

# **DISCLOSURE BROCHURE FORM ADV, PART 2A**



## **Sheridan Production Partners Manager, LLC**

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**March 27, 2013**

This brochure provides information about the qualifications and business practices of Sheridan Production Partners Manager, LLC. If you have any questions about the contents of this brochure, please contact us at 713-548-1000. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Sheridan Production Partners Manager, LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

This document is not an offer to sell, or a solicitation of an offer to buy, an interest in any current or future Sheridan sponsored fund.

## **Material Changes**

Sheridan Production Partners Manager, LLC, filed its original Brochure on February 14, 2012. This Brochure constitutes our 2013 annual update. This update contains no material changes from our original Brochure.

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## **ADVISORY BUSINESS**

### **Firm Description**

Sheridan Production Partners Manager, LLC, a Delaware limited liability company ("Sheridan" or the "Firm"), was formed in 2006, when Lisa A. Stewart and other senior executives of Sheridan joined with Warburg Pincus LLC, a New York limited liability company ("Warburg Pincus"), to create a management company for the purpose of raising and managing oil and gas investment partnerships. Sheridan's principal owners are Lisa A. Stewart and Warburg Pincus. Sheridan is headquartered in Houston, Texas.

### **Types of Advisory Services**

Sheridan provides management services to the investment partnerships it sponsors. To date, Sheridan has raised six investment partnerships in two series. The first series, consisting of Sheridan Production Partners I-A, L.P. ("Fund I-A"), Sheridan Production Partners I-B, L.P. ("Fund I-B"), and Sheridan Production Partners I-M, L.P. ("Fund I-M" and collectively with Fund I-A and Fund I-B, "Sheridan I"), was raised in 2007. The second series, consisting of Sheridan Production Partners II-A, L.P. ("Fund II-A"), Sheridan Production Partners II-B, L.P. ("Fund II-B"), and Sheridan Production Partners II-M, L.P. ("Fund II-M," and collectively with Fund II-A and Fund II-B, "Sheridan II"), was raised in 2010. The partnerships constituting Sheridan I and Sheridan II are collectively referred to herein as the "Funds." Affiliates of Sheridan serve as the general partner of each of the Funds, and Sheridan is designated as the manager of each of the Funds under their constituent documents. As such, Sheridan exercises all management and investment decision-making authority with respect to the Funds, subject to limitations included in the constituent documents or agreements with the limited partners of the Funds. Sheridan has no clients other than the Funds and provides no advisory services other than the management services described herein.

### **Tailored Advisory Services**

The Funds are organized for the sole purpose of making direct or indirect investments in hydrocarbon-producing properties in accordance with specific investment guidelines set forth in their constituent documents. The Firm's advisory services are focused on identifying attractive investment opportunities that comply with such guidelines. The Funds are generally not permitted to deviate from the investment mandates set out in their constituent documents without the consent of their respective limited partners or limited partner advisory committees (each, an "Advisory Committee"), as appropriate.

Material restrictions on Fund investments include prohibitions on:

- Investing in properties located outside of the United States or, in the case of Sheridan II, in the federal and state waters thereof;
- Investing more than 15% of a Fund's aggregate capital commitments in any single field;
- Engaging in hedging or other derivative transactions purely for speculative purposes;
- Investing in any "blind pool" type investment fund as to which the general partner or manager thereof is entitled to a carried interest, performance fee or management fee; and
- For Fund I-B and Fund II-B, investing in any asset that would generate unrelated business taxable income.

### **Client Assets Under Management**

As of December 31, 2012, the Firm had \$4,538,000,000 of aggregate assets under management (based on the then current estimated value of such assets) including \$1,169,000,000 of uncalled capital commitments. The Firm does not manage assets on a non-discretionary basis.

## **FEES AND COMPENSATION**

### **Management Fees**

In return for its management services, Sheridan receives a management fee (the "Management Fee") from each of the Funds (other than Fund II-M). The Management Fee is payable semi-annually in advance pursuant to the Funds' governing agreements; however, the Firm and the Funds have formally agreed that the Management Fee will be paid less than six months in advance. Pre-paid Management Fees are not subject to refund.

