

**TELLURIDE ASSET MANAGEMENT LLC**  
**Part 2A of Form ADV: Firm Brochure**

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**This brochure provides information about the qualifications and business practices of Telluride Asset Management LLC, an investment adviser registered with the United States Securities and Exchange Commission ("SEC"). If you have any questions about the contents of this brochure, please contact us at 952-653-6446 or [mark@tridecap.com](mailto:mark@tridecap.com). The information in this brochure has not been approved or verified by the SEC or by any state securities authority.**

**Registration with the SEC does not imply a certain level of skill or training.**

**Additional Information about Telluride Asset Management LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov)**

## **MATERIAL CHANGES**

There have not been any material changes to Telluride Asset Management's brochure since the filing of its initial brochure dated February 2012.

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## **ADVISORY BUSINESS**

Telluride Asset Management LLC, a Delaware limited liability company, began operations in October of 2002. Telluride serves as the investment manager for and provides discretionary investment advisory services to various private investment funds and managed accounts. The funds offered to outside investors are Telluride Capital Fund LLC, which we refer to as the "U.S. Feeder" and Telluride Capital Fund Ltd., which we refer to as the "Offshore Feeder". The U.S. Feeder and the Offshore Feeder invest substantially all of their assets into Telluride Capital Master Fund Ltd., which pursues a variety of strategies, or other "master funds" devoted to a single strategy. The master funds have no investors other than the U.S. Feeder, the Offshore Feeder, or any of the other master funds. Telluride Capital Master Fund Ltd. owns 99% of Telluride Capital Futures Fund, Ltd., which we refer to as the "Futures Fund"; the remaining 1% is owned by Telluride. We refer to the various master funds as the "Master Funds" and all of the above funds collectively as the "Funds." In addition we refer to the Funds and managed accounts as the "Clients."

Peter Hajas indirectly owns 100% of Telluride. Mr. Hajas founded Telluride in October of 2002 and is its Chief Executive Officer.

Telluride acts as investment manager for the Master Funds, the Futures Fund, and the Offshore Feeder Fund, all of which are Cayman Islands exempted companies, and to the U.S. Feeder Fund, which is a Delaware limited liability company. In this brochure we will generally refer to trading activities on behalf of the Clients, but virtually all of the trading activity occurs at the Master Funds and the Futures Fund, with respect to the Funds, and at the managed accounts.

On behalf of the Clients, Telluride trades a variety of securities, futures, derivatives and other instruments, including stocks, convertible securities, bonds, structured instruments and over-the-counter derivatives. Telluride takes both long and short positions in these instruments. All of the Clients have a broad investment mandate; there are no material limitations on the instruments that Telluride trades on behalf of the Clients.

Telluride has full discretion in trading on behalf of the Clients. It does not require, and does not seek, approval from the Clients or the investors of the Clients with respect to its trading.

As of, December 31, 2012 Telluride manages \$174,564,416 of client assets, all of which is managed on a discretionary basis.

## **FEES AND COMPENSATION**

Telluride's fee schedule is omitted because this brochure is only being delivered to qualified purchasers as defined in the Investment Company Act of 1940.

Method of Payment of Fees. Fee or allocations received by Telluride as it relates to the Funds are deducted directly from Fund or investor accounts. Fee or allocations received by Telluride as it relates to managed accounts are paid to Telluride directly by the owner of the managed accounts.

### Client Operating Expenses, Including Brokerage and Other Transaction Costs.

In addition to compensation payable to Telluride, the Clients pay their ongoing direct offering, investment, administrative and operating expenses including:

- brokerage commissions and other transactional costs, which are discussed in more detail below;
- interest expense;
- custody costs and expenses;
- stock loan fees;
- organizational, communication, data services, and filing costs and expenses;
- government fees;
- taxes (if any);
- custodial, administration, legal, accounting, audit and tax preparation fees and expenses; and
- extraordinary expenses.

In addition the Funds pay operating expenses which include:

- printing and mailing costs and expenses;
- research expenses;
- travel and due diligence costs and expenses; and
- third party fees and expenses incurred in connection with the evaluation of prospective transactions.

Each Fund also pays its *pro rata* share of the expenses of any Master Fund in which it invests.

