



MERIT INVESTMENT MANAGEMENT LLC

Form ADV Part 2A: Firm Brochure



1 Cover Page

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The date of this brochure is January 15, 2015.

This brochure provides information about the qualifications and business practices of Merit Investment Management. If you have any questions about the contents of this brochure, please contact us at 302-478-4300. 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 Merit Investment Management is also available at the SEC's website at www.advisorinfo.sec.gov.

Item 2 Material Changes

Since the last update of Merit's ADV in March 2014, Merit Investment Management LLC and its subsidiaries have undergone significant changes. Investors are advised to review a complete copy of this ADV Part II in its entirety without relying on previous Merit ADV Part II filings. Changes included but are not limited to:

- Changes to Merit organization & personnel
- Changes to Merit ownership
- Changes to Merit service providers
- Elimination of sub-advisory relationships
- Additional items

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Item 4 Advisory Business

Merit Investment Management (“Merit”, “MIM”) was founded in 2009 by J. Scott McGraw. Merit and Merit Investment Partners (“MIP”) are owned by J. Scott McGraw. Merit is actively engaged in providing investment management and investment advisory services to Merit Fund, L.P. (the “Merit Fund”). References throughout this document to “clients” are deemed to refer to the Fund and any potential separately managed accounts managed by Merit, unless the context clearly suggests otherwise. Merit invests and trades on behalf of clients in a wide variety of securities and financial instruments, domestic and foreign, of all kinds and descriptions.

Merit generally does not permit investors in the Merit Fund to impose limitations on the investment activities described in the offering documents for the Fund. Under certain circumstances, Merit will contract with a client to adhere to limited risk and/or operating guidelines imposed by the client. Merit negotiates such arrangements on a case by case basis.

As of 12/31/14, Merit managed approximately \$934,998 of regulatory assets under management on a discretionary basis.

Item 5 Fees and Compensation

Merit is compensated for its investment management services on the basis of fees calculated as a percentage of assets under management and/or performance-based fees/allocations. Merit’s fees and compensation are described in the advisory contracts it enters into with its clients. See Item 6 entitled Performance-based Fees and Side-by-Side Management on page 6 for additional information.

Merit may allocate a portion of its clients’ capital to money market funds or exchange-traded funds. In addition to the fees and expenses discussed below, clients will indirectly incur similar fees and expenses if Merit invests their capital in such funds, as such funds in turn pay similar fees and expenses to their investment managers and other services providers.

For the Merit Fund:

The Merit Fund pays Merit a management fee of 1.5% per annum of the net asset value of each limited partner’s capital account. Such management fees are payable quarterly in advance on the first day of each calendar quarter and are appropriately pro-rated for partial quarters. Management fees are not refundable if the advisory contract is terminated prior to the end of a payment period. Additionally, at



the end of each fiscal year (or upon any withdrawal by a limited partner), MIP, the general partner of the Fund, receives a performance-based allocation equal to 20% of the aggregate net capital appreciation allocated to the capital account of each limited partner in the Fund, subject to a high water mark.

The Fund bears its own expenses, including expenses directly related to transactions and positions for the Fund's account, interest expenses, brokerage commissions, custodial fees, taxes, blue sky fees, costs of borrowing securities to be sold short, research and due diligence fees and expenses (including any research and/or due diligence related travel) and materials (including online news and quotation services, computer hardware and software used for research, Bloomberg service, etc.), initial and periodic legal, audit, administration and accounting fees and expenses, investor reporting costs, insurance expenses, withholding or transfer taxes, consulting fees and expenses, professional fees and expenses, software and advisory services, market data services, and other similar fees and expenses. The Fund also pays, or reimburses Merit and/or MIP for, the Fund's initial and ongoing offering expenses as well as its organizational fees and expenses.

Performance-based fees are calculated by multiplying the total annual return of the portfolio as of the close of the calendar year by the applicable performance sharing percentage, subject to contingent, deferred vesting, and/or high-water mark provisions.

For the Separately Managed Accounts:

Fees based on percentage of assets under management are calculated by multiplying the fair market value of the cash and securities in the portfolio as of the close of the calendar quarter by the applicable fee rate(s) prorated for any partial quarter, including upon the termination of the relevant advisory contract.

Except as noted below, Merit's fees are generally payable quarterly in arrears. Fees are generally deducted from client accounts subject to terms and conditions that are detailed in each client's Investment Management Agreement ("IMA"). Alternative frequency of payments and/or methods of calculation may be available, where appropriate and upon the client's request.

