

Part 2A of Form ADV - FIRM BROCHURE

Item 1 – Cover Page

KLR GROUP ADVISORS, LP

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This brochure (the “**Brochure**”) provides information about the qualifications and business practices of KLR Group Advisors, LP (the “**Adviser**” or “**KLR**”). If you have any questions about the contents of this Brochure, please contact us at (713) 654-8080. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about the Adviser is also available on the SEC's website at www.adviserinfo.sec.gov.

KLR is a registered investment adviser. Registration with the SEC as an investment adviser does not imply that KLR or any of its employees possess a particular level of skill or training.

OCTOBER 15, 2018

Item 2 – Material Changes

This Brochure, dated October 15, 2018, serves as an update to KLR Group Advisors, LP’s Brochure dated May 17, 2018 (the “Prior Brochure”). This Brochure contains updates regarding payments of fees and expenses by advisory clients and portfolio companies.

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Item 4 - Advisory Business

- A. KLR was formed in May 2018 as a Delaware limited partnership and has its principal place of business in Houston, Texas. The principal owner of the Adviser is Edward Kovalik (the “**Principal**”), who bears the overall responsibility for the day-to-day supervision and management of KLR’s business. KLR Group Holdings, LLC wholly owns and serves as the general partner of KLR. KLR acts as an investment adviser to a private investment fund, KLR Seawolf Fund, LP (the “**Fund**” or “**Client**”)¹, whose investors consist of sophisticated institutional investors and high net-worth individuals (“**Investors**”).

KLR also has an affiliated broker-dealer that is registered and a member of FINRA, KLR Group, LLC (“**KLR Group**”). KLR Group is operated and supervised by persons that also provide services to the Adviser. From time to time, the Fund and/or the Portfolio Company may engage KLR Group to perform investment banking services, including advice on valuing, structuring, negotiating and arranging financing for certain transactions.

- B. The investment strategy of the Adviser is to purchase water rights and associated assets in the state of Texas through a single investment entity. KLR pursues its investment strategy through managing assets held by its Client on a discretionary basis. The Adviser provides investment advisory services to the Client based on the investment objectives and strategies described in the Client’s confidential offering memorandum and governing documents, including but not limited to an investment management agreement (referred to collectively as the “**Offering Documents**”).
- C. The Adviser tailors its advisory services to the specific investment objectives and strategy of the Client and in accordance with the investment objectives, policies and guidelines set forth in the Fund’s Offering Documents.
- D. The Adviser does not participate in wrap fee programs.
- E. As of September 14, 2018, the Adviser managed approximately \$240 million in discretionary and \$0 in non-discretionary regulatory assets under management.

¹ As a registered investment adviser, the Adviser owes a fiduciary duty to all of its clients. In 2006, the decision by the Court of Appeals for the D.C. Circuit in *Goldstein v. SEC*, 451 F.3d 873 (D.C. Cir. June 23, 2006), with respect to private funds, clarified that the “client” of an investment adviser to a private fund is the Fund itself and not an Investor in the Fund.

Item 5 - Fees and Compensation

A. Set forth below is a description of the fees and expenses paid by the Fund:

In consideration of KLR's investment advisory and other services, KLR will receive a management fee from the Fund, which is generally equal to a percentage of the investors' aggregate capital commitments to the Fund (the "**Management Fee**"). The percentage of the Management Fee will be 1% of the investors' aggregate capital commitments per annum. Upon the achievement of certain return thresholds as set forth in the Offering Documents, the Management Fee will be reduced to 0.5% of the investors' aggregate capital commitments per annum. Upon the earlier of the fifth anniversary of the Fund's initial closing and the achievement of certain return thresholds as set forth in the Offering Documents, the Management Fee will be reduced to 0%.

In addition, the general partner of the Fund, will receive certain allocations and distributions calculated and charged based on a share of capital gains or capital appreciation of the assets of the Fund in accordance with the Fund's Offering Documents. These allocations and distributions are commonly known as "**Carried Interest**". As more fully described in the Offering Documents, the Adviser and/or its affiliates will receive a Carried Interest with respect to Fund equal to 20% of all realized profits subject to a 8% compound preferred return. The Carried Interest distributed to the Adviser and/or its affiliates is subject to a potential giveback at the end of life of the Fund if the Adviser and/or its affiliates have received excess cumulative distributions.

Management Fees and Carried Interest distributions generally are not negotiable. However, KLR may reduce or waive Management Fees and/or Carried Interest distribution, wholly or in part, in its sole discretion. As a general practice, KLR will waive the Management Fee and Carried Interest distributions for KLR's affiliates, including its employees.

Except as otherwise provided in the Offering Documents, the Management Fee is reduced by one hundred percent (100%) of the Fund's share of any transaction fees ("**Transaction Fees**") received by KLR or its members from any Portfolio Company of the Fund. In the event that the amount of fee reduction exceeds the Management Fee for such quarterly period, such excess shall be carried forward to reduce the Management Fee payable in following quarterly periods. Subject to the terms of the Offering Documents, Transaction Fees means an amount equal to the Fund's share of (i) all closing fees, investment banking fees, placement fees, commitment fees, breakup fees, litigation proceeds from transactions no consummated, monitoring fees, consulting fees, directors' fees and other similar fees (whether in the form of cash, securities or otherwise) received by KLR or its affiliates from a portfolio company in respect of the Fund's investment or prospective investment (but with respect to non-cash consideration, only to the extent of the net cash proceeds thereof as and when received by KLR), in each case, less (ii) any amount necessary to reimburse KLR for all unreimbursed costs and expenses (other than ordinary overhead and administrative expenses) incurred by them in connection with any consummated or unconsummated transactions or in connection with generating any such fees, but not including (x) the Up Front Fee (as defined below) or any amounts received by or on behalf of KLR Group, any other registered broker-dealer or

any of their respective registered representatives from time to time as approved by the Fund's advisory committee, (y) any amount received by KLR from a portfolio company or other person as reimbursement of expenses directly related to a portfolio company or a prospective investment in a portfolio company, or as payment for services provided to a portfolio company in its ordinary course of business or as compensation for services provided by such person as an employee of or in a similar capacity for such portfolio company or any of its subsidiaries from time to time, or (z) any other fees or expenses approved by the Fund's advisory committee.

Management Fees are funded from the total amount of invested capital but may also be funded with or withheld from proceeds from investments. Carried Interest distributions generally will be distributed to KLR or its affiliates from time to time upon the disposition of investments by the Fund and are distributed to such affiliates in accordance with the terms of the Fund's Offering Documents.

- B. As stated above, the Fund pays a Management Fee based on a percentage of the investors' aggregate capital commitments to the Fund. Such fees are generally paid quarterly in advance as compensation for the management services rendered by the Adviser. Installments of the Management Fee payable for any period other than a full three-month period shall be adjusted on a pro rata basis according to the actual number of days in such period.