In some cases Telluride will pay expenses on behalf of the Funds, and in these cases the Funds will reimburse Telluride for these payments.

The Clients are charged brokerage commissions, bid-ask spreads and other transaction costs and expenses in connection with their trading and investment activities, and custodian fees for Client assets held in cash or securities at various banks, broker-dealers and other financial institutions. The Clients' trading program generates a high level of portfolio turnover. Transaction costs for the Clients, therefore, are expected to be higher as a percentage of equity than those of other private investment funds or managed accounts. For a discussion of the brokerage arrangements that Telluride enters into on behalf of its Clients, see "Brokerage Practices."

Negotiation of Fees; Waivers. Compensation payable to Telluride is generally not negotiable, but under certain circumstances, Telluride may, in its discretion, waive all or a portion of its management fees, incentive compensation and/or expenses for a particular investor.

Pre-Payment of Fees. Monthly management fees are paid by the Funds in advance. As a result of limitations on withdrawals from the U.S. Feeder Fund and redemptions from the Offshore Fund, management fees will have been earned at the time of redemption or withdrawal.

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

Telluride receives from investors in the U.S. Feeder Fund, the Offshore Feeder Fund and managed accounts performance-compensation in the form of a fee or allocation equal to a percentage of the appreciation in the net asset value of the investor's account.

## **TYPES OF CLIENTS**

Telluride provides discretionary investment advice to the Clients. The investors in the Funds consist of high net worth individuals, fund of funds, institutions, and trusts. The U.S. Feeder Fund and Offshore Feeder Fund each require a minimum initial investment of \$2 million, although this minimum can be reduced in Telluride's sole discretion. The U.S. Feeder Fund and Offshore Feeder Fund limit their investors, and Telluride limits its managed account clients, to "qualified purchasers" as defined in the Investment Company Act of 1940 or to non-United States persons.



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

### **Summary of Strategies Employed by Telluride**

Telluride offers its investors the opportunity to choose between a multi-strategy approach or a single strategy by means of selecting among the different share classes offered by the Funds or through managed accounts. Investors may also allocate capital amongst the multi-strategy and one or more single-strategies. For each strategy, Telluride attempts to optimize the returns of that strategy by allocating risk across the various strategies and trades employed. This risk allocation is based upon the historical performance of the strategy or trade and the correlation of the historical returns of a strategy or trade to that of the other strategies and trades. This allocation methodology is in itself another form of risk, and may result in larger losses during market events when the correlation of the returns of the strategies to each other is uncharacteristically high or low.

The various strategies employed by Telluride, whether under the multi-strategy approach or one of the stand-alone strategies, may be classified in broad terms as systematic or discretionary. Systematic strategies are generally quantitative and based on models developed by Telluride; discretionary strategies may be based on quantitative and qualitative analysis, although they rely largely on the subjective market judgment of the principals and portfolio managers of Telluride. However, strategies characterized as systematic may incorporate judgment of Telluride in both the model development and in their risk allocation, and, conversely, strategies characterized as discretionary may employ quantitative models. For example, certain of the methodologies used in developing Telluride's strategies are based on fundamental data and/or market data.

In developing strategies, Telluride evaluates each identified opportunity to determine whether, in Telluride's opinion, the risk/return characteristics enhance the goal of the Client. Once a strategy or trade is implemented, the risk profile and performance are monitored and managed. Since markets continuously evolve or change, strategies may be modified, deleted or added as necessary, at the sole discretion of Telluride.

In addition to price risk, positions may have other risk characteristics such as liquidity, holding periods, leverage and non-standard correlations, which are evaluated and monitored. It remains in the sole discretion of Telluride as to how these characteristics are managed.

In employing their various strategies, the Clients may trade in all cash and derivative instruments on all exchange-listed and over-the-counter markets around the world. These investments may include, for example, domestic or foreign stocks, bonds or convertible securities, options, futures, swaps and other derivatives, real estate and real estate investment vehicles. In addition to purchasing securities, Telluride will engage in short selling on behalf of the Clients. Short selling involves selling securities which may or may not be owned by a Client and borrowing the same securities for delivery to the purchaser.