Fee Schedule – Long-short equity strategies:

Merit's standard fee schedule for Long-short equity strategies is as follows:

- 1.50% per annum on all assets plus performance-based fees equal to 20.0% of the net appreciation of the account; subject to a loss carry forward; referred to as a "high water mark"

Different fee schedules than those described above may be available to accounts with higher amounts of assets under management. In certain circumstances, fees may be subject to negotiation, and fees may be modified for certain clients. The reasons for modifications include the complexity and level of service provided, the number of different accounts and the total assets under management for an investor and its related persons, or other circumstances that Merit deems relevant. Certain accounts of persons affiliated with Merit may be managed without fees or at reduced fees.

Merit's fees do not include other expenses incurred by clients in connection with our investment advisory services such as brokerage costs. See Item 12 entitled Brokerage Practices on page 12 for additional information.



Investment management and investment advisory contracts between Merit and its clients can be terminable at any-time or have lock-up agreements depending upon the specific circumstances and needs of particular clients. In the event of termination, advisory fees will be prorated over the period during which investment management or investment advisory services were provided.

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

Merit is compensated for its investment management services on the basis of fees calculated as a percentage of assets under management and/or performance-based fees/allocations.

The terms of the performance-based fees/allocations may differ among the Fund and the separately managed accounts that Merit manages. Due to the nature of performance-based compensation schedules, there is the potential for conflicts of interest related to the favoring of accounts subject to performance-based compensation or higher performance-based compensation. Merit has established policies and procedures designed to prevent any preference or favoring.

As the management fees and performance-based compensation are based directly on the net asset value of the client accounts, Merit may have a conflict of interest in valuing the assets held in the accounts. Merit will follow its documented valuation policies and consult with the third-party administrator to the accounts in order to mitigate this risk. All Merit assets since inception have been Level 1 assets with readily observable prices.

Merit may buy or sell securities for one client at the same time that it or its related persons buy or sell the same security for one or more other clients (including the Merit Fund). This will typically happen when more than one client is capable of purchasing or selling a particular security based on investment objectives, available cash and other factors. This may create a conflict of interest if one account may benefit from making the trade before or after the other account. Merit generally allocates investment opportunities pro rata based on the capital of client accounts. However, allocations may be made on a basis other than pro rata for a number of reasons, including, but not limited to: the investment objectives and restrictions of each client, available cash, liquidity requirements, tax or legal reasons, to avoid odd lots, or in cases in which such an allocation would result in a de minimis allocation to a client. New issues (as defined by Rule 5130 of the Financial Industry Regulatory Authority, Inc.) are allocated to client accounts in accordance with the criteria set forth above. In addition, Merit has adopted a Code of Ethics that was written and implemented in an effort to avoid potential conflicts resulting in unfair treatment of any client account. Merit will provide a copy of its Code of Ethics to any client or prospective client upon request.

Item 7 Types of Clients

Merit provides investment management and investment advisory services to institutional accounts, individuals and the Merit Fund. Investors in the Fund may include institutional investors (such as family offices, fund of funds, institutions) and high net worth individuals that qualify as “accredited investors” (as defined in Rule 501 under the Securities Act of 1933, as amended). Merit generally requires a minimum initial investment of \$0.5 million, although exceptions may be made if circumstances warrant on a case-by-case basis. Separately managed accounts may also be opened at smaller asset levels if



growth is expected within a reasonable timeframe, if a relationship exists between the underlying investor and an existing investor, if the investor is one of several investors referred to Merit by the same person or entity, or if Merit deems it appropriate.

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

A. Methods of Analysis and Investment Strategies

Merit Fund:

Merit seeks to generate superior long-term returns while minimizing risk through strict adherence to a disciplined investment process. The investment process is based on a fundamental research approach that emphasizes macroeconomic, industry and company analysis.

Investment Philosophy

Merit generally seeks to invest in companies that have durable competitive advantages, operate in industries that have favorable economic characteristics, and that are trading below their fair value. Furthermore, target portfolio companies are operated by management teams that are industry experts, trustworthy, and understand capital allocation. Similarly, Merit typically sells short companies that operate in industries that have poor economic characteristics, are generating abnormally high earnings, or are trading at premiums to their historic key valuation metrics. Merit generally seeks to maintain a low portfolio turnover ratio for long investments with an expected median holding period of two to three years. Stocks sold short are expected to have a higher turnover ratio with a usual holding period of six to twelve months.

Merit identifies investment opportunities by following a fundamental, intensive research-driven process and selects investments from a wide range of potential investments. The investment approach does not discriminate or characterize its style as value, growth, GARP, etc. as Merit simply seeks to deliver superior investment returns over the long-term, regardless of economic climate. Similarly, Merit does not limit investments by market capitalization, geography, or sector except for constraints that are set by certain risk management parameters. Merit systematically sells securities within the Fund's portfolio when their valuation reaches levels that Merit determines incorporate overly optimistic future projections or when there is a negative fundamental change in a company's future earnings prospects.