The Management Fee is typically funded with capital contributions drawn for such purpose but may also be funded with or withheld from proceeds from investments. Carried Interest distributions generally will (if earned in accordance with the Fund's Offering Documents) be distributed to KLR or its affiliates upon the disposition of one or more investments of the Fund.

From time to time, where permitted under the Offering Documents, an affiliate of KLR may provide financial advisory and transaction execution services to certain of the Fund's portfolio companies or otherwise be involved in providing financial advisory and other services. Subject to the terms of the Offering Documents, compensation received in connection with these activities may not be shared with the Fund or reduce management or other fees payable by the Investors.

- C. In general, KLR pays its ordinary administrative and overhead expenses, incurred in connection with managing, originating and monitoring investments, such as employee salaries, rent and utilities.

In addition to the Management Fee and the Carried Interest described above, the Fund is subject to customary expenses ("**Partnership Expenses**") associated with conducting the Fund's investment program. Subject to the terms of the Offering Documents, such Partnership Expenses generally means all fees, costs, expenses, liabilities and obligations relating to the Fund and/or its activities, business, the Portfolio Company or actual or potential investments, including with respect to any entity formed to effect the acquisition and/or holding of the Portfolio Company and/or any assets thereof (to the extent not borne or reimbursed by the Portfolio Company), including all fees, costs, expenses, liabilities and obligations relating or

attributable to:

- (i) activities with respect to the structuring, organizing, negotiating, consummating, financing, refinancing, diligencing (including any subscriptions to any periodicals or databases), acquiring, bidding on, owning, managing, monitoring, operating, holding, hedging, restructuring, trading, taking public or private, selling, valuing, winding up, liquidating, dissolving or otherwise disposing of, as applicable, the Portfolio Company and the Fund's actual and potential investments (including follow-on investments) or seeking to do any of the foregoing (including any associated legal, financing, commitment, transaction or other fees and expenses payable to attorneys, accountants, tax professionals, investment bankers, lenders, third-party diligence software and service providers, consultants and similar professionals in connection therewith and any fees and expenses related to transactions that may have been offered to co-investors), whether or not any contemplated transaction or project is consummated and whether or not such activities are successful
- (ii) indebtedness of, or guarantees made by, the Fund, KLR, the Fund's general partner or any affiliate on behalf of the Fund (including any credit facility, letter of credit or similar credit support), including the repayment of principal and interest with respect thereto, or seeking to put in place any such indebtedness or guarantees;
- (iii) financing, commitment, origination and similar fees and expenses;
- (iv) broker, dealer, finder, underwriting (including both commissions and discounts), loan administration, private placement fees, sales commissions, investment banker, finder and similar services;
- (v) brokerage, sale, custodial, depository, trustee, record keeping, account and similar services;
- (vi) legal, accounting, research, auditing, administration (including fees and expenses associated with the Fund's third-party administrator and administration, tracking or reporting software, if any), information, appraisal, advisory, valuation (including third-party valuations, appraisals or pricing services), consulting (including consulting and retainer fees and other compensation paid to consultants performing investment initiatives and other similar consultants), tax and other professional services;
- (vii) directors and officer's liability, errors and omissions liability, crime coverage and general partnership liability premiums and other insurance and regulatory expenses;
- (viii) filing, title, transfer, registration and other similar fees and expenses;
- (ix) printing, communications, marketing and publicity;
- (x) the preparation, distribution or filing of Fund-related or investment-related financial statements or other reports, tax returns, tax estimates, Schedule K-1s, or any other

- administrative, compliance or regulatory filings or reports (including Form PF) or other information, including fees and costs of any third-party service providers and professionals related to the foregoing;
- (xi) developing, licensing, implementing, maintaining or upgrading any web portal, extranet tools, computer software or other administrative or reporting tools (including subscription-based services) for the benefit of the Fund or the Investors;
 - (xii) any activities with respect to protecting the confidential or non-public nature of any information or data, including confidential information;
 - (xiii) to the extent provided in the Offering Documents, or otherwise approved by the Fund's general partner in its reasonable discretion, activities or proceedings of the advisory committee (including any reasonable out-of-pocket costs and expenses incurred by representatives of the general partner, the advisory committee members, permitted observers and other persons in attending or otherwise participating in meetings of the advisory committee);
 - (xiv) indemnification (including any fees, costs and expenses incurred in connection with indemnifying any partner or other person pursuant to the Fund's governing documents or otherwise and advancing fees, costs and expenses incurred by any such person in defense or settlement of any claim that may be subject to a right of indemnification;
 - (xv) actual, threatened or otherwise anticipated litigation, mediation, arbitration or other dispute resolution process, including the costs and expenses of any discovery related thereto and any judgment, other award or settlement entered into in connection therewith;
 - (xvi) any annual Investor meeting or other periodic, if any, meetings of the Investors and any other conference or meeting with any Investor(s), in each case to the extent incurred by the Fund, the general partner or any other affiliate of the general partner;
 - (xvii) the Management Fee;
 - (xviii) the termination, liquidation, winding up or dissolution of the Fund and/or any acquisition or holding vehicles and/or the Portfolio Company;
 - (xix) defaults by Investors in the payment of any capital contributions;
 - (xx) amendments to, and waivers, consents or approvals pursuant to, the constituent documents of the Fund, including the preparation, distribution and implementation thereof;
 - (xxi) (A) complying with any law or regulation related to the activities of the Fund (including regulatory expenses of the general partner incurred in connection with the operation of the Fund and legal fees and expenses) and/or (B) any litigation or governmental

- inquiry, investigation or proceeding involving the Fund, including any costs and expenses of discovery related thereto and the amount of any judgments, settlements or fines paid in connection therewith, except to the extent such expenses or amounts have been determined to be excluded from the indemnification, as stated in the Offering Documents;
- (xxii) unreimbursed costs and expenses incurred in connection with any transfer or proposed transfer;
 - (xxiii) any taxes, fees and other governmental charges levied against the Fund and all expenses incurred in connection with any tax audit, investigation settlement or review of the Fund;
 - (xxiv) distributions to the Investors and other expenses associated with the acquisition, holding and disposition of the Fund's investments, including extraordinary expenses;
 - (xxv) compliance or regulatory matters related to the Fund, except as otherwise set forth in the Offering Documents;
 - (xxvi) any travel (which, with respect to air travel, shall be reimbursable at no greater than commercial airfare rates), lodging, meals or entertainment relating to any of the foregoing;
 - (xxvii) compliance with any agreement and arrangements related to the Fund, including compliance with any side letter or similar agreement;
 - (xxviii) any Organizational Expenses (as defined in the Fund's governing documents);
 - (xxix) the Up Front Fee; and
 - (xxx) any fees or expenses incurred by the Fund's advisory committee as set forth in the Fund's governing documents; and
 - (xxxi) any other fees, costs, expenses, liabilities or obligations approved by the advisory committee;

but not including (A) ordinary overhead and administrative expenses that are payable by the Fund's general partner and/or KLR pursuant to the Fund's governing documents, (B) any reverse breakup, termination and other similar fees, unless approved by the Fund's advisory committee in accordance with the terms of the Fund's governing documents, (C) any broken deal expenses, unless approved by the Fund's advisory committee, (D) any expenses included as part of the definition of "Investment Contributions" and (E) any regulatory and compliance expenses incurred after the Fund's initial close not primarily pertaining to the Fund or its portfolio companies.