Telluride expects to make extensive use of leverage while trading on behalf of the Clients. One form of leverage involves trading on margin, or borrowing funds used to make trades. However, leverage is also inherent in many of the instruments traded on behalf of the Clients, such as futures and options.

Telluride trades opportunistically on behalf of the Clients. There is no material limitation on the strategies which Telluride may apply or the markets in, or the instruments, which Telluride may trade on behalf of the Clients. In investing in the U.S. Feeder Fund, the Offshore Feeder Fund or a managed account, investors rely on the general market skill, knowledge and expertise of Telluride and its personnel, rather than the robustness of any particular trading system or model.

### **Illustrative Strategies**

Examples of the various strategies which Telluride may apply in directing the Clients' trading, any of which may be pursued on a discretionary or systematic basis, include:

*Global Macro.* A global macro strategy involves investing in markets and instruments throughout the world in which Telluride sees opportunity for profit. Under a global macro strategy, Telluride enters into positions in various financial instruments based on Telluride's interpretation of current events, macro fundamental information and market data. When pursuing this type of strategy, at any given time, Telluride may take positions in currencies, debt, equities or commodities. In furtherance of this strategy, Telluride takes outright directional positions, *i.e.*, either a long position or a short position in a particular instrument or, depending on the risk/return profile of the markets in which it is trading on behalf of the Clients, may elect to take relative value positions, *i.e.*, pair long positions and short positions.

*Relative Value.* A relative value strategy involves a wide variety of instruments and trading techniques. This strategy is comprised of a collection of trades which capitalize on what Telluride believes to be anomalies within and across financial products. The perceived anomaly may lie within the instruments traded on one or several underlying interests. These valuation variations may be very obscure and require fairly complex quantitative analysis and/or the combination of multiple transactions to isolate from extraneous market factors and risks. These trades may be one-time transactions or may be consistently pursued with discretionary entry and exit points.

*Long/Short Equity.* This strategy involves Telluride attempting to manage the risk of overall market movements by taking balanced long and short positions in the common stock of different issuers. The objective is to have a long position in the stock likely to outperform, and a short position in the stock likely to underperform, the market. Although the combination of long and short investing can provide an element of protection against directional market exposure, it does not eliminate market exposure. In addition, Telluride generally does not attempt to maintain market neutral positions, *i.e.*, the Clients' portfolio may at any time have a greater value of long positions versus short positions, *i.e.*, be "net long," or have a greater value of short positions versus long positions, *i.e.*, be "net short."

*Directional Equity.* This strategy involves buying stocks that Telluride perceives to be undervalued and selling short stocks that it perceives to be overvalued. The research-intensive efforts employed in identifying promising stocks to hold in a portfolio may also provide short-sale opportunities.

*Fixed-Income Arbitrage.* Fixed income arbitrage attempts to profit from situations in which the market price of a fixed income security such as a bond differs from what Telluride believes to be its actual market value, *i.e.*, “mispricings.” Specifically, by employing this strategy Telluride seeks to profit from mispricings that develop between related classes of fixed income securities. Typically fixed income strategies include trading in Treasury, mortgage-backed, municipal and government agency securities. A high degree of leverage is often utilized in fixed-income arbitrage.

*Long/Short Credit.* Long/short credit strategies attempt to identify attractive credit-related investments while managing the risk of credit market movements by taking both long and short positions in these investments, such as corporate bonds, bank loans, trade claims, emerging market debt and credit derivatives such as credit default swaps. These strategies may be implemented by investing in companies in financial difficulty, reorganization or bankruptcy. Although long/short credit strategies typically involve positions in debt instruments and credit derivatives, Telluride performs extensive research on companies and may use this information to take both long and short positions in the equity securities of these companies as well.

*Yield Curve.* Strategies based on yield curve relationships involve holding positions in both the futures and cash markets, based on views regarding the anticipated relationships between various fixed income instruments.

*U.S. Treasuries.* U.S. Treasury strategies involve trading securities based on Telluride’s views regarding the yield curve, the direction of interest rates and other factors.

