

**PART 2A OF FORM ADV**

**FIRM BROCHURE**

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**This Brochure provides information about the qualifications and business practices of Morgan Rio Capital Management, LLC (the “Adviser” or “Morgan Rio”). If you have any questions about the contents of this Brochure, please contact Amy Segal at 646-216-8346 or by e-mail at [asegal@morganriocap.com](mailto:asegal@morganriocap.com). 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, and references in this Brochure to the Adviser as a “registered investment adviser” are not intended to imply a certain level of skill or training.**

**Additional information about the Adviser is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

## **ITEM 2 – MATERIAL CHANGES**

As of March 21, 2019, Morgan Rio is filing its annual update to the Brochure. There were no material changes since submitting its most recent annual amendment to the Brochure on March 28, 2018.

In the future, when Morgan Rio amends its Brochure for its annual update (or otherwise) and the amended version contains material changes from the last annual update, Morgan Rio will identify and discuss those changes either on this page or as a separate document accompanying the Brochure.

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## ITEM 4 – ADVISORY BUSINESS

Morgan Rio Capital Management, LLC, a Delaware limited liability company (the “Adviser” or “Morgan Rio”), formed in 2008, provides discretionary investment advisory services to the following pooled investment vehicles (the “Funds”) organized as private investment funds:

- Morgan Rio Investments, LP, a Cayman Islands exempted partnership (the “Hedge Fund Master Fund”);
- Morgan Rio Capital Fund (Cayman), Ltd., a Cayman Islands exempted company (the “Hedge Fund Offshore Fund” and, together with the Hedge Fund Master Fund and the Hedge Fund U.S. Fund, the “Hedge Funds”);
- Morgan Rio Private Fund, LP, a Cayman Islands exempted limited partnership (the “PE Master Fund I”); and
- Morgan Rio Private Fund (Cayman), Ltd., a Cayman Islands exempted company (the “PE Offshore Fund I” and, together with the PE Master Fund I, the “PE Funds I”);
- Morgan Rio Private Fund II, LP, a Cayman Islands exempted limited partnership (the “PE Master Fund II”);
- Morgan Rio Private Fund (Cayman) II, Ltd., a Cayman Islands exempted company (the “PE Offshore Fund II” and, together with the PE Master Fund II, the “PE Funds II”);
- Morgan Rio Private Fund III, LP, a Cayman Islands exempted limited partnership (the “PE Master Fund III”);
- Morgan Rio Private Fund (Cayman) III, Ltd., a Cayman Islands exempted company (the “PE Offshore Fund III” and, together with the PE Master Fund III, the “PE Funds III.” PE Funds I, PE Funds II and PE Funds III are collectively referred to as the “PE Funds”); and
- MRio Coinvest Partners I, LLC, a Delaware limited liability company (the “Coinvest Fund”).

Morgan Rio Partners, LLC, a Delaware limited liability company (the “Hedge Fund GP”), acts as the general partner for the Hedge Fund Master Fund and Hedge Fund U.S. Fund. Morgan Rio Asset Partners, LLC, a Delaware limited liability company (the “PE Fund I GP”) acts as the general partner for the PE Master Fund I and as the managing member of the Coinvest Fund. Morgan Rio Asset Partners II, LLC, a Delaware limited liability company (the “PE Fund II GP”), acts as general partner to the PE Master Fund II. Morgan Rio Asset Partners III, LLC, a Delaware limited liability company (the “PE Fund II GP” and together with the Hedge Fund GP, the PE Fund I GP, and the PE Fund II GP, the “General Partners”), acts as general partner to the PE Master Fund III. Morgan Rio Holdings, LLC, a Delaware limited liability company, is the sole member of the Adviser and the Hedge Fund GP. Morgan Rio’s investment activities are led by Jacobo Buzali, who is the managing member of Morgan Rio Holdings, LLC and is also the managing member of the Adviser and the General Partners.

The Funds are private funds organized with the objective of providing sustained, attractive risk-adjusted returns with low levels of volatility through capital appreciation and cash flow (including reinvestment) from, without limitation, private and illiquid asset, asset-based, credit and other investments. The investment strategies focus on investments in countries in Latin America and the Caribbean region.