The foregoing list of expenses is not intended to be exhaustive and is qualified in its entirety

by the terms set out in the Offering Documents of the Fund.

- D. The Fund, through the Portfolio Company or directly, may bear the cost, including compensation, of directors, executives or consultants to the Portfolio Company, which may include former senior principals or employees of KLR, in connection with management or consulting services provided by such persons. Subject to the terms of the Offering Documents, any such cost will generally not offset management fees paid to the KLR.

On the initial closing date of the Fund, investors were required to pay a fee to KLR Group, an affiliated broker-dealer, as compensation for certain broker-dealer related services performed by KLR Group with respect to the investment and Portfolio Company (the “**Up Front Fee**”).

Other than as described above and in *Item 10.C*, neither KLR nor any of its supervised persons accepts compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

KLR and its affiliates may from time to time incur fees, costs and expenses including if an investment is not consummated on behalf of the Fund and one or more other vehicles sponsored by KLR. To the extent such fees, costs and expenses are incurred for the account or for the benefit of the Fund and one or more other vehicles sponsored by KLR, the Fund and such other vehicles will typically bear an allocable portion of any fees, costs, and expenses in proportion to the size of the investment made or proposed to be made by each in respect of the entity to which the expense relates or in such other manner as KLR considers fair and equitable, in each case, subject to the terms of the Offering Documents.

It is critical that Investors and prospective investors refer to the Fund’s Offering Documents for a complete understanding of how KLR and its affiliates, including the general partner of the Fund, are compensated for advisory services. The information contained herein is a summary only and is qualified in its entirety by the Fund’s Offering Documents.

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

As stated in *Item 5* above, KLR or one its affiliates will be entitled to receive Carried Interest distributions from the Fund, which is a type of performance-based compensation. The specific structure and calculation of the performance-based fee are described in detail in the Fund's Offering Documents. These payments are subject to Section 205(a)(1) of the Investment Advisers Act of 1940, as amended (the "**Advisers Act**"), in accordance with the available exemptions thereunder, including the exemption set forth in Rule 205-3, which requires that performance-based fees only be charged to "**Qualified Clients**" (as such term is defined in Rule 205-3).

The Carried Interest distribution is effectively equivalent to a percentage of the Fund's net profits, subject to certain terms and conditions set forth in the Offering Documents of the Fund. Any share of a Fund's net profits paid to KLR is separate and distinct from Management Fees and other fees paid or borne by a Fund.

Carried Interest distributions could motivate the Adviser to make investment decisions that are riskier or more speculative than would be the case if these arrangements were not in effect. KLR generally attempts to mitigate conflicts of interest associated with Carried Interest distributions through the requirement that invested capital, a preferred return and expenses be returned to the Client before KLR is entitled to receive any Carried Interest distributions.

Item 7 - Types of Clients

As mentioned in *Item 4*, KLR provides investment advisory services to its Client based on the investment objectives and strategies described in its Offering Documents.

Investors in the Fund are required to complete and submit a subscription agreement binding them to the terms of the Fund's governing documents. The Adviser only admits "**Accredited Investors**", as defined in Rule 501(a) of Regulation D under the Securities Act of 1933 and qualified clients as defined in Rule 205-3 of the Advisers Act. The minimum investment in the Fund is \$1,000,000, although the general partner may accept investments in a lesser amount at its sole discretion.

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

- A. The Adviser's principal investment strategy is to purchase certain water rights, customer contracts and infrastructure assets in the state of Texas through a single investment entity.

Investing in the Fund involves risk of loss that Investors should be prepared to bear including, but not limited to, those described below. The management style offered by KLR is not intended as a complete investment program and may not be suitable for all investors. It is designed for sophisticated investors who fully understand and are capable of bearing the risk of such an investment. No guarantee or representation is made that the Adviser will achieve its investment objectives or that there will be any return of capital, and investment results may vary substantially on monthly, quarterly or annual basis.

Although the Adviser seeks to reduce the risks associated with the Clients' investments, prospective investors should consider carefully, among other factors, the risks described below. Such risk factors are not meant to be an exhaustive listing of all potential risks associated with investments in the Client.

- B. The following is a brief summary of certain significant risks associated with the Adviser's investment strategies:

Business Risks. The Fund will only invest, directly or indirectly, in certain water rights, customer contracts, infrastructure assets and certain other assets described in the Fund's confidential presentation distributed in connection with the offering of limited partner interests in the Fund, as supplemented or amended prior to the date hereof (collectively, the "**Investment**" and collectively with any acquisition or holding vehicles formed to make or hold such Investment, the "**Portfolio Company**") and any securities or assets acquired for, or as a result of, the Fund's Investment in the Portfolio Company. The operating results of the Portfolio Company in a specified period will be difficult to predict. The Investment involves a high degree of business and financial risk that can result in substantial losses.

No Assurance of Investment Return. KLR cannot provide assurance that it will be able to identify, make and realize Investments in any particular company or portfolio of companies. There can be no assurance that the Adviser will be able to generate returns for the Funds or their investors or that the returns will be commensurate with the risks of investing in the type of companies and transactions described herein. There can be no assurance that the Fund will receive any distribution from its Investments. Accordingly, potential limited partners of the Fund should only consider making Investments in the Fund if they can afford a loss of their entire Investment.

No Operating History; Reliance on the General Partner. The Fund consists of one or more newly organized entities that have no prior operating history or track record. Accordingly, the Fund does not have performance history for a prospective investor to consider and will be entirely dependent on the general partner, the Adviser and its Principal. Past or projected performance provided to any person relating to any other Investment, investment vehicle

and other entity (collectively, the “**KLR Investments**”) managed, controlled, formed or operated by the management company or its affiliates is not necessarily indicative of future results, and there can be no assurance that the Fund will achieve comparable results. Prospective investors should bear in mind that an investment in the Fund does not represent any interest in any KLR Investments or its investment portfolio. A prospective investor should not rely on any expectation and there can be no assurance that the risk/return profile of an investment in the Fund will resemble that of any KLR Investments. An investor should only invest in the Fund as part of an overall investment strategy, and only if the investor is able to withstand a total loss of its investment in the Fund.

While the general partner intends for the Fund to make Investments that have estimated returns commensurate with the expected risks undertaken, there can be no assurances that any targeted internal rate of return will be achieved. As with any Investment, a complete loss of all invested capital in the Fund is possible.