*Event-Driven.* Event-driven strategies involve investments, long or short, in the securities of corporations undergoing significant change, such as acquisitions, spin-offs, mergers, liquidations and bankruptcies. In connection with certain events, such as mergers and acquisitions, Telluride may simultaneously maintain a long position in the securities of one company and a short position in the securities of another issuer. Event-driven changes often provide managers with a tangible catalyst by which Telluride may be able to realize the expected change in value in the underlying security. Event-driven strategies are designed to generate substantial profits in the event, for example, a manager correctly analyzes the impact of the anticipated corporate event or predicts the course of restructuring and takes positions accordingly.

*PIPEs.* A private investment in public equity, or “PIPE,” strategy involves the purchasing and selling, through private placements not involving a public offering, of securities offered by companies publicly-traded on an exchange.

*Convertible Bond Arbitrage.* Convertible bond arbitrage primarily involves taking long positions in convertible bonds or warrants, hedged with a short position, typically in

the underlying stock. Convertible bonds and warrants are derivative products and are priced as a function of the price of the underlying stock, expected future volatility of returns, risk-free interest rates and the difference in yield, or “spread,” between particular corporate securities and Treasury securities. In many cases, convertible bonds and warrants are difficult to price due to company-specific contract specifications such as call or put features, and other restrictions or conditions the issuer may impose. Additionally, some convertible bonds and warrants are illiquid. These complications may give rise to significant profit opportunities, and in pursuing this strategy Telluride will acquire positions in anticipation of the market price’s eventually reflecting true value.

*Emerging Markets.* Emerging markets trading strategies focus on traditional fixed income, value and growth equity transactions in markets outside of the United States and Western Europe, including Asia, Latin America, Eastern Europe, Africa and the less developed Mediterranean economies. Emerging markets are highly volatile and information relating to the securities traded in these markets is often difficult to obtain.

### **Risk Management**

The emphasis in Telluride’s investing is to identify investment opportunities that Telluride determines to have superior risk/reward parameters. The Clients’ overall portfolios are reviewed on an ongoing basis in an effort to maximize the Clients’ returns relative to their risks.

Telluride may not hedge all market or other risks to which the Clients’ portfolio is subject, and is not compelled to follow any formal diversification policy. The length of time for which a position is maintained varies significantly and may range from seconds to years, based upon a variety of factors including the nature of the underlying investment strategy, market conditions, and Telluride’s subjective judgment of the appropriate point at which to liquidate a position.

There is no assurance that even robust risk management will mitigate or prevent the Clients’ portfolio from experiencing significant losses. By investing in the U.S. Feeder, the Offshore Feeder or managed accounts, subscribers are relying on the discretionary, market judgment of Telluride, trading in a wide range of strategies and markets, as well as in investing in positions with a wide range of different durations, without being subject to diversification, leverage or any other form of mandatory trading policies.

### **Material Risks of Telluride’s Strategies**

Investing in securities involves risk of loss that investors in the U.S. Feeder, the Offshore Feeder or managed accounts should be prepared to bear. The following is a summary of some of the material risks associated with the strategies expected to account for a significant portion of the Clients’ trading. This summary does not attempt to describe all of the risks associated with an investment in the U.S. Feeder, the Offshore Feeder or managed accounts, or even all risks associated with the Clients’ strategies.

Although no summary can fully describe all of the risks associated with an investment in the Funds or a managed account, the confidential private placement memorandum for the U.S. Feeder and the confidential offering memorandum for the Offshore Feeder contain a more complete description of the risks associated with an investment in the U.S. Feeder or the Offshore Feeder.

*Short Selling.* An integral component of certain of the Clients' investment strategies is short selling. Securities sold short must later be replaced or offset by market purchases, and therefore any appreciation in the market price of these securities therefore results in a loss. Purchasing securities to close out short positions can itself cause their market price to rise further, thereby increasing losses. Furthermore, in the case of short sales of securities in which the Client does not hold a long position, the Client may prematurely be forced to close out a short position if a counterparty demands the return of such borrowed securities. There can be no assurance that the securities necessary to cover a short position will be available for purchase.

Short selling is continually the subject of regulatory scrutiny, and regulatory restrictions in one or more markets in which Telluride trades, like the short-selling ban imposed by the SEC in September 2008, could severely impair its ability to engage in short selling and render a strategy unprofitable. Restrictions may be imposed with little or no warning, which could result in substantial losses to the Clients.