Investment Strategy

The key to Merit's goal of providing superior investment returns for its clients is the commitment to a disciplined investment strategy. Merit views itself as buyer of businesses, as opposed to a trader of stocks, and applies intensive fundamental research to companies that have historically demonstrated strong earnings power to determine if they meet its investment criteria. Merit evaluates potential investments based on a three stage investment process described below. A target price, target date and rate of return are determined for each position in the portfolios. Merit uses this process of analyzing target prices and target returns to determine additions, deletions and changes to the portfolio.

Portfolio Characteristics

The Fund's portfolio is expected to be comprised of a relatively concentrated number of long and short investments from a broad universe of U.S. and international companies. Merit invests almost entirely in equity securities that are traded on U.S. exchanges, including REITs, but may invest in other securities or



financial investments in its sole discretion. On occasion, Merit may also invest in equity call and put options. Other than securities borrowing associated with short sales, Merit does not generally intend to utilize financial leverage to enhance returns.

Research Process

Merit evaluates potential investments based on a three stage investment process. The initial stage involves utilizing a macro framework to identify economic factors which will impact market sectors and industries. After identifying target sectors and industries, preliminary investment research is conducted on the range of potential investments. The second stage involves detailed industry and specific company analysis. The company analysis includes an analysis of the target company's stated durable competitive advantage, management review, accounting and disclosure analysis, and valuation based upon its historical and future real cash earnings. The third stage involves evaluating investment proposals for inclusion in the portfolio.

Security Selection

Merit generally seeks to invest in companies that exhibit the following characteristics:

- Share price is below fair value relative to its earnings power, providing a "margin of safety"
- Current earnings are within historic norms
- Management has a sound plan for earnings growth
- History of earning attractive long-term returns on capital invested
- Identifiable downside protection (e.g., hard assets, superior cost structures, IP)

Short Sale Investment Process

Merit generally seeks to sell short the securities of companies that exhibit the following characteristics:

- Have fundamentally flawed business models
- Operate in industries that have poor long term return on invested capital records
- More process-focused than product oriented
- Produce commodity-like products or services, where price is a dominant purchasing factor
- Pricing is deflationary in nature rather than inflationary
- Generating abnormally high earnings or trading at elevated valuations
- Where there has been significant insider selling

Portfolio Construction

Merit believes that an optimal portfolio delivers superior investment results through individual stock selection as opposed to market, sector or discipline-based investing. By limiting the number of investments in the Fund's portfolio, each position can deliver a meaningful impact to the concentrated portfolio's overall return. The Fund's portfolio is expected to be comprised of securities of various market capitalization sizes, across many sectors and may cross investments styles such as value or growth. Merit sets weights for each of the positions within the Fund's portfolio based upon each investment's return to target and assessed risk profile.

Portfolio Monitoring

Prior to making an investment, Merit's research process involves a documented methodology for monitoring a company's progress. The metrics monitored for each portfolio company vary according to the company and the reasons for making the investment. The primary objective of this process is to recognize fundamental changes in business economics and affirm, exit or modify the Fund's exposure proactively.



Portfolio Risk Management

Once a position is added to the Fund's portfolio, Merit continues to monitor company and industry news and, as appropriate, have discussions and meetings with management. In order to mitigate volatility associated with sector rotation, the Fund's sector exposures are typically limited to ensure adequate diversification and limit portfolio risk. Individual position sizes are generally limited to less than 15% in order to limit individual security risk in the portfolio. The foregoing statements are intended as general guidelines only and do not constitute restrictions on Merit's ability to make investments exceeding such guidelines.

Sell Discipline

Merit determines a target price, target date and rate of return for each position in the Fund's portfolio. Merit uses this process of analyzing target prices and target returns to determine which investments are held in the portfolio. A security's target price is determined by a variety of valuation metrics. New additions to the Fund's portfolio are compared to existing holdings based on potential return, risk, and ability to provide portfolio diversification. In all cases, Merit maintains its commitment to its investment process, which dictates that the positions held in the portfolio offer the best investment returns over time. In this process, if Merit find a security with return and risk characteristics superior to those of another in the portfolio, the security may be added and displace an existing investment in the portfolio.

Trading

Trade allocation, along with pre-trade compliance review, is completed prior to routing of any order. Merit has a Best Execution Committee that meets quarterly to review the previous quarter's trading activity and to address any issues. The analysis may include the performance of the trading transactions versus benchmarks like the VWAP, the performance of brokers used to execute trades, and/or the trading budget versus actual trading costs. In addition, Merit reviews the portfolio to ensure that security position sizes and sector weightings are in line with the current investment strategy, in an attempt to keep dispersion to a minimum.

For the Separately Managed Accounts:

Merit may offer the investment strategy for separately managed accounts. Merit's long-short equity strategy is designed to generate absolute returns while limiting market related volatility. Merit employs a fundamental research oriented approach for its long-short strategy. We integrate macroeconomic, industry, and company-specific data in order to determine the intrinsic value of an investment. For long-short equity strategy accounts, Merit will invest in a concentrated portfolio of long securities while also short selling securities that it believes to be overvalued based on several factors.