While the management company and certain of its partners, members, officer, employees, managers and directors (the “**Principals**”) have previous experience making and managing investments in the oil and gas industry that are generally similar to those contemplated by the Fund, the Fund’s Investments may differ from previous Investments made by the Principals in a number of respects. Furthermore, the ultimate performance of the Fund cannot be predicted with certainty, and there can be no assurance that the Fund’s Investments will achieve results similar to those attained by previous investments of the Principals. Each Principal’s individual experience differs.

Concentration Risks. The Fund intends to invest all of its investable assets in the Portfolio Company. In such case, changes in the value of the Portfolio Company will cause greater volatility in the Investment than those same changes would cause in the portfolio of a diversified fund. Prospective investors should be aware that the Fund intends to hold one Investment during the duration of the Fund and, as a consequence, investors will not have the risk-spreading benefits associated with a fund holding a diversified portfolio of multiple Investments. Accordingly, the aggregate returns realized by the limited partners will be substantially adversely affected in the event of unfavorable performance of the Portfolio Company.

Impacts of Discontinuation. A limited partner’s participation in any Investment may be limited by virtue of the general partner’s right to discontinue a limited partner’s participation in all or a portion of any Investment as set forth in the Offering Documents, thereby increasing the participation of other limited partners. As a consequence for one or more limited partners having its participation in any Investment discontinued or other factors limiting their participation in any Investment, the aggregate returns realized by the participating limited partners could be adversely affected in a material manner by the unfavorable performance of such Investment.

Illiquidity; Lack of Current Distributions. An investment in the Fund should be viewed as illiquid. It is uncertain as to when profits, if any, will be realized. The Fund’s ability to dispose of the Investment may be limited for several reasons. Illiquidity may result from the

absence of an established market for the Investment, as well as legal, contractual or other restrictions on their resale by the Fund. Disposition of the Investment may be subject to contractual and other limitations on transfer or other restrictions that would interfere with subsequent sales of the Investment or adversely affect the terms that could be obtained upon any disposition thereof. In addition, the ability to exit the Investment through the public markets will depend upon favorable market conditions, including receptiveness to initial or secondary public offerings for the Portfolio Company and an active mergers and acquisitions (or recapitalizations and reorganizations) market. Public offering, merger and acquisition and recapitalization and reorganization opportunities may be limited or non-existent for extended periods of time, whether due to economic, regulatory or other factors. In view of these limitations on liquidity, the Fund generally will not be able to realize on the investment in the Portfolio Company until the sale of the Portfolio Company or the Investment. While the Investment may be sold at any time, it is generally expected that this will not occur for a number of years after the initial investment. Before such time, there may be no current return on the Investment. Furthermore, the expenses of operating the Fund (including the Management Fee payable to KLR) may exceed its income, thereby requiring that the difference be paid from the Fund's capital, including, without limitation, cost contributions.

Uncertainty of Projections. The Fund may use financial projections to help analyze the Investment or future capital raises and financing for the Portfolio Company. Projected operating results of the Portfolio Company normally will be based primarily on financial projections prepared by the Portfolio Company's management, with adjustments to such projections made by the General Partner in its discretion. In all cases, projections are only estimates of future results that are based upon information received from the Portfolio Company and third parties and assumptions made at the time the projections are developed. Also, general economic factors, which are not predictable, can have a material effect on the reliability of projections. The inaccuracy of certain assumptions, the failure to satisfy certain financial requirements and the occurrence of other unforeseen events could impair the ability of the Portfolio Company to realize projected values. There can be no assurance that the results set forth in any projections will be attained, and actual results may be significantly different from projections.

Risks in Effecting Operating Improvements. The success of the Fund's investment strategy will depend, in part, on the ability of the Fund to effect improvements in the operations of the Portfolio Company. The activity of identifying and implementing operating improvements at the Portfolio Company entails a high degree of uncertainty. In addition, executing operational improvements may divert the attention of key personnel and disrupt normal business. There can be no assurance that the Fund will be able to successfully identify and implement such improvements.

Risks Relating to Due Diligence of and Conduct at the Portfolio Company; Expedited Transactions. Before making the Investment, the general partner will typically conduct such due diligence as it deems reasonable and appropriate based on the facts and circumstances applicable to the Investment. Due diligence may entail evaluation of important and complex business, financial, tax, accounting, technical, environmental and legal issues. Outside consultants, legal advisors, accountants, investment banks and other third parties may be

involved in the due diligence process to varying degrees depending on the type of investment and the facts and circumstances related thereto and the general partner may rely on the advice received from such third parties. Investment analyses and decisions by the general partner will often be undertaken on an expedited basis in order for the Fund to take advantage of the Investment. In such cases, the information available to the general partner at the time of the Investment may be limited, and the general partner may not have access to the detailed information necessary for a full evaluation of the Investment. The due diligence investigation carried out with respect to the Investment will not reveal or highlight all relevant facts that may be necessary or helpful in evaluating the Investment. Moreover, such an investigation will not necessarily result in the Investment being successful or even ensure a return on invested capital.

General Economic and Market Conditions. Conditions such as financial market volatility, illiquidity and/or decline, a generally unstable economic environment (including as a result of a slowdown in economic growth and/or changes in interest rates or foreign exchange rates) and/or a deterioration in the capital markets may negatively impact, the Fund's ability to support the Portfolio Company or the Fund's Investment objectives, the performance and/or valuation of the Fund's Investments, and/or the Fund's ability to dispose of an Investment. For example, events similar to the credit crisis in the summer of 2007, the downgrading of the credit rating of the United States in 2011 or the decline in oil and gas prices that began in the fourth quarter of 2014 can impact the public market comparable earnings multiples used to value privately held portfolio Investments and investors' risk-free rate of return. Such adverse effects may include the requirement of the Fund to pay breakup, termination or other fees and expenses in the event the Fund is not able to close a transaction and/or the inability of the Fund to dispose of an Investment at prices that the general partner believes reflect the fair value of an Investment. The impact of market and other economic events also may affect the Fund's ability to obtain funding to support its investment objective. Any of the foregoing events could result in substantial or total losses to the Fund in respect of a particular Investment, which losses will likely be exacerbated by the presence of leverage and may be magnified by the expected limited geographic diversity of the Fund's Investment.

Adequacy and Availability of Insurance. While the Fund and/or the Portfolio Company may seek to utilize insurance and other risk management products (to the extent available on commercially reasonable terms) to mitigate the potential loss resulting from catastrophic events and other risks customarily covered by insurance, this may not always be practical or feasible. Moreover, it will not be possible to insure against all such risks, and such insurance proceeds as may be derived in a timely manner from covered risks may be inadequate to completely or even partially cover a loss of revenues, an increase in operating and maintenance expenses and/or a replacement or rehabilitation. Certain losses of catastrophic nature, such as those caused by wars, earthquakes, terrorist attack or other similar events, may be either uninsurable at such high rates as to adversely impact the Fund's profitability.