*Financing Arrangements.* Many of the investment strategies utilized by the Clients require the use of substantial leverage. As a general matter, the banks and dealers that provide financing to the Clients can apply essentially discretionary margin, financing and security and collateral valuation policies. Changes by banks and dealers in financing and valuation policies may result in large margin calls, loss of financing and forced liquidations of positions at disadvantageous prices. In addition, the dealers have essentially discretionary authority to close out credit lines, and this happened in numerous instances during the credit crisis that began in 2008 although not specifically to any Clients. The Clients may not be able to maintain adequate financing to pursue its investment program, and if they cannot this could result in portfolio liquidations and losses.

*Leverage.* The Clients are expected to leverage their investment activities not only through selling securities short, but also through purchasing securities on margin and possibly using options, repurchase and reverse repurchase agreements and swaps. Leverage increases the magnitude of both profits and losses.

*Turnover.* Telluride anticipates engaging in high-volume trading on behalf of the Clients. High-volume trading can have a negative effect on performance as a result of, for example, transaction costs such as brokerage commissions and tax inefficiencies.

*Importance of Effective Transaction Execution.* The pricing differentials that the Clients attempt to exploit may be small not only in amount, but also in duration. The success of the Clients depends to a greater degree than in the case of most strategies on the

quality of its trading execution. The potential adverse impact of inefficient trade executions is increased by the Clients' high turnover rate.

*Futures Trading.* Futures prices are highly volatile, and price movements are influenced by a multitude of factors such as supply and demand relationships, government trade, fiscal, monetary and exchange control policies, political and economic events and emotions in the marketplace. Futures trading is highly leveraged. Furthermore, futures trading may be illiquid as a result of daily limits on movements of prices. The Clients' futures trading could be adversely affected by speculative position limits.

*Reliance on Corporate Management and Financial Reporting.* Some of the strategies implemented by the Clients rely on the financial information made available by the issuers in which the Clients invest. Telluride does not have the ability to independently verify the financial information disseminated by the issuers in which the Clients invest and is dependent upon the integrity of both the management of these issuers and the financial reporting process in general.

*Changing Market Conditions.* Telluride's strategies are based, in part, on the analysis of past market and economic data as indications of future prices. The international economy is rapidly evolving and the financial markets developing in response to new financial instruments and technologies. There can be no assurance that the valuation models developed by Telluride based on past market conditions will be applicable in current markets. Unlike a number of trading strategies, arbitrage strategies are dependent — due to the small intrinsic profit in each of their positions considered individually — on the bulk of their positions being profitable. Even small changes in market conditions can cause previously successful models to inaccurately predict future "true value" or mispricings.

*Suspensions of Trading.* Securities exchanges typically have the right to suspend or limit trading in any instrument traded on the exchanges. A suspension in trading could render it impossible for a Client to liquidate positions and thereby expose the Client to losses.

*Non-U.S. Government Securities.* A portion of the Clients' trading operations may involve the purchase of non-U.S. government securities. Securities of some non-U.S. government issuers are less liquid and more volatile than comparable U.S. government securities. Similarly, volume and liquidity in most non-U.S. securities markets are less than in the United States and, at times, price volatility can be greater than in the United States. The Clients therefore may be subject to additional risks, including possible adverse political and economic developments, possible seizure or nationalization of non-U.S. deposits and possible adoption of governmental restrictions that might adversely affect the payment of principal and interest on such securities or might restrict the payment of principal and interest to investors located outside the country of the issuer.

*Non-U.S. Investments.* The Clients may invest in securities of non-U.S. issuers. Non-U.S. investments involve certain special risks, including: political or economic instability;

the possibility of non-U.S. governmental actions such as expropriation, nationalization or confiscatory taxation; currency controls; withholding taxes on dividends, interest and gains; different bankruptcy laws and practice; fluctuating currency exchange rates; and the lack of, or different, regulations.

As compared to U.S. entities, non-U.S. entities generally disclose less financial and other information publicly, and are subject to less stringent and less uniform accounting, auditing and financial reporting standards. Also, it may be more difficult to obtain and enforce legal judgments against non-U.S. entities than against U.S. entities.

*Currency Risk.* In the event that a Client holds securities denominated in currencies other than U.S. dollars, those securities will be affected favorably or unfavorably by changes in currency rates and in exchange control regulations, and the Clients may incur costs in connection with conversions between various currencies.