B. Certain Risks Associated with Methods of Analysis and Investment Strategies

Merit's investment strategies involve significant risks. A discussion of the material risks is provided below. Prospective investors in the Fund are urged to review the Fund's private placement memorandum.

Concentration of Investments. The Fund is not restricted in the amount of its capital that it may commit to any single security, geographic region, industry, sector or market, and at times the Fund may hold a relatively large concentration in a particular security, geographic region, industry, sector or market. Losses incurred in those positions could have a material adverse effect on the Fund's overall financial condition. This is because the value of the Fund's limited partnership interests ("Interests") will be more



susceptible to any single occurrence affecting one or more of those issuers, geographic regions, industries, sectors or markets than would be the case with a more diversified investment portfolio. Investment and Trading Risks. All investments risk the loss of capital. Merit believes that the Fund's trading program and Merit's trading techniques will moderate this risk. However, no guarantee or representation is made that the Fund's trading program will be successful or that the Fund will not incur losses. The Fund's trading program may utilize techniques including, but not limited to, the use of leverage and short sales, which in practice can, in certain circumstances, increase the adverse impact to which the Fund may be subject. The Fund will attempt to assess the foregoing risk factors, and others, in determining the extent of the position it will take in the relevant positions and the price it is willing to pay for such positions. However, such risks cannot be eliminated.

Risk of Default or Bankruptcy of Third Parties. The Fund intends to engage in transactions in securities and financial instruments that involve counterparties. Under certain conditions, the Fund could suffer losses if a counterparty to a transaction were to default or if the market for certain securities and/or financial instruments were to become illiquid. In addition, the Fund could suffer losses if there were a default or bankruptcy by certain other third parties, including brokerage firms and banks with which the Fund does business, or to which securities have been entrusted for custodial purposes. For example, if one of the Fund's prime brokers or custodians were to become insolvent or file for bankruptcy, the Fund could suffer significant losses with respect to any securities held by such firm.

Currency Risks. The Fund may invest in financial instruments denominated in currencies other than the U.S. Dollar or in financial instruments which are determined with references to currencies other than the U.S. Dollar. The Fund, however, will generally value its assets in U.S. Dollars. To the extent unhedged, the value of the Fund's assets will fluctuate with U.S. Dollar exchange rates as well as with price changes of its investments in the various local markets and currencies. Thus, an increase in the value of the U.S. Dollar compared to the other currencies in which the Fund may make investments will reduce the effect of increases and magnify the U.S. Dollar equivalent of the effect of decreases in the prices of the Fund's financial instruments in their local markets. Conversely, a decrease in the value of the U.S. Dollar will have the opposite effect of magnifying the effect of increases and reducing the effect of decreases in the prices of the Fund's non-U.S. Dollar financial instruments.

Price Risk. For reasons not necessarily attributable to any of the risks set forth herein (for example, supply/demand imbalances or other market forces), the prices of the instruments in which the Fund trades may decline or rise substantially. In particular, purchasing assets at prices that may appear to be "undervalued" levels is no guarantee that such assets will not be trading at even more "undervalued" levels at the time of valuation or at the time of sale. Similarly, shorting assets at prices that may appear to be "overvalued" levels is no guarantee that such assets will not be trading at even more "overvalued" levels at the time of valuation or at the time of sale.

Competition. The securities industry and the varied strategies and techniques to be engaged in by Merit are extremely competitive and each involves a degree of risk. The Fund will compete with firms, including many of the larger securities and investment banking firms, which have substantially greater financial resources and research staffs.

Changes and Uncertainty in U.S. and International Regulation. The Fund may be adversely affected by uncertainties such as international and domestic political developments, changes in government policies, taxation, restrictions on foreign investment and currency repatriation, currency fluctuations



and other developments in the laws and regulations of the countries to which the Fund is exposed through its investments or investor base. The tax and regulatory environment for hedge funds is evolving, and changes in the regulation or tax treatment of hedge funds and their investments may adversely affect the value of positions held by the Fund, and may impair its ability to pursue its trading strategy. During this period of uncertainty, market participants may react quickly to unconfirmed reports or information and as a result there may be increased market volatility. This unpredictability could cause Merit to alter investment and trading plans, including the holding period of positions and the nature of instruments used to achieve the Fund's trading objective.