Business and Regulatory Risks of Alternative Investment Funds. The financial services industry generally, and the activities of alternative investment funds and their managers in particular, have been subject to intense and increasing regulatory scrutiny. Such scrutiny

may increase the Client's exposure to potential liabilities and to legal, compliance and other related costs. Increased regulatory oversight may also impose additional administrative burdens on the Adviser, including, without limitation, responding to examinations and investigations, implementing new policies and procedures and complying with recordkeeping and reporting obligations. Such burdens may divert such parties' time, attention and resources from portfolio management activities.

Securities, futures and credit markets are subject to comprehensive statutes, regulations and other requirements. The SEC, other regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. Additionally, the regulation of the markets in which the Clients may participate is increasing and is subject to modification by government and judicial actions. The effects of any changes in law or interpretations of existing laws on the Clients could be substantial and adverse.

With the passage of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (the "**Dodd-Frank Act**"), the U.S. government has undertaken extensive rulemaking and regulatory changes that affect private fund managers, the funds that they manage and the financial industry as a whole. Under the Dodd-Frank Act, the Commodity Futures Trading Commission ("**CFTC**") and the SEC have mandated (and will mandate) recordkeeping, reporting, central clearing and mandatory trading on electronic facilities, which add costs to the legal, operational and compliance obligations of the Adviser and the Clients and increase the amount of time that the Adviser spends on non-investment-related activities. The Dodd-Frank Act affects a broad range of market participants with whom the Clients interacts or may interact, including banks, non-bank financial institutions, rating agencies, mortgage brokers, credit unions, insurance companies, payday lenders and broker-dealers, and may change the way in which the Adviser conducts business with counterparties. It may take years to understand the impact of the Dodd-Frank Act on the financial industry as a whole, and, therefore, the continued uncertainty may make markets more volatile and make it difficult for the Adviser to execute the investment strategy of its Clients. The Dodd-Frank Act also created the Financial Stability Oversight Council (the "**Council**") that is charged with monitoring and mitigating systemic risk. As part of this responsibility, the Council will have the authority to subject banks and other financial entities to regulation by the U.S. Federal Reserve Board, which could limit the amount of risk-taking engaged in by the Client. The Council also may require that the Adviser or the Client respond to queries in order to provide the Council with necessary information in order for it to monitor systemic risk.

The regulatory environment for alternative investment funds is evolving, and changes in the regulation of private funds and their investing activities may adversely affect the ability of the Client to pursue its investment program, the value of the investments held by the Client and the Client's ability to obtain leverage. There has been an increase in governmental, as well as self-regulatory, scrutiny of the alternative investment industry in general. It is impossible to predict whether changes in regulations may occur, but any regulations that restrict the Client's activities could have a material adverse effect on the Client's Investments. In addition, such regulatory scrutiny may increase the Client's exposure to potential liabilities and to legal, compliance and other related costs.

Cyber Security Breaches and Identity Theft. The Fund and the Portfolio Company's information and technology systems may be vulnerable to damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquake. Although the general partner intends to implement various measures to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time or cease to function properly, the general partner, the Fund and/or the Portfolio Company may incur specific time or expense to fix or replace them and to seek to remedy the effects of such issues. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in the general partner's, the Fund's and/or the Portfolio Company's operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors). Such a failure could harm the general partner's, the Fund's and/or the Portfolio Company's reputation, subject any such entity and its respective affiliates to legal claims or otherwise affect their business and financial performance.

CONFLICTS OF INTEREST:

Investors should be aware that various actual and potential conflicts will arise from the overall investment activities of the Fund, the general partner, KLR and other investment vehicles sponsored by KLR. There can be no assurance that KLR will identify or resolve all conflicts of interest and, if resolved, that such conflicts will be resolved in a manner that is favorable to the Fund.

If any matter arises that the general partner determines in its good faith judgment constitutes an actual or potential conflict of interest, the general partner may take such actions as may be necessary or appropriate to ameliorate such conflict (and upon taking such actions, the general partner will be relieved of any responsibility for such conflict to the fullest extent permitted by law and shall be deemed to have satisfied its fiduciary duties related thereto to the fullest extent permitted by law). These actions may include, by way of example: (i) disposing of the security giving rise to the conflict of interest; (ii) appointing an independent fiduciary to act with respect to the matter giving rise to the conflict of interest; or (iii) in connection with a matter giving rise to a conflict of interest with respect to an Investment, consulting with the advisory committee regarding the conflict of interest and either obtaining a waiver from the advisory committee of the conflict of interest or acting in a manner, or pursuant to standards or procedures, approved by the advisory committee with respect to such conflict of interest.

In addition, investors should note that the partnership agreement contains provisions that, subject to applicable law, (i) reduce, modify or eliminate the duties, including fiduciary duties, that the general partner would otherwise owe to the Fund and the limited partners; (ii) waive duties or consent to the conduct of the general partner that might not otherwise be permitted pursuant to such duties; and (iii) limit the remedies of a limited partner with respect

to breaches of such duties.

Additionally, the partnership agreement contains exculpation and indemnification provisions that, subject to the specific exceptions identified therein, provide that the general partner, KLR and their respective employees will be held harmless and indemnified, respectively, for matters relating to the operation of the Fund, including matters that may involve one or more potential or actual conflicts of interest.

Investment Banking Services. Investors should be aware that KLR is a diversified financial services firm that provides a broad spectrum of activities, including full-service broker-dealer and investment banking services through KLR Group. KLR Group advises clients on a variety of mergers, acquisitions and financing transactions. KLR Group may act as an advisor to clients that may compete with the Fund, and KLR Group may give advice and take action with respect to any of its clients that may differ from the advice given to the Fund. KLR Group may give advice and provide recommendations to persons competing with the Fund that are contrary to the best interests of the Fund and/or the Portfolio Company. KLR Group could provide investment banking services to competitors of the Portfolio Company, in which case it will take appropriate steps to safeguard the confidential information of each client. Subject to the terms of the Offering Documents, the Fund and/or the Portfolio Company may engage KLR Group to perform investment banking services, including advice on valuing, structuring, negotiating and arranging financing for certain transactions. KLR Group may also earn fees in connection with the unconsummated transactions. In such situations KLR Group will generally receive fees for such services upon the consummation of the investment banking transaction for which it was retained (including the Up Front Fee). Subject to the terms of the Offering Documents, KLR Group will not share these fees with the unaffiliated Principals or the Fund, and such fees will not reduce or otherwise offset the Management Fee payable to the management company. Accordingly, KLR Group may be paid fees from the Fund before the Fund receives a return on its Investment in the Portfolio Company.