*Derivatives in General.* The Clients may make use of various derivative instruments, such as convertible securities, options, futures, forwards and interest rate, credit default, total return and equity swaps. The use of derivative instruments involves a variety of material risks, including the extremely high degree of leverage sometimes embedded in such instruments. The derivatives markets are frequently characterized by limited liquidity, which can make it difficult as well as costly to close out open positions in order either to realize gains or to limit losses. The pricing relationships between derivatives and the instruments underlying such derivatives may not correlate with historical patterns, resulting in unexpected losses.

Use of derivatives and other techniques such as short sales for hedging purposes involves certain additional risks, including dependence on the ability to predict movements in the price of the securities hedged; imperfect correlation between movements in the securities on which the derivative is based and movements in the assets of the underlying portfolio; and difficulties in managing a portfolio or meeting short term obligations because of the percentage of a portfolio's assets segregated to cover its obligations. In addition, by hedging a particular position, any potential gain from an increase in the value of such position may be limited.

*Swaps and Other Derivatives.* The Clients enter into swaps and similar derivative transactions involving or relating to interest rates, credit risks, non-U.S. currencies, commodities, securities, investment fund interests, indices, prices or other items. Currently, swap contracts and similar derivative contracts are individually negotiated and are not traded on exchanges, which means that in entering into these contracts the Clients are subject to risks including counterparty default and the lack of active markets for the instruments. The Dodd-Frank Wall Street Reform and Consumer Protection Act, commonly referred to as the "Reform Act" adopted in July 2010 includes provisions that comprehensively regulate the over-the-counter derivatives markets for the first time. While the Reform Act is intended in part to reduce certain of the risks described above, its success in this respect may not be evident for some time after the Reform Act is fully implemented, a process that may take several years. In addition, even if the Reform Act

addresses these risks, margin and other costs imposed on dealers are expected to be passed through to other market participants in the form of higher fees and less favorable dealer marks.

*Options.* Trading options is highly speculative and may entail risks that are greater than investing in other securities. Prices of options are generally more volatile than prices of other securities. In trading options, Telluride speculates on market fluctuations of securities and securities exchange indices while investing only a small percentage of the value of the securities underlying such option. A change in the market price of the underlying securities or underlying market index will cause a much greater change in the price of the option contract. In addition, to the extent that Telluride purchases options that it does not sell or exercise, the Clients will suffer the loss of the premium paid in such purchase. If Telluride must buy those underlying securities, the Clients risk the loss of the difference between the market price of the underlying securities and the option price. Any gain or loss derived from the sale or exercise of an option will be reduced or increased, respectively, by the amount of the premium paid. The expenses of option investing include commissions payable on the purchase and on the exercise or sale of an option. Furthermore, the risk of nonperformance by the seller of an option may be greater and the ease with which Telluride can dispose of such an option may be less than in the case of an exchange traded option.

Telluride may cause the Clients to buy or sell over-the-counter options — options on securities that are not traded on a securities exchange and are not issued or cleared by an internationally recognized clearing corporation. The risk of nonperformance by the seller of this type of option may be greater, and the ease with which Telluride can dispose of such an option may be less, than in the case of an exchange traded option issued by an internationally recognized clearing corporation.

*Hedging.* Hedging techniques involve risks including imperfect correlation between the performance and value of the instrument and the value of the Clients' securities, the possible lack of a secondary market for closing out a position in such instrument, losses from market movements not anticipated by Telluride and the possible imposition of additional margin or other payment requirements.

Telluride will not, in general, attempt to hedge all market or other risks inherent in the Clients' positions, and hedges certain risks, if at all, only partially. Specifically, Telluride may choose not, or may determine that it is economically unattractive, to hedge certain risks — either in respect of particular positions or in respect of the Clients' overall portfolio. The Clients' portfolio composition will commonly result in various directional market risks remaining unhedged. Telluride may rely on diversification to control such risks to the extent that Telluride believes it is desirable to do so; however, the Clients are not subject to formal diversification policies.



### **DISCIPLINARY INFORMATION**

Not applicable.