Management Fees are subject to reduction by 100% of the amount of certain additional fees received by Sheridan or Warburg Pincus in connection with the Funds' investments, as described below under "Other Fees." Management Fees may be funded from cash flows received in respect of a Funds' operations or through capital contributions by limited partners.

### **Other Fees**

None of Sheridan, its affiliates or Warburg Pincus charges the Funds any fees other than the Management Fee. Any transaction fees or other fees received by Sheridan, its affiliates or Warburg Pincus from third parties related to the Funds' investments are applied entirely to reduce the Management Fee (excluding any

third-party fees received as operator of properties under standard joint operating agreements, which would reduce Fund Expenses (as defined below) on a dollar-for-dollar basis).

## **Fund Expenses**

Each Fund bears all expenses associated with its investment program and operations ("Fund Expenses"), including, without limitation, fees, costs and expenses related to the purchase and sale of properties, expenses incurred in the operation of the Fund and development of its properties (including, without limitation, expenses of custodians, counsel and auditors, and any insurance, indemnity or litigation expenses), all costs of the Funds' administration (including, but not limited to, preparation of financial statements and reports to limited partners, interest, fees and other amounts payable in connection with any leveraging, and costs of holding any meetings of limited partners), and any taxes, fees or other governmental charges levied against such Funds. In addition, the Funds are responsible for all fees and expenses due to any legal, financial, accounting, consulting or other advisors, or any lenders, investment banks and other financing sources in connection with transactions that are not consummated.

Sheridan's wholly-owned subsidiary operating company, Sheridan Production Company, LLC, a Delaware limited liability company, manages the day-to-day operation and administration of the Funds' oil and gas properties and employs engineers, geoscientists, accountants, field personnel and other employees to carry out these activities. All compensation and other expenses associated with such personnel are reimbursed by the Funds at cost as Fund Expenses.

Fund Expenses that are common to more than one Sheridan Fund are allocated among the Funds as reasonably determined in good faith by Sheridan. Field-level operating expenses are, as is customary in the oil and gas business, charged against the applicable property and allocated to the Funds in proportion to their working interest ownership therein, with any expenses recouped from third-party interest owners being credited back against such costs in the same percentages as borne by the Funds. The Firm allocates general and administrative expenses based on estimates of effort expended, benefit received, assets under management, and other methods that are reasonable under the circumstances, which methods may vary for the different categories of Fund Expenses and may change over time.

## **Manager Expenses**

The Firm is responsible for paying, without reimbursement from the Funds, an allocated portion of the compensation and employee benefit expenses, and rent and other occupancy costs of Sheridan's senior management team and certain additional management and/or investment professionals. The scope of these costs that are borne by the Firm varies by Fund and is set forth in the limited partnership agreements of the Funds.

## **Organizational Expenses**

Each of the Funds paid expenses incurred in connection with its establishment up to a cap set forth in its limited partnership agreement. In each case, amounts in excess thereof were borne by Sheridan and its affiliates.

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

As additional compensation for Sheridan's services, affiliates of the Firm receive distributions of carried interest from the Funds, which distributions are based on a share of realized gains obtained by each such Fund. The methodology for calculating such distributions is set forth in the limited partnership agreements of the applicable Funds. A portion of these amounts are then distributed to certain of our supervised persons.

## **TYPES OF CLIENTS**

Sheridan's only clients are the Funds. Each of the Funds is exempt from registration as an investment company under both Section 3(c)(7) and Section 3(c)(9) of the Investment Company Act of 1940, and none of the Funds are private funds (as defined in the instructions to Form ADV). Interests in the Funds are offered to investors satisfying the applicable eligibility and suitability requirements in exempt private placement transactions within the United States. Limited partners in Sheridan I and Sheridan II (other than Fund I-M and Fund II-M) were subject to a minimum initial capital commitment amount of \$10,000,000 (although investments of lesser amounts were accepted on a case-by-case basis).