In the U.S., the Fund, Merit and MIP may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC, the Financial Stability Oversight Council, and other U.S. governmental regulatory authorities or self-regulatory organizations that supervise the financial markets. In addition, the securities and futures markets are subject to comprehensive statutes and regulations including margin requirements. Regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The Dodd-Frank Act and the rules promulgated thereunder could result in the Fund, Merit and MIP becoming subject to additional regulatory compliance burdens and trade reporting, which may add significant cost to the Fund. The Dodd-Frank Act endows the SEC, the CFTC, and other regulators with discretionary authority to write and interpret new rules. The ultimate impact of the Dodd-Frank Act on the Fund, Merit and MIP is unclear.

C. Certain Risks Associated with Methods of Analysis and Investment Strategies

Equity Securities. The Fund may from time to time trade in both listed securities that are traded on a securities exchange and unlisted securities that are traded over-the-counter. The volume of trading in unlisted securities is generally less than that found on securities exchanges. Therefore, it may be more difficult to buy and sell these securities, which increases the volatility of their share prices. Equity securities fluctuate in value in response to many factors, including the activities and financial condition of issuers, the market in which such companies compete as well as market conditions and general economic environments.

Short Sales. A short sale involves the sale of a security that the Fund does not own in the expectation of purchasing the same security (or a security exchangeable therefor) at a later date at a lower price. To make delivery to the buyer, the Fund must borrow the security and the Fund is obligated to return the security to the lender, which is accomplished by a later purchase of the security by the Fund. When the Fund makes a short sale in the United States, it must leave the proceeds thereof with the broker and it must also deposit with the broker an amount of cash or U.S. government or other securities sufficient under current margin regulations to collateralize its obligation to replace the borrowed securities that have been sold. If short sales are effected on a foreign exchange, such transactions will be governed by local law. A short sale involves the risk of a theoretically unlimited increase in the market price of the security that would result in a theoretically unlimited loss to the Fund. The extent to which the Fund will engage in short sales will depend upon Merit's trading strategy and perception of market direction.

Exchange Traded Funds ("ETFs"). The Fund may trade in ETFs. ETFs are generally structured to invest in all or a representative sample of the securities that generally replicate the price and yield performance of an underlying market index or sector such as a broad stock market, industry sector, domestic or international equity or fixed income, or U.S. or foreign government bond. ETF shares are traded on stock exchanges and markets at open market prices that generally track the net asset value per share of the ETF. Direct issuances and redemption of ETF shares at the ETF's net asset value per share only occur in large blocks (or creation units) transacted between the ETF and authorized institutional purchasers on



an in-kind basis. An exchange traded sector fund may be adversely affected by the performance of that specific sector or group of industries on which it is based. International investments may involve risk of capital loss from unfavorable fluctuations in currency values, differences in generally accepted accounting principles, or economic, political instability in other nations and/or other factors. Although index-based ETFs are designed to provide investment results that generally correspond to the price and yield performance of their respective underlying indices, ETFs may not be able to replicate exactly the performance of the indices because of their expenses and other factors. ETF shares may trade at either a discount or premium to their underlying net asset value. The purchase or sale of ETF shares on the secondary market involves the payment of brokerage commissions, and the purchase and redemption of creation units involves other transaction costs and brokerage commissions. Investors in ETFs also directly bear the ETF's costs associated with its payment of investment management fees and fees for administrative, custodial or other services and thus the limited partners will indirectly incur an additional layer of fees and expenses.

REITs. The Fund intends to purchase and sell interests in publicly traded real estate investment trusts ("REITs") and similar entities whose assets consist substantially of equity interests in real property or mortgages and other liens on or interests in real property. The activity of identifying, completing and realizing attractive real estate investments has from time to time been highly competitive, and involves a high degree of uncertainty. The Fund will be competing for investments with numerous real estate investment vehicles, as well as individuals, financial institutions (such as mortgage banks, pension funds and real estate investment trusts) and other institutional investors. Furthermore, over the past several years, many real estate investment funds and publicly traded REITs have been formed and others have consolidated (resulting in larger funds and REITs). Such REITs and additional funds and REITs that may be formed in the future by other unrelated parties or upon further consolidation may have investment objectives similar to those of the Fund with respect to REITs. There can be no assurance that the Fund will be able to locate, complete and exit investments which satisfy the Fund's rate of return objective or realize upon their values. REITs are also subject to many of the same risks involved in direct ownership of real estate. For example, the value of real estate could decline due to a variety of factors affecting the real estate market generally, such as overbuilding, increases in interest rates, or declines in rental rates. Equity REITs may be affected by changes in the value of the underlying property owned by the REITs, while mortgage REITs may be affected by the quality of any credit extended.

