason may engage in a "step-out" transaction in which Diapason may send part or all of a commission in respect of a transaction to one broker while the transaction is executed by a different broker.

In selecting broker-dealers to execute transactions and evaluating the reasonableness of the brokerage commissions paid to them, consideration will be given to the following: the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any); the

operational efficiency with which transactions are effected, taking into account the size of the order and difficulty of execution; the financial strength, integrity and stability of the broker dealer; the firm's risk in positioning a block of securities; the quality, comprehensiveness and frequency of research services available through the broker-dealer; the competitiveness of the commissions; the geographic convenience of the broker-dealer to Diapason; the expertise of the broker-dealer in certain illiquid markets; and the ability for the broker-dealer to arrange certain complex derivative instruments. Diapason generally seeks competitive commission rates, but Diapason will not necessarily pay the lowest commission available.

#### *Research and other Soft Dollar Benefits*

Diapason has entered into soft dollar arrangements where brokerage commissions executed through certain broker-dealers are used to generate "soft dollars" to pay for brokerage and research services used by Diapason on behalf of managed accounts and the Funds. In accumulating soft dollars, Diapason may pay more than the lowest available commission. Specific soft dollar practices with respect to each Fund can be found in the offering memorandum/prospectus for the respective Fund.

Diapason intends its soft dollar arrangements to be within the "safe harbor" of Section 28(e) of the Exchange Act. However, the SEC has indicated that the Section 28(e) safe harbor does not apply to commodity futures transactions. Section 28(e) also does not apply to dealer transactions including riskless principal transactions. Therefore, some of Diapason's soft dollar arrangements may not fall within the Section 28(e) safe harbor.

Diapason's soft dollar arrangements may be with soft dollar brokers that provide proprietary research directly or through third party arrangements where the soft dollar services are developed by third parties and the soft dollar broker participates in effecting the transaction. Some of the soft dollar services include: research reports and information on companies, industries and securities, commodity futures; economic, financial and market data; economic surveys and analyses; recommendations as to specific securities or commodity trades; and consultants that provide specialized data or analysis to specific sectors or asset classes. Diapason also has commission sharing arrangements whereby soft dollars, which have been generated, are paid to brokers who have provided research services in the past, in lieu of trading with those brokers.

These services or products would otherwise only be available to Diapason for a cash payment. To the extent Diapason uses commissions to obtain items that would otherwise be an expense of Diapason, such use of commissions could be viewed as additional compensation to Diapason. This may create a potential conflict of interest between Diapason's fiduciary duty to operate the accounts in their best interest and Diapason's desire to receive or direct these soft dollar benefits. As a result of receiving such services or products, there is an incentive for Diapason to use, and continue to use, such brokers and dealers to effect transactions for the accounts over which Diapason exercises trading discretion so long as such brokers and dealers continue to provide Diapason with such soft dollars credits.

Diapason has adopted procedures to monitor all soft dollar activities and maintain effective controls. Brokerage and research services paid by one account may be used to benefit all the accounts. Diapason does not allocate the relative costs or benefits of research among the accounts (or between the Funds and managed accounts) because Diapason believes that the research received is fulfilling its overall responsibilities to its clients.

Diapason may manage numerous accounts with similar or identical investment objectives or may manage accounts with different objectives that may trade in the same securities. Despite such similarities, portfolio decisions relating to client investments and the performance resulting from such decisions may differ from client to client. Diapason will not necessarily purchase or sell the same securities at the same time or in the same proportionate amounts for all eligible clients, particularly if different clients have selected different investment profiles, have materially different amounts of capital under management with Diapason or different amounts of investable cash available. Not all clients will necessarily participate in the same investment opportunities or participate on the same basis. Diapason seeks to allocate investment opportunities among clients in a fair manner taking into account clients' best interests and investment objectives/restrictions. Diapason will follow procedures to help ensure that allocations do not reflect a practice of favoring or discriminating against any client or group of clients. Account performance is never a factor in trade allocations.