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

### **Investment Strategy**

Sheridan's investment strategy for the Funds is to generate attractive, relatively low-risk returns, current cash distributions, and long-term exposure to oil and gas prices by:

- acquiring a diverse portfolio of mature, predictable oil and gas producing properties within various basins in the United States;
- optimizing the operation of those properties to control costs, and investing capital to accelerate production and enhance recoveries;
- hedging production for several years after an acquisition in order to protect cash flows and base rates of return, and opportunistically thereafter; and
- enhancing total return through prudent leverage.

### **Investment Analysis**

Prior to making any investment on behalf of a Fund, Sheridan undertakes an extensive technical and financial evaluation of the assets. Due to the intensive manpower requirements of Sheridan's technical evaluation methodology, Sheridan limits evaluations to those properties that clearly fit its investment criteria and which have a reasonably high probability of success. A typical Sheridan technical evaluation involves reservoir and production engineers, geoscientists, landmen, operations personnel, marketing professionals, and environmental, health and safety specialists. This detailed evaluation by the technical staff that would be operating and developing the properties, if acquired, is a key element of the Sheridan business model in that it provides a keen understanding of value drivers in any asset package and establishes a culture of accountability for future development and profitability of the assets. In addition to the detailed technical evaluation, financial professionals model the resulting expected asset-level cash flows to estimate equity level returns to investors, including the effects of hedging and leverage.

After closing, Sheridan tracks and reports all key operating and financial parameters on each of its acquisitions relative to the original acquisition assumptions. Sheridan also performs look-back analyses on all acquisitions beginning one year after closing. These analyses are updated twice per year to compare actual results to acquisition forecasts.



## **Risk of Loss**

The Funds' investments are concentrated in oil and gas producing properties in the United States, the value of which are directly correlated to existing reserves, expected future reserves and production rates, and forward prices for oil and natural gas, which are highly volatile and dependent on numerous factors that are beyond the control of the Funds and Sheridan.

While the Funds' investments are generally diversified across multiple wells and fields (and Sheridan expects that they will continue to be similarly diversified in the future), they may be concentrated in a single producing basin, geographic region or type of geological play, and therefore the Funds' entire portfolio of properties may be subject to a common set of operational and investment risks. Although Sheridan's strategy is generally to hedge a significant proportion of anticipated near- to medium-term production around the time of acquisition of a property, it does not typically hedge longer-term production, and amounts actually realized by the Funds, particularly in the later years of their respective terms, will inevitably be impacted by changes in prevailing prices for oil and natural gas.

Sheridan does not guarantee the future performance of the Funds or any specific level of performance, the success of any investment decision or strategy that Sheridan may use, or the success of Sheridan's overall management of the Funds. Investment decisions that Sheridan makes for the Funds are subject to various market, economic, political and business risks, and those investment decisions will not always be profitable and may result in a total loss of invested capital.

The foregoing does not purport to be a complete list of all risks to which Sheridan and its constituent Funds are subject.

## **DISCIPLINARY INFORMATION**

There have been no disciplinary actions against Sheridan or any of its management persons that would be material to a client's or prospective client's evaluation of Sheridan or its advisory business.

## OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

### Affiliation with Warburg Pincus

Warburg Pincus, a global private equity firm, developed the concept for Sheridan, and is currently one of the principal owners of Sheridan. In addition, Warburg Pincus has the right to designate three of the nine members of Sheridan's Investment Committee (which is responsible for all material decision making related to Sheridan, including investment decisions and capital budget approval for the Funds). While Sheridan believes its relationship with Warburg Pincus is generally beneficial to the Funds and their investors, it may also lead to potential conflicts of interest, including, but not limited to, the following:

- The Funds may, with the consent of the relevant Advisory Committee, where necessary, acquire assets owned by, or dispose of assets to, portfolio companies of Warburg Pincus sponsored private equity funds.
- The Funds may compete for acquisitions of producing properties with portfolio companies of Warburg Pincus sponsored private equity funds.
- The Funds may acquire assets owned by, or dispose of assets to, publicly-traded entities in which Sheridan management or investment professionals of Warburg Pincus have an equity ownership stake.
- Oil and gas produced from properties owned by the Funds may be transported in pipelines or processed by companies in which Warburg Pincus private equity funds, Sheridan management or Warburg Pincus investment professionals have an equity ownership stake.
- The market for experienced professionals with knowledge of the oil and gas exploration and production ("E&P") field is very competitive. Sheridan management may seek to recruit or retain personnel currently employed or sought by entities in which Warburg Pincus sponsored private equity funds, Sheridan management or Warburg Pincus investment professionals have an equity ownership stake.
- The Funds may acquire oilfield and other services or purchase goods and equipment from companies in which Warburg Pincus sponsored private equity funds, Sheridan management or Warburg Pincus investment professionals have an equity ownership stake.
- Warburg Pincus and its affiliates may owe fiduciary and other duties to Warburg Pincus private equity funds and their portfolio companies. Conflicts may arise between the duties of Warburg Pincus and its affiliates with respect to Sheridan and their duties to Warburg Pincus sponsored private equity funds and their portfolio companies.

- Warburg Pincus designees to the Sheridan Investment Committee may also be involved in the investment activities of Warburg Pincus sponsored private equity funds, which funds may have investment objectives that are similar to Sheridan's. Further, such Warburg Pincus designees may serve on the boards of one or more E&P companies with which Sheridan engages in transactions. Conflicts may arise between such persons' duties in connection with their participation on Sheridan's Investment Committee and their duties to Warburg Pincus and/or as a director.

There is no assurance that any of the foregoing potential conflicts will be resolved in favor of Sheridan or the Funds. However, the constituent documents of the Funds establish specific restrictions on related party transactions (including between any Fund and Warburg Pincus or any Warburg Pincus portfolio company).

Sheridan has adopted a specific policy relating to potential conflicts of interest associated with Investment Committee membership (including designees of Warburg Pincus). This policy includes mandatory disclosure of existing conflicts and pre-clearing of potential conflicts with each non-management member prior to discussion of a specific investment opportunity. To the extent that any conflict exists, Sheridan will work with the affected member to develop the best way to minimize its impact (which may include recusal of the affected member).

### **Affiliations among Sheridan and the Funds or among the Funds**

Potential conflicts of interest may exist between the Funds, on the one hand, and Sheridan, on the other, or among individual Funds.

The organizational structure of the Funds requires that certain transactions involving conflicts of interest be entered into from time to time. For example, (i) Fund I-B and Fund II-B purchase net profits interests in properties owned by Fund I-M and Fund II-M, respectively, (ii) Fund I-B and Fund II-B lend money to Fund I-M and Fund II-M in connection with each investment made by the applicable series of Funds, and (iii) Sheridan affiliates own preferred equity interests in Fund I-B and Fund II-B and receive a return on such interests at a rate in part determined by the Sheridan affiliated general partners of such Funds. These structural conflicts were fully disclosed in the offering materials for the applicable Fund and are specifically authorized in the constituent documents of the Funds. Transactions between a Fund, on one hand, and Sheridan (or an affiliate of Sheridan, including another Fund), on the other, that are not expressly authorized in the applicable constituent documents are generally prohibited unless falling within exceptions detailed in such constituent documents.

In addition, prior to the date upon which a Fund is fully invested, Sheridan may allocate new investments partly to such Fund and partly to a different fund. Sheridan II is expressly permitted to co-invest with Sheridan I or a successor

fund; however, such transactions could nonetheless present various conflicts of interest, including in connection with reinvestment and divestiture decisions.

The Funds' general partners are required periodically to disclose to the Advisory Committee established for each of Sheridan I and Sheridan II the terms of any material contracts or transactions entered into between a Fund, on one hand, and any of the general partners, their affiliates or any other Fund, on the other. With respect to Sheridan I only, transactions or contracts that are entered into in the ordinary course of business are not required to be disclosed.

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

Sheridan has adopted a Code of Ethics that describes the general standards of conduct that Sheridan expects of its Supervised Persons (as defined in the Investment Advisers Act of 1940, as amended (the "Advisers Act") and focuses on three specific areas where conduct of Supervised Persons has the potential to adversely affect the client:

- Misuse of nonpublic information;
- Personal securities trading; and
- Conflicts of interest (including allocation of investment opportunities, related party transaction and outside business activities).