REITs are dependent upon the management skills of their managers, are typically not diversified, and are subject to heavy cash flow dependency, default by borrowers and self-liquidation. REITs are also subject to the possibilities of failing to qualify for tax-free pass-through of income under the Internal Revenue Code of 1986, as amended, and failing to maintain their exemptions from registration under the Investment Company Act of 1940, as amended. Additionally, REITs (especially mortgage REITs) are subject to interest rate risks. When interest rates decline, the value of a REIT's investment in fixed rate obligations can be expected to rise. Conversely, when interest rates rise, the value of a REIT's investment in fixed rate obligations can be expected to decline. In contrast, as interest rates on adjustable rate mortgage loans are reset periodically, yields on a REIT's investments in such loans will gradually align themselves to reflect changes in market interest rates, causing the value of such investments to fluctuate less dramatically in response to interest rate fluctuations than would investments in fixed rate obligations.

Hedging Transactions. Merit is not required to attempt to hedge portfolio positions in the Fund and, for various reasons, may determine not to do so. Furthermore, Merit may not anticipate a particular risk so as to hedge against it. While the Fund may enter into hedging transactions to seek to reduce risk, such



transactions may result in a poorer overall performance for the Fund than if it had not engaged in any such hedging transaction. For a variety of reasons, Merit may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent the Fund from achieving the intended hedge or expose the Fund to risk of loss. The success of the Fund's hedging strategies is subject to Merit's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the positions in the portfolios being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the Fund's hedging strategy is also subject to Merit's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. Foreign Investments. The Fund may trade in non-U.S. securities and other instruments denominated in non-U.S. currencies and/or traded outside of the United States. Such transactions require consideration of certain risks not typically associated with investing in United States securities or property. Such risks include unfavorable currency exchange rate developments, restrictions on repatriation of investment income and capital, imposition of exchange control regulation by the United States or foreign governments, confiscatory taxation and economic or political instability in foreign nations. In addition, there may be less publicly available information about certain non-U.S. companies than would be the case for comparable companies in the United States, and certain non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those of U.S. companies.

Item 9 Disciplinary Information

None.

Item 10 Other Financial Industry Activities and Affiliations

Merit and its related persons may manage a number of pooled investment vehicles which may be deemed to be Merit's related persons. These vehicles include the Merit Fund. The management of multiple pooled investment vehicles may result in conflicts of interests when Merit and its related persons allocate their time and investment opportunities among the Fund and other clients. In addition, the compensation earned by Merit and its related persons from the Fund may differ from other clients. Merit and its related persons will generally follow documented procedures in allocating trades among the Fund and other clients (see Item 6 above). Merit's principals (and/or other related persons) may have a greater portion of their personal assets invested in certain client accounts. As a result, Merit may have a conflict of interest in allocating investment opportunities among the clients. Merit will generally follow documented procedures in allocating trades among clients. (See Item 6 above.)

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

Merit permits its employees to engage in person securities transactions, and to purchase and sell securities that may be held by or may be suitable for investment by client accounts. Personal securities transactions may result in potential conflicts of interest with Merit clients. Accordingly, Merit has adopted policies (Merit's Code of Ethics) designed to mitigate conflicts of interest and the potential appearance of impropriety in an employee's personal action. In order to ensure compliance with this



policy, each Merit employee is required submit duplicate copies of all statements generated by any broker-dealer for that employee's account.

Merit restricts the purchase and sale by its personnel for their own accounts for securities that have been or are being considered for purchase or sale for client accounts. For across the board trades, personnel are not to engage in a transaction in the same security while an order for a client's account is pending and until after all pending transactions for client accounts have completed. Furthermore, any purchases or sales by Merit personnel for securities that are held, recently sold, or under consideration are subject to compliance with adopted policies (Merit's Code of Ethics).

Merit makes available to qualified prospective investors the opportunity to invest in the Fund. MIP receives performance-based allocations from the Fund.

Merit has adopted a Code of Ethics that was written and implemented in an effort to avoid potential conflicts resulting in unfair treatment of any client account. Merit will provide a copy of its Code of Ethics to any client or prospective client upon request.

Item 12 Brokerage Practices

In placing portfolio transactions for its clients, Merit seeks to obtain the best execution for clients' accounts, considering such factors as price, the ability of the brokers to effect the transactions, the brokers' facilities, reliability and financial responsibility and the provision or payment (or the rebate to the Fund for payment) of the costs of property or services (e.g., short term custodial services, research services, news and quotation services, publications and other research and brokerage products or services). Brokers sometimes suggest a level of business they would like to receive in return for the various services they provide. Merit will not commit to provide any level of brokerage business to any broker, and actual brokerage business received by any broker may be less than the suggested allocations, but can (and often does) exceed the suggestions, because total brokerage is allocated on the basis of all the considerations described above.