- C. The following is a brief summary of the risks involved with particular securities recommendations:

General Private Equity Risks. Private equity investments are subject to varying degrees of risk. The value of such investments is affected by a number of factors, including changes in the general economic climate, industry dynamics, the quality of management, competition, and changes in operating costs. Values of equity investments in companies are also affected by such factors as government regulations, interest rate levels, the availability of financing and potential liability under changing environmental and other laws.

No Market for Interests and Restrictions on Transfer. Legal vehicles set up by KLR to make private equity investments have not been registered and it is not contemplated that these vehicles will ever be registered under the Securities Act of 1933 or any other securities laws. There is no public market for interests in these vehicles and one is not expected to develop. A limited partner of the Fund will not be permitted to assign its interests, except by operation of law or with the prior written consent of the applicable general partner. Except in extremely

limited circumstances, investors will not be permitted to make withdrawals from the Fund. Consequently, investors in the Fund must be prepared to bear the risks of owning these Investments for an extended period of time.

RISK RELATING TO THE ENERGY INDUSTRY:

Energy and Natural Resources Industries Risks. Investments in companies in the oil and gas sector, including the oilfield services sector, are subject to a variety of risks, not all of which can be foreseen or quantified. For example, the success of an investment and/or Portfolio Company likely will be affected by numerous factors, including the following: (i) the market for oil and gas acreage or properties or working interests therein; (ii) drilling of wells and other planned development activities; (iii) timing and amount of future production of oil or gas; (iv) quantities of discovered or probable, potential or proved reserves of oil or gas; (v) marketing of and market prices for oil, gas or oil or gas properties or working interests therein generally or in any particular location; (vi) operating costs including lease operating expenses, administrative costs and other expenses; (vii) cash flow and anticipated liquidity; (viii) the timing, success and cost of exploration and development activities; (ix) the risk that the technology employed in an energy project will not be effective or efficient; (x) governmental and environmental regulation of the oil and gas industry, including the risk that regulations affecting the energy industry will change in a manner detrimental to the industry; (xi) environmental liabilities relating to energy properties and projects; (xii) industry competition, conditions, performance and consolidation; (xvii) the availability of drilling rigs and other oilfield equipment and services; and (xiv) natural events.

Taxation of Energy Companies. Investments in companies operating in the energy sector may be subject to numerous taxes and fees by the jurisdictions in which such companies are organized or operate. The Portfolio Company, in particular, may be subject to specific tax regimes, such as severance and production taxes, fees and licenses related to groundwater holdings, property taxes and stamp duties.

Environmental Liabilities. The Fund could face substantial risk of loss from environmental claims arising from Investments made with undisclosed or unknown environmental problems or inadequate reserves or insurance for previously identified matters, as well as from occupational safety issues and concerns. Under certain circumstances, U.S. courts have held that a parent company is responsible for the environmental clean-up obligations of its subsidiary imposed by applicable laws. In the event that the Portfolio Company bears such obligations, a U.S. court or a court of any other applicable jurisdiction might find that the Fund is liable for such obligations. Environmental claims with respect to an Investment may exceed the value of the Investment.

Seasonal Nature of Oil and Gas Industry. Seasonal weather conditions and the provisions of oil and gas leases can limit drilling and producing activities and, as a result, the majority of drilling activities occur during the summer months. These seasonal anomalies can increase competition for equipment, supplies and personnel during the spring and summer months, which could lead to shortages and increase costs or delay operations, all of which affect the Portfolio Company's business and revenues. Generally, but not always, the demand for gas decreases during the summer months and increases during the winter months. Among other

factors, seasonal anomalies such as mild winters or hot summers sometimes lessen this fluctuation. Such factors can adversely impact the quantities of oil and gas that are produced and, consequently, the Fund's revenues.

Dependency on Oil and Gas Industry. The Fund's business will be dependent on the activities of the oil and gas industry in the Permian Basin. The level of activity in the oil and gas industry is subject to national and international economic and political conditions. A lower level of activity in the oil and gas industry will have an adverse impact on the Fund's business. Similarly, industry factors such as fracing technologies, the relative success of wells and the productivity of certain geologic formations (such as the Delaware Basin) can affect the demand for services offered by the Fund.

The success of the Fund's water supply and disposal business will also depend on the extent to which the oil and gas industry continues to heavily rely on "freshwater" rather than recycled flowback and produced water for its operations. As technological developments allow for the use of increasingly poor water quality for fracing purposes, there is a risk that there will be less demand for "freshwater" and use of SWDs (as defined below).

Natural Disasters, Terrorist Acts and Similar Dislocations. Upon the occurrence of a natural disaster such as a tornado, flood, hurricane or earthquake, electricity shortages or other similar national or local emergencies, or upon an incident of war, riot or civil unrest, the impacted area may not efficiently and quickly recover from such event, which can have a materially adverse effect on portfolio companies and other developing economic enterprises in such area. Terrorist attacks and related events can result in increased short-term economic volatility. U.S. military and related actions in Afghanistan and Iraq, other events in the Middle East and terrorist actions worldwide could have significant adverse effects on U.S. and non-U.S. economies and securities markets. The effects of future terrorist acts (or threats thereof), military action or similar events on the economies and securities markets of countries cannot be predicted. Such disruptions of the world financial markets could affect interest rates, ratings, credit risk, commodity prices, inflation and other factors relating to the Fund's Investments. Moreover, the Portfolio Company may be required to incur significant costs in the future to safeguard certain of their assets against such attacks.

RISK RELATING TO THE WATER INDUSTRY:

Rule of Capture—Adverse Impacts to Production Capabilities. Currently, there is no groundwater conservation district in Loving County; instead, groundwater pumping is subject to the judicially-created common-law rule of capture ("**Rule of Capture**"). Under the Rule of Capture, and subject to other contractual and common-law limitations (see below), the Portfolio Company will have the right to pump as much groundwater from the property acquired from the as it can beneficially use without consideration of the potential adverse impacts on neighboring landowners. Neighboring landowners will have the same groundwater production rights. Consequently, there is a risk that a neighboring production operation will adversely impact the Portfolio Company's production capabilities, and that there will be no meaningful legal recourse available to the Portfolio Company. In the same vein, third parties with existing legal rights to produce groundwater from the property

underlying the Investment (the “**Property**”) (e.g., by virtue of oil and gas leases) may choose to exercise those rights even after the sale of the severed groundwater estate to the Portfolio Company, which poses a similar risk to the Portfolio Company’s production capabilities.

Limitations on Rule of Capture. Under current case law, there are few limitations on the exercise of the right to produce groundwater in areas governed by the Rule of Capture. The most prominent limitations involve subsidence caused by groundwater production and waste of groundwater.

Subsidence. A common-law exception to the unlimited right to produce groundwater is a cause of action available to a landowner in certain circumstances where pumping of groundwater leads to land subsidence. Groundwater producers can be held liable for subsidence that is proximately caused by producing groundwater in a manner that is negligent, willfully wasteful, or for the purpose of malicious injury. Therefore, *there* is a risk that production by one or more entities on or outside the Property may lead to subsidence either on the Property or on adjacent land, which could lead to litigation and potential liability.