Failure to abide by the Code of Ethics may result in disciplinary sanctions, including termination of a Supervised Person's employment with the Firm. Any client or prospective client may request a copy of the Firm's Code of Ethics, which will be provided at no cost.

The following basic principles guide all aspects of the Firm's business and represent the minimum requirements to which the Firm expects Supervised Persons to adhere:

- Clients' interests come before Supervised Person's personal interests and before the Firm's interests.
- Supervised Persons must operate on the Firm's and their own behalf consistently with the Firm's disclosures to and arrangements with its clients regarding conflicts, and with the Firm's efforts to manage the impacts of those conflicts.
- The Firm and its Supervised Persons must not take inappropriate advantage of their positions of trust with or responsibility to clients.

- The Firm and its Supervised Persons must always comply with all applicable securities laws.

#### *Misuse of Nonpublic Information*

The Code of Ethics contains a policy prohibiting the misuse of nonpublic information. Supervised Persons may not convey nonpublic information nor depend upon it in placing personal or client securities trades.

#### *Personal Securities Trading*

Access Persons (as defined in the Advisers Act) are required to submit reports of personal securities trades on a quarterly basis, and securities holdings annually. These reports are reviewed to ensure compliance with Sheridan's policies.

#### *Conflicts of Interest*

The Firm's Code of Ethics generally requires disclosure by Supervised Persons of any conflicts of interest with the Firm or its clients and pre-approval of any transaction that could be deemed to constitute a conflict. In addition, the Code of Ethics addresses allocation of investment opportunities and related party transactions in a manner consistent with the restrictions set forth in the constituent documents of the Funds.

## **BROKERAGE PRACTICES**

Sheridan does not engage in securities transactions through broker-dealers as part of the investment program of the Funds.

## **REVIEW OF ACCOUNTS**

As manager of the Funds, Sheridan is responsible for day-to-day oversight of the Funds' operations and assets. Through our affiliate operating company, Sheridan Production Company, LLC, the Firm administers all accounts and transactions on behalf of the Funds.

Limited partners in each of the Funds receive the following with respect to the Fund in which they have invested:

- annual audited financial statements and quarterly unaudited financial statements;
- an annual report with respect to the hydrocarbon reserves of such Fund prepared by an independent petroleum engineering firm;
- annual tax information for the completion of such limited partner's individual tax return; and
- a quarterly unaudited statement of such partner's capital account in the Fund, prepared on a fair value basis.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

Sheridan has not retained a placement agent in connection with the offering of interests in the Funds.

## **CUSTODY**

Due to its position as manager and its affiliates' position as general partner, Sheridan is deemed to have custody of all assets of the Funds. All account statements are delivered to Sheridan (or its affiliates) on behalf of the Funds.

## **INVESTMENT DISCRETION**

Subject to the limitations set forth in the constituent documents of the Funds, Sheridan has sole discretion regarding the acquisition and disposition of assets on behalf of the Funds, the size or amount of each asset to be bought or sold, and the price at which the Funds' assets are acquired or disposed. This authority, as well as the authority to deduct fees, expenses and performance allocations from amounts otherwise distributable to the limited partners' accounts, is granted in the Funds' constituent documents.

## **VOTING SECURITIES**

None of the Funds invest in voting securities. As such, Sheridan does not exercise any voting authority rights on behalf of the Funds. Rule 206(4)-6 under the Advisers Act requires registered investment advisers to adopt and implement policies and procedures related to voting of client securities to the extent that it exercises such authority. In the event that any Fund acquires voting securities in the future, Sheridan will comply with the obligations of Rule 206(4)-6.

## **FINANCIAL INFORMATION**

Sheridan is not required to provide any financial information because we do not require the prepayment of fees more than six months in advance. Although Sheridan is deemed to have custody of Fund assets due to its management authority, there is no financial condition that is reasonably likely to impair Sheridan's ability to meet its contractual obligations to its clients.