Merit enters into soft dollar arrangements with brokers. Soft dollar arrangements generally arise when an investment adviser obtains products and services, other than securities execution, from a broker in return for directing client securities transactions to the broker. Soft dollar arrangements pose a conflict of interest for an adviser in that such arrangements allow the adviser to pay certain expenses with client commissions that would otherwise be borne by the adviser. When Merit uses client brokerage commissions (or markups or markdowns) to obtain research or other products or services, it receives a benefit because it does not have to produce or pay for the research, products or services. Merit may have an incentive to select a broker based on its interest in receiving the research or other products or services offered by such broker, rather than on its clients' interests in receiving most favorable execution. When engaging in soft dollar transactions, Merit complies with the safe harbor requirements of Section 28(e) of the Securities Exchange Act of 1934, as amended. Under this provision, in exercising its discretionary authority to select or arrange for the selection of brokers for execution of transactions for its clients, and, subject to its duty to obtain best execution, Merit may consider the value of research and brokerage products and services (collectively, "Research") provided by such brokers. Research may include, among other things, proprietary research from brokers, which may be written or oral. Research products may include, among other things, computer databases and quotation services, in each case, to



access research or which provide research directly. Research services may include, among other things, research concerning market, economic and financial data; a particular aspect of economics or on the economy in general; statistical information; pricing data and availability of securities; financial publications; electronic market quotations; performance measurement services; analyses concerning specific securities, companies, industries or sectors; market, economic and financial studies and forecasts; appraisal services; invitations to attend conferences or meetings with management or industry consultants; and outsourced risk analytics, software and advisory services. Accordingly, if Merit determines in good faith that the amount of commissions charged by a broker is reasonable in relation to the value of the brokerage and products or services provided by such broker, a client may pay commissions to such broker in an amount greater than the amount another broker might charge. Research provided by such brokers may be used to service all clients and not exclusively in connection with the management of the clients that generated the particular soft dollar credits. Where a product or service obtained with client commission dollars provides both research and non-research assistance to us, Merit will make a reasonable allocation of the cost which may be paid for with client commission dollars.

Merit's prime broker provides Merit with capital introduction, recruiting assistance, and front and back office services, including trading, securities lending, clearing, reporting, and settlement for equities, fixed income, foreign currency and options, among others. Subject to applicable law, Merit's prime broker may also provide Merit with capital introduction services.

Merit executes securities transactions on behalf of clients with broker-dealers that provide it with access to proprietary research reports (such as standard investment research and credit reports). To Merit's knowledge, these services are generally made available to all institutional investors doing business with such broker-dealers. These bundled services are made available to Merit on an unsolicited basis and without regard to the rates of commissions charged or paid by clients or the volume of business that Merit directs to such broker-dealers. During Merit's last fiscal year, Merit acquired with client brokerage commissions (or markups or markdowns) (i) research, such as proprietary research from brokers, which may have been written and/or oral; (ii) research products, such as databases and quotation services; and (iii) research services, such as Bloomberg and consultation with industry consultants concerning specific companies, industries or sectors. During Merit's last fiscal year, Merit has taken into account the quality, comprehensiveness and frequency of available research services and products considered to be of value provided by brokers when directing client transactions to a particular broker. Merit directed transactions to such brokers only consistent with best execution.

Subject to applicable law, Merit may direct some client brokerage business to brokers who refer prospective investors to the Fund, consistent with best execution. Because such referrals, if any, are likely to benefit Merit but will provide an insignificant (if any) benefit to its clients, Merit has a conflict of interest with its clients when allocating client brokerage business to a broker who has referred investors to Merit. To prevent client brokerage commissions from being used to pay investor referral fees, Merit will not allocate client brokerage business to a referring broker unless it determines in good faith that the commissions payable to such broker are not materially higher than those available from non-referring brokers offering services of substantially equal value to the client account.

Merit will generally aggregate client trades, subject to best execution. Aggregation, or "bunching," describes a procedure whereby an investment adviser combines the orders of two or more clients into a single order for the purpose of obtaining better prices and lower execution costs. Aggregation



opportunities for us generally arise when more than one client is capable of purchasing or selling a particular security based on investment objectives, available cash and other factors. Merit may aggregate client orders when doing so will result in a better overall price for client trades. Merit will generally aggregate orders for the same security unless aggregation is not consistent with Merit's duty to seek best execution and the terms of the investment guidelines and restrictions of each client for which trades are being aggregated. Each client that participates in an aggregated order will participate at the average price for all of the transactions in that security on a given business day, with transaction costs shared pro rata based on each client's participation in the transaction. Brokerage commission rates are not reduced as a result of such aggregation.

Item 13 Review of Accounts

Merit conducts in-depth reviews of client accounts on an annual basis. Informal update discussions may take place on a quarterly or semi-annual basis. Clients may request interim reviews at any time to discuss their investment account.

Merit furnishes investors in the Fund with unaudited performance reports on a monthly basis. On an annual basis, investors receive a copy of the Fund's annual audited financial statements and a statement of taxable income (form K-1).

Merit may provide certain investors access to more frequent and/or more detailed information regarding the Fund's securities positions, performance, finances, and management and/or other information about the Fund or Merit, possibly enabling such investors to better assess the prospects and performance of the Fund.