Waste. While a cause of action for waste of groundwater has not been well-defined by case law, the concept of “waste” of groundwater as an exception to the Rule of Capture is commonly recognized and has been discussed in at least one Texas Supreme Court case: *City of Corpus Christi v. City of Pleasanton*, 276 S.W.2d 798 (Tex. 1955). Chapter 36 of the Texas Water Code, which governs groundwater conservation districts, contains a definition of “waste” that includes common concepts, which could be at issue in a lawsuit against the Fund or the Portfolio Company for waste of groundwater. In Chapter 36, the definition of “waste” includes:

- withdrawal of groundwater from a groundwater reservoir at a rate and in an amount that causes or threatens to cause intrusion of water into the reservoir that is unsuitable for agricultural, gardening, domestic, or stock raising purposes;
- the flowing or producing of wells from a groundwater reservoir if the water produced is not used for a beneficial purpose;
- escape of groundwater from a groundwater reservoir to any other reservoir or geologic strata that does not contain groundwater;
- pollution or harmful alteration of groundwater in a groundwater reservoir by saltwater or by other deleterious matter admitted from another stratum or from the surface; and
- willfully or negligently causing, suffering, or allowing groundwater to escape into any river, creek, natural watercourse, depression, lake, reservoir, drain, sewer, street, highway, road, or road ditch, or onto any land other than that of the owner of the well unless such discharge is authorized by permit, rule, or order issued by the Texas Commission on Environmental Quality under Chapter 26 of the Texas Water Code.

Relationship Between Dominant and Servient Estates:

Mineral Estate v. Surface Estate. Groundwater is part of the surface estate. Texas oil and gas law provides that, absent contrary contractual provisions, an oil and gas lessee has an implied right to use as much of the surface estate as is reasonably necessary for exploring, drilling, producing, transporting and marketing oil and gas. There is a risk that existing oil and gas lessees on the Property have and will exercise the right to produce groundwater for their operations in lieu of purchasing groundwater from the Portfolio Company, thereby depleting the groundwater source without compensation to the Portfolio Company. Absent agreement to the contrary, the mineral estate can also enjoin actions by the surface owner that interfere with its reasonable use, operation and development of the mineral estate.

Groundwater Portion of Surface Estate v. Remainder of Surface Estate. In most cases, the ability to produce groundwater where the groundwater estate has been severed from the remainder of the surface estate requires the right to use the surface of the land. In *Coyote Lake Ranch, LLC v. City of Lubbock*, 498 S.W.3d 53 (Tex. 2016), the Texas Supreme Court held that the “accommodation doctrine,” which is applied in resolving conflicts between the mineral and surface estate in oil and gas law may also apply to the resolution of conflicts between a severed groundwater estate and the surface estate. In both areas of law, application of the accommodation doctrine is appropriate only when conflicts are not governed by the express terms of agreements between the parties. In *Coyote Lake*, however, the court discussed the relevance of the accommodation doctrine in a situation where the parties had a written agreement that appeared to address some aspects of the dispute; in other words, the court narrowly read the terms of the easement in assessing the potential applicability of the doctrine. Consequently, there is a risk that if a conflict develops between the Portfolio Company and the surface owner regarding use of the surface, a court following *Coyote Lake* may find that factors other than the written surface agreement between the parties are relevant to resolving the conflict.

Unknown Characteristics and Properties of Aquifers Under the Property. Aquifers often vary considerably in terms of productivity and water quality both laterally and vertically. The physical characteristics of some aquifers and water-bearing formations are better understood than others due to extensive use and/or study. Generally, more information about an aquifer’s structure and properties (such as aquifer thickness in a particular location and aquifer transmissivity) results in greater success regarding the completion of water wells that are capable of producing sufficient quantities of groundwater on a reliable basis. Similarly, certain aquifers are more geologically and hydraulically complex than others; increased complexity increases the level of risk involved in identifying well locations that will produce sufficient and reliable groundwater yields. For these and other reasons (e.g., see discussion of production on neighboring lands), the Fund’s reliance on the property’s aquifers to produce significant quantities of water over a sustained period of time carries with it some risk.

In particular, the Rustler Aquifer, which is present under portions of the property, is both (a) structurally complex and (b) not well understood. Moreover, the Rustler Aquifer is known to have variable water quality. The unknown aspects of the Rustler Aquifer increase the risks associated with relying upon it as a water supply; for example, there are increased risks of drilling dry holes or encountering unanticipated areas of poorer water quality in the Rustler Aquifer.

Impacts Due to Drought. During times of drought, production of groundwater for farming and ranching tends to increase. To the extent that farming and ranching are or become a significant category of water use in Loving County, there is a risk that the Fund's water supply will be adversely affected by drought conditions.

Impacts to Water Quality from Ongoing Third-Party Operations. Because third-party oil and gas recovery, processing and disposal activities have occurred on the property and are likely to continue to occur on the property, there is a risk that past, current and future activities may have caused, or will cause, groundwater contamination. In addition, one well-known source of groundwater contamination in areas with industrial activity is underground storage tanks, which carry a risk of leakage of contaminants directly into the subsurface.

THE FOREGOING LIST OF RISK FACTORS DOES NOT PURPORT TO BE A COMPLETE ENUMERATION OR EXPLANATION OF THE RISKS INVOLVED ASSOCIATED WITH KLR GROUP'S INVESTMENT ANALYSIS AND INVESTMENT STRATEGIES. SUBSTANTIAL ADDITIONAL RISKS MAY BE PRESENT. PROSPECTIVE INVESTORS SHOULD READ THE OFFERING DOCUMENTS AND CONSULT WITH THEIR OWN ADVISORS BEFORE DECIDING TO MAKE AN INVESTMENT.

Item 9 - Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to the evaluation of the Adviser or the integrity of KLR's management.

There are no legal or disciplinary events that are material to a Client's or prospective client's evaluation of KLR's advisory business or the integrity of its management.

Item 10 - Other Financial Industry Activities and Affiliations

- A. The Adviser itself is not registered, and does not have an application pending to register, as a broker-dealer or registered representative of a broker-dealer. However, the Adviser is affiliated with a registered broker-dealer, KLR Group. Additionally, management persons of the Adviser are also registered representatives of the affiliated broker-dealer.
- B. Neither the Adviser nor any of its management persons are registered, or have an application pending to register, as a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.
- C. As indicated above, KLR is affiliated with a registered broker-dealer and member of FINRA. KLR shares office space and may share certain overhead expenses with the affiliated broker-dealer but maintains separate and independent operations. The supervised persons of the Adviser are also registered representatives of the affiliated broker-dealer. The affiliated broker-dealer is permitted to provide various investment banking services, including capital raising and other financial advisory services, to companies which are or may become portfolio companies of the Fund. If the affiliated broker-dealer provides such services, it may be entitled to receive reasonable compensation or reimbursement of expenses. KLR's relationship with the affiliated broker-dealer may give rise to conflicts of interest, which are disclosed in *Item 8* above.