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

Telluride is registered with the Commodity Futures Trading Commission as a commodity pool operator and as a commodity trading adviser and is a member of the National Futures Association. Peter Hajas and Mark Kuper who are principals of Telluride, are both registered with the National Futures Association as associated persons of Telluride. In addition, Vivin Oberoi, Head of Global Macro is registered with the National Futures Association as an associated person of Telluride.

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

As an SEC-registered advisor, Telluride has adopted a Code of Ethics pursuant to the SEC's rule 204A-1. The Code of Ethics includes Telluride's policies as they relate to personal investment and trading by Telluride management and employees, and includes a requirement that securities holdings be reported and approval procedures for transactions. The Code defines material and nonpublic information and the restrictions on trading on any material and nonpublic knowledge and sets forth the responsibilities of all supervised persons relative to insider trading. The Code includes policies and procedures on issues of security as they relate to sensitive and confidential materials and record retention of all documents and electronic information.

All principals and employees of Telluride must acknowledge understanding and agree to comply with the Code initially upon employment and must certify on an annual basis that they have read and understand the code and have complied with it.

In its role as investment advisor to the Clients, Telluride and its principals and employees make investment decisions for the Clients. Telluride and its principals and employees may trade and invest for their own accounts in the same securities as those in which it invests on behalf of the Clients. Trades for Telluride, its principals or employees may be made at or near the time that trades are placed for the Clients. As a result of a neutral allocation system, testing a new trading system, trading their proprietary accounts more aggressively, or any other actions that would not constitute a violation of fiduciary duties, Telluride and its principals and employees may take positions in their proprietary accounts which are opposite or ahead of the positions taken for the Clients. The records of this trading will not be made available to investors in the Funds or managed accounts. To address the conflicts of interest posed by this type of trading, Telluride maintains the Code of Ethics, as described above. Specifically, the Code of Ethics requires principals and employees to report all securities holdings, and to report all transactions in securities with limited exceptions for securities such as shares of mutual funds, and these transactions are reviewed by Telluride's compliance personnel with a view to ensuring that transactions are not based on information concerning Client trades or with knowledge that they would disadvantage the Clients.

Telluride's Code of Ethics is available to investors and potential investors upon request.

## **BROKERAGE PRACTICES**

Telluride selects its brokers based on their industry experience, reputation, and fees and/or commissions. Telluride determines brokers or dealers to be used and negotiates commission rates to be paid to those brokers without investor involvement.

Telluride as a matter of policy does not enter into “soft dollar” arrangements, *i.e.*, arrangements under which Telluride agrees to pay more than the lowest available commission for products or services provided by a broker-dealer, nor does it have procedures governing these types of arrangements. However, brokers may provide certain research or other products or services, – including, but not limited to, research emails, access to research websites, meetings with companies, and participation at industry conferences – to all of its customers including Telluride, without being requested to do so. Telluride will take advantage of the products or services provided rather than producing or paying for them from another provider. In this situation Telluride receives a benefit because it does not have to pay for the research. In addition Telluride may have an incentive to recommend broker-dealers based on its interest in receiving products or services, even in the absence of soft dollar arrangements, rather than the interests of the Clients in receiving the most favorable execution. Any products or services that Telluride receives from broker-dealers will be used in connection with its management of all client accounts, not just selected accounts. As noted above, any such benefits would not be provided under any formal arrangement, and therefore Telluride does not allocate these benefits among client accounts in proportion to the amount of their trading or any other factor.

When Telluride determines that it would be appropriate for a Fund and one or more other accounts managed by Telluride to participate in an investment opportunity, Telluride will seek to execute orders for all of the participating accounts, including the Fund, on an equitable basis. Specifically, to the extent feasible under applicable rules and regulations, if Telluride has determined to invest at the same time for more than one account, it may aggregate orders for all such accounts simultaneously, and if an order is not filled at the same price, Telluride may average the prices paid or use any other allocation technique it believes is fair. Similarly, if an order cannot be fully executed under prevailing market conditions, Telluride may allocate the securities traded among different accounts on a basis which Telluride considers equitable. Situations may occur in which the Funds could be disadvantaged because of the investment activities conducted by Telluride for other accounts managed by Telluride or vice versa.