Merit provides the owners of the separately managed accounts it manages with periodic unaudited reports at such times as the owners of such accounts and Merit agree. Managed account investors may have full, real-time transparency as to all transactions and holdings in such account, and may be better able to assess the future prospects of a portfolio that is substantially similar to the portfolios of the Fund. The investors in such separately managed accounts may have the right to withdraw all or a portion of their capital from such managed accounts on shorter notice and/or with more frequency than the terms applicable to an investment in the Fund.

Item 14 Client Referrals and Other Compensation

Merit may enter into soft dollar arrangements with brokers pursuant to which the firm obtains certain research and brokerage products and services in return for directing client securities transactions to the brokers (see Item 12).

Item 15 Custody

Merit is deemed to have custody of client assets since Merit serves as Advisor to a limited partnership where an affiliate of the Advisor is the general partner. In this role, Merit has the authority to obtain client funds or securities, for example, by deducting advisory fees from a client's account or otherwise withdrawing funds from a client's account. The Merit Fund's assets are held in custody by unaffiliated



broker-dealers or banks acting in the capacity of “qualified custodians” pursuant to the Advisers Act. Account statements related to the Merit Fund are sent monthly by the fund administrator to investors. The Merit Fund distributes its annual audited financial statements to investors within 120 days of their fiscal year-end. We urge investors to carefully review the audited financial statements of the Merit Fund.

Item 16 Investment Discretion

In most instances, accounts are managed on a fully discretionary basis. The investors in the Fund generally may not place any limits on Merit’s authority beyond the limitations set forth in the offering and governing documents of the Fund. On a case by case basis, owners of the separately managed accounts Merit manages may negotiate certain risk and/or operating guidelines that Merit will adhere to when exercising our discretionary authority over such accounts.

Item 17 Voting Client Securities

Merit may vote proxies as part of its discretionary authority to manage accounts. When voting proxies, Merit’s primary objective is to make voting decisions solely in the best economic interests of its clients. Merit will act in a manner that it deems prudent and diligent and which is intended to enhance the economic value of the underlying securities held in clients’ accounts.

Merit has adopted written Proxy Policy Guidelines and Procedures that are designed to ensure that Merit is voting in the best interest of clients. The Proxy Guidelines reflect Merit’s general voting positions on specific corporate governance issues and corporate actions. Some issues may require additional analysis prior to voting and may result in a vote being cast that will deviate from the Proxy Guideline. Upon receipt of a client’s written request, Merit may also vote proxies for that particular client’s account in a particular manner that may differ from the Proxy Guideline. Deviation from the Proxy Guidelines will be documented and maintained in accordance with Rule 204-2 under the Advisers Act.

Upon request by the Fund or a separately managed account that Merit manages, Merit will disclose to such client how it voted securities owned by such client. The Fund and owners of the separately managed account managed by Merit may also contact Merit via e-mail or telephone to request a copy of its Proxy Policy Guidelines and Procedures.

Item 18 Financial Information

Not Applicable.



Item 19 Requirements for State-Registered Advisers

1. Principal Executive Officers & Management

Scott McGraw is the Founder and Chief Investment Officer of Merit Investment Management. Mr. McGraw has 20 years of professional experience in investment management, investment banking and financial services. Mr. McGraw's previous experience includes tenures at Gardner Lewis Asset Management, Bank of America Securities, Merrill Lynch and Accenture. Mr. McGraw earned his MBA from The Wharton School of the University of Pennsylvania and his BS from Boston College with concentrations in Finance.

2. Other Businesses

Not applicable.

3. Performance –based Fees

Merit is compensated for its investment management services on the basis of fees calculated as a percentage of assets under management and/or performance-based fees/allocations. Due to the nature of performance-based compensation schedules, there is the potential for conflicts of interest related to incentive for the adviser to recommend an investment that may carry a higher degree of risk

4. Management items

Not applicable.

5. Management items

Not applicable.



MERIT INVESTMENT MANAGEMENT LLC

Form ADV Part 2B: Firm Brochure Supplement

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1. Individual
 - J. Scott McGraw, born 1972
2. Education
 - BS, Boston College, 1994
 - MBA, The Wharton School of the University of Pennsylvania, 2002
3. Business Background
 - 1994 - 2000 Accenture
 - 2000 – 2002 University of Pennsylvania Wharton School
 - 2001 – 2003 Merrill Lynch
 - 2003 – 2005 Bank of America
 - 2005 – 2009 Gardner Lewis Asset Management
 - 2009 – Present Merit Investment Management
4. Disciplinary Information
 - None
5. Other Business Activity
 - None
6. Additional Compensation
 - None
7. Supervision
 - Mr. McGraw is the sole managing Member of Merit and its subsidiaries