The Fund is an affiliate of the Adviser. Additionally, the Fund's general partner, KLR Seawolf Resources Management, LP, is an affiliate of the Adviser. Since the general partner is entitled to receive a share of the Carried Interest from the Fund, this may create an incentive for the Adviser to make investments that are riskier or more speculative than would be the case if such arrangement was not in effect. However, as noted below in *Item 11*, the Adviser has a written Code of Ethics that contains policies and procedures to address conflicts of interest. Under such policies and procedures, the Adviser is required to make investment decisions for its Client in a manner that is consistent with its fiduciary duties to its Client.

- D. The Adviser does not recommend or select other investment advisers for its Client nor does it have any business relationship with other advisers that might create a material conflict of interest.

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

- A. The Adviser has adopted a written Code of Ethics (the “**Code**”) designed to address and avoid potential conflicts of interest as required under Rule 204A-1 under the Advisers Act. The Code sets forth a standard of business conduct and compliance with federal securities laws by all of the Adviser's employees. The Code contains policies and procedures that Adviser employees execute personal securities trading in a manner that mitigates actual or potential conflicts of interest or any abuse of an individual's position of trust and responsibility.

The Adviser will provide a copy of the Code to any Investor or prospective investor upon request.

- B. Neither the Adviser nor any of its related persons recommend to its Client securities in which the Adviser or any related persons have a material financial interest. However, KLR and its employees may hold economic interests in the Fund and thus would have pecuniary interests in such investments made by the Fund, with such interests being on parity with the Fund. As noted in *Item 5*, Investors affiliated with KLR, including its employees, will bear no management fees or carried interest allocations.
- C. The Adviser or related persons may invest in securities that it recommends to its Client. This may create an incentive for the Adviser to allocate securities in favor of the Adviser's proprietary accounts over the Client accounts. To address these conflicts of interest, the Adviser has implemented policies within the Code that requires pre-clearance before purchasing an IPO or limited offering (e.g., private placements); requires periodic reporting of employees' personal securities transactions and holdings; and requires prompt internal reporting of Code violations. KLR endeavors to maintain current and accurate records of all personal securities accounts of its employees in an effort to monitor all such activity.

Certain transactions in which KLR engages may require, for either business or legal reasons that no employee trade in the subject securities for specified time periods. Such securities will appear on a list (the “**Restricted List**”) that will be circulated to all employees upon an addition or removal of such security. No employee may engage in any sort of trading activity with respect to a security or a derivative thereof on the Restricted List without obtaining prior written approval from the CCO.

Subject to the requirements of the Code, the Adviser or related persons may recommend investments to its Client, or make investments for the Client, at or about the same time that the Adviser or its related persons buys or sells the same investments for their own personal interest. See *Item 11.C.* above for a discussion on how these conflicts of interest are addressed.

Item 12 - Brokerage Practices

- A. The Adviser's investment strategy involves making privately negotiated investments with respect to purchasing certain water rights, customer contracts and infrastructure assets through a single investment entity. As a result, the Adviser does not select or recommend broker-dealers for the purchase and sales of securities. Furthermore, the Adviser does not maintain any trading accounts and does not use "soft dollars" received from broker-dealers from the purchase and sales of securities for its clients.
- B. Not Applicable

Item 13 - Review of Accounts

- A. The Adviser is responsible for reviewing Client investment portfolios. Each investment of the Fund is reviewed by KLR's investment professionals on a regular basis when deemed appropriate based on the financial performance and communications and other developments related to the investment, but in no event less than on a quarterly basis. These investment professionals monitor operations, overall performance, financial performance and strategic direction of each portfolio investment owned by the Fund. The Adviser's investment professionals perform periodic comprehensive reviews. In addition, the investment professionals of KLR meet on a regular basis to review, among other things, (i) market events and their effect on investments; (ii) investment ideas, economic developments and current events, and investment strategies, (iii) operations and financial condition of the portfolio companies; and (iv) any proposed investments or divestments of any portfolio companies. In addition, the Fund typically retains third party service providers to assist with certain back-office functions, valuations, tax reporting and other similar functions. The Offering Documents for the Fund contain additional specific descriptions of the oversight and monitoring of the portfolio investments of such Fund.
- B. KLR's investment professionals review the portfolio investments of the Fund on a periodic basis as described above. There are no specific triggers to launch a portfolio review.
- C. The Adviser provides written financial reports to its Investors in the Fund on a quarterly basis. These reports include information relevant to the Fund's investments (and each Investor's investment in such Fund). In addition, the Investors in the Fund receive written annual financial statements of the Fund on an annual basis.

Item 14 - Client Referrals and Other Compensation

- A. The Adviser does not receive any economic benefit, including sales awards or prizes, from any third party for providing advisory services to its Client.
- B. The Adviser does not directly or indirectly compensate any person that is not a supervised person of the Firm for client referrals.

Item 15 - Custody

KLR is deemed, under Rule 206(4)-2 of the Advisers Act, to have custody of the assets of the Fund by virtue of the common control of the Adviser and the general partner of the Fund. In order to comply with the custody provision, KLR utilizes the services of a bank and other qualified custodians (as defined under Rule 206(4)-2) to hold all cash and securities of the Fund (except with respect to privately offered securities).

In accordance with Rule 206(4)-2, KLR also (1) has engaged an independent public auditor to conduct annual audits of the Fund, and (2) will distribute the audited financial statements of the Fund that are prepared in accordance with United States generally accepted accounting principles. The financial statements are sent to all Investors in the Funds within at least 120 days after the end of the fiscal year. All Investors are urged to carefully review these statements. Qualified custodians are not expected to provide account statements directly to investors in the Fund.

Item 16 - Investment Discretion

KLR exercises full discretionary authority in managing the investments made by the Fund, based on the Fund's investment objectives, policies and strategies disclosed in its Offering Documents. KLR contractually assumes discretionary authority over the assets of the Fund under an investment management agreement entered among KLR, the Fund and its general partner.

Item 17 - Voting Client Securities

The Adviser does not hold Fund investments in public equity securities and therefore does not generally receive proxies on behalf of its Client. As a general practice, however, should a situation arise where KLR needs to exercise proxy voting, the Adviser will adopt and implement written policies and procedures governing the voting of client securities to ensure such proxies are voted in the best interest of its Client.

Item 18 - Financial Information

- A. KLR does not require or solicit prepayment of more than \$1200, six months or more in advance.
- B. KLR does not believe it has any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to its Client.
- C. KLR has not been the subject of a bankruptcy petition at any time during the past ten years.