For securities transactions, generally each client that participates in an aggregated order will generally participate at the average share price for all the transactions in that security on a given day, and transaction costs generally will be shared pro-rata based on each client's participation in the transaction. For commodity future transactions, aggregated orders will be allocated under one of two methods at the discretion of Diapason: (i) pursuant to an allocation algorithm that minimizes the difference between each accounts average price and the average price on the aggregated futures contracts order.; or (ii) in method whereby clients are ranked in the order in which they first became a client of Diapason and where the lowest purchase prices are allocated in to the order of client rank (*i.e.*, the lowest purchase price to the lowest ranking) and where the lowest sales prices are allocated in the order of client rank (*i.e.*, the lowest sales price is allocated to the lowest ranking). In this latter methodology, a new client of Diapason will be allocated the highest purchase price for a futures contract but also will be allocated the highest sales price for future contacts. On some occasions, Diapason may in its discretion separate orders and send them to different executing brokers. This may result in two separate batch or block trades at approximately the same time for the same securities, which may be executed at different prices or at different brokerage commission rates from one another. This may result in less favorable pricing or commission rates than if Diapason had used block or batch trades for execution.

#### *Directed Brokerage*

A managed account client may direct Diapason to use a particular broker-dealer to execute some or all transactions for the client's account. In such circumstances, the managed account client is responsible for negotiating the terms and arrangements for the account with that broker-dealer. Diapason will not seek better execution services or prices from other broker-dealers or be able to aggregate the managed account client's transactions, for execution through other brokers-dealers, with orders for the Funds or the other managed account Diapason manages. As a result, Diapason may not obtain best execution on behalf of such directing managed account client, who may pay materially disparate commissions, greater spreads or other transaction costs, or receive less favorable net prices on transactions for the account than would otherwise be the case.

#### *Trade Errors*

Although the Diapason's goal is to execute trades seamlessly in the manner intended by the client and consistent with its investment decisions, Diapason recognizes that transactions may be effected on

occasion in a manner that differs from what was intended. Diapason reviews any trade errors that it discovers, on a case-by-case basis, and decides what corrective steps to take, if any, after reviewing the error. In the context of trade errors involving a Fund, the Fund generally bears the trade error as disclosed in the offering memorandum/prospectus for the respective Fund. In the context of managed accounts, trade errors may be borne by the accounts. Diapason's policy in dealing with such trade errors in managed accounts for U.S. clients is to:

- Identify any errors in a timely manner.
- Correct all errors so that any affected account is placed in the same position it would have been in had the error not occurred.
- Generally, but not in all cases, incur all costs associated with correcting an error (or to pass the costs on to the broker, depending on which party is at fault).
- Evaluate how the error occurred and assess if any changes in any processes are warranted or if any continuing education is required.

The consequences and the required corrective measures may be different depending upon the nature of the error or the account affected.

## **XII. Review of Accounts**

All managed accounts are reviewed at least monthly in an effort to ensure that they remain aligned with the client's investment plan and are positioned appropriately given current market conditions as part of Diapason's general investment process.

## **XIII. Client Referrals and Other Compensation**

Diapason may from time to time enter into agreements with unrelated third parties whereby they introduce potential clients to Diapason, and get remunerated for such introduction.

## **XIV. Custody**

Diapason does not have custody of client accounts or investments. Independent administrators and custodians, further detailed in Diapason's ADV Part 1A, provide clients and fund investors with periodic statements.

## **XV. Investment Discretion**

Diapason accepts discretionary authority to manage client accounts as described above. Generally, in such cases, Diapason is unrestricted in its authority to invest consistent with each account's investment objectives and restrictions, as set forth in the governing agreements and documents, however, Diapason must invest within the limitations placed on assets serving as collateral to commodities trades. In the context of a discretionary mandate, Diapason makes investment decisions without consulting the investors in the case of a Fund or the account owner in the case of a managed account. In the context of a non-discretionary mandate, Diapason's investment discretion is limited to an advisory role and

Diapason does not implement investment decisions without an instruction from or the approval of the client.

#### **XVI. Voting Client Securities**

Diapason does not invest in equities and Diapason does not have the authority to vote client proxies in its managed accounts, as disclosed in Diapason's standard asset management agreement. The proxy voting policy for each Fund is located in each Fund's specific offering memorandum. If Diapason inadvertently receives any proxy materials on behalf of a client, Diapason will promptly forward such materials to the client.

Diapason does not direct client participation in class action lawsuits. Diapason will determine whether to return any documentation inadvertently received regarding clients' participation in class actions to the sender, or to forward such information to the appropriate clients.

#### **XVII. Financial Information**

Diapason has not been the subject of a bankruptcy petition at any time.