## **REVIEW OF ACCOUNTS**

Telluride has developed proprietary trading and risk management systems which allow senior managers, including the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, the Chief Technology Officer and certain portfolio managers, to oversee trading for the firm regularly throughout the day. At any point during the day these senior managers are able to review the day's trading in terms of actual trades, netted trades and daily, monthly and yearly profit and loss. This analysis can be done across all Clients, by strategy, or by each individual trading account.

Telluride sends written monthly statements to each investor in the U.S. Feeder Fund and the Offshore Feeder Fund. The reports include Performance information specific to the investor receiving the report. Specifically, such investors receive individual investor statements showing their individual rate of return for the reporting period and the ending net asset value for the period. In addition each investor receives an account statement for the entire fund which shows the flows of actual dollars for the period, *i.e.*, the beginning balance, subscriptions, allocated gain or loss, redemptions, and ending net asset value. Also, each investor receives the US Feeder Fund's or Offshore Feeder Fund's investment statement from its investment in any Master Funds, again showing the flows of actual dollars for the period, *i.e.*, the beginning balance, subscriptions, allocated gain or loss, redemptions, and ending net asset value. In addition, Telluride sends to each investor in the U.S. Feeder Fund and the Offshore Feeder Fund the annual audited financial statements for the Fund in which they were invested, and Telluride's current Form ADV annually.

**CLIENT REFERRALS AND OTHER COMPENSATION**

Not applicable.

**CUSTODY**

Not applicable.

### **INVESTMENT DISCRETION**

Pursuant to the Offering Documents of the U.S. Feeder Fund and the Offshore Feeder Fund, Telluride, as investment manager, has complete investment authority with respect to all securities owned by the Funds. There are no limitations on this authority.

Pursuant to the trading manager agreement for each managed account, Telluride has full investment discretion and authority with respect to such manger account (subject to any investment guidelines set forth therein).



## **VOTING CLIENT SECURITIES**

Telluride has the authority to vote the securities held by the Funds by virtue of the investment management agreements for the Offshore Feeder Fund, the Master Funds and the Futures Fund, and the operating agreement for the Onshore Feeder Fund. Neither the Funds nor any investor in the Funds may direct Telluride's vote with respect to any particular solicitation.

Many of the positions held for the Funds are held for very brief periods of time, and Telluride will therefore not vote or evaluate proxies except as it may be specifically solicited or in other extraordinary situations when, in any event, Telluride believes the matter subject to vote may be material to the Funds' account and Telluride's vote may affect the outcome of the vote. If and when Telluride does vote proxies, it will vote them prudently and solely in the economic interests of, and for the exclusive purpose of providing economic benefits to, the Funds. It will not consider social, political, or other objectives unrelated to the value of the Fund's investments.

In the limited circumstances in which Telluride does vote proxies, Telluride will follow procedures designed to identify and address material conflicts that may arise between Telluride's interests and those of the Funds before voting proxies on behalf of the Funds. Specifically, Telluride will monitor the potential for conflicts of interest on the part of Telluride with respect to voting proxies on behalf of the Funds accounts as a result of personal relationships, significant client relationships, or special circumstances.

If Telluride determines that a conflict of interest exists with respect to a particular issuer, Telluride's Compliance Officer will determine whether the conflict of interest is material. If it is determined that the conflict of interest is not material, Telluride may vote proxies notwithstanding the existence of the conflict. If it is determined that the conflict of interest is material, Telluride will resolve the conflict in one of several possible ways, such by engaging a third party to recommend a vote with respect to the proxy.

The above policy with regard to proxy voting will not apply to accounts subject to the Employee Retirement Income Security Act of 1974 or "ERISA." On ERISA accounts, Telluride will engage an outside proxy voting service to evaluate and vote proxies, although Telluride reserves the right to override such a service in the same extraordinary situations noted above, in which case Telluride will vote proxies in the same manner described above.

Investment adviser clients of Telluride, or investors in a Fund, may request a copy of the Telluride's Proxy Voting Policy, as well as relevant proxy voting records, by making a written request to:

Mark Kuper  
Chief Operating Officer  
Telluride Asset Management LLC  
1000 Parkers Lake Road  
Wayzata, Minnesota 55391

**FINANCIAL INFORMATION (PREPAYMENT OF FEES)**

Not applicable.