It should be noted that the investment strategies of the Hedge Funds and the PE Funds are similar. At times, the Funds invest alongside each other in Portfolio Investments that are appropriate for both the Hedge Funds and the PE Funds.

The Hedge Funds make investments primarily through a master-feeder structure, although the Hedge Fund Offshore Fund also has the ability to make investments directly outside of the Hedge Fund Master Fund. The PE Offshore Fund I invests all or substantially all of its assets in the PE Master Fund I. The Coinvest Fund is invested in partnership interests of a Portfolio Investment in which the PE Master Fund I is also invested. The PE Offshore Fund II invests all or substantially all of its assets in the PE Master Fund II. The PE Offshore Fund III invests all or substantially all of its assets in the PE Master Fund III.

The Adviser generally identifies Latin American and Caribbean investments by reference to such factors as the place of organization, principal place of business, primary source of revenues or location of a majority of the assets of a company or the investment. The Adviser identifies, among other investment opportunities, niches of illiquidity that benefit from customized financing solutions where capital is constrained or non-economic motivations exist. Sourcing and executing these opportunities generally involve: (i) a significantly deep and long dated local presence, characterized by immersion and relationships to identify, originate and execute opportunities; (ii) diverse and multiple strategies to evaluate and optimize those opportunities at all levels of the capital structure; (iii) flexibility to adapt to the sudden and rapid market changes and inefficiency shifts typical of the region; (iv) sophisticated understanding and expertise in local structures to optimize returns and minimize risk, and (v) rigorous and constant asset and risk management supervision and controls from opportunity inception to exit.

The investment strategies include, but are not limited to: (i) middle market corporate private lending and corporate debt (including distressed debt and other loan and credit participations); (ii) assets (including direct and indirect debt and equity investments targeting a particular asset or asset class); (iii) real estate private lending and private equity (including development, monetization, sale leasebacks and lease financings); (iv) specialty finance (including structured financings, factoring and other receivables discounting, opportunistic financial assets, restructurings, and event-driven and special situations investments) and (v) private equity (limited and opportunistic complementing other capital structure investments, asset- or cash flow-based, or strategic investment platforms).

The Funds may enter (and have entered) into joint ventures and/or co-investment opportunities (“Platform Investments”) with local Latin American or Caribbean investment and asset partners with expertise in a particular market or asset class. Such Platform Investments and other similar arrangements, which may be made on an exclusive basis for the Funds, will generally be subject to the active participation, direction, investment control, parameters and policies established by Morgan Rio.

Each Fund’s investment objective and/or parameters are set forth in the Fund’s applicable governing documents (the “Fund Documents”) provided to each investor in the Hedge Funds (“Hedge Fund Investors”) and each investor in the PE Funds (“PE Fund Investors” and together with the Hedge Fund Investors, the “Investors”).

Morgan Rio does not tailor its advisory services to the individual needs of Investors in the Funds, and Investors may not impose restrictions on investing in certain securities or types of investments. As applicable, the Fund Documents set forth each Fund’s investment strategies, including guidelines regarding the types of securities and assets the Funds will invest in. An investment in a Fund does not create a client-adviser relationship between an Investor and Morgan Rio.

In addition to the Coinvest Fund, Morgan Rio may enter (and has entered) into other co-investment arrangements (each, a “Co-Investment”) at any time, including but not limited to when a particular

investment or investment strategy may be deemed too large for prudent portfolio allocation solely by the Funds. Morgan Rio has established a number of Co-Investments and may establish others in the future. Co-Investments in the form of single purpose vehicles, economic agreements or others are entered into specifically for the purpose of investing in an investment alongside the Funds, as determined by the Adviser based on its evaluation of the merits of each Co-Investment on a case-by-case basis. Co-Investments generally participate in underlying investments on the same terms as the Funds, including investing into and divesting such interests in underlying investments at the same time and on substantially the same terms as the Funds. Certain Access Persons may, and do, invest from time to time alongside the Funds directly in interests in which the Funds invest.

The Funds have entered into letter agreements or other similar agreements with one or more Investors that provide such Investors with terms additional to or different from those set forth in the Fund Documents.

Morgan Rio does not participate in wrap fee programs.

As of December 31, 2018, Morgan Rio managed \$481,856,585 of client assets on a discretionary basis. Morgan Rio does not currently manage any client assets on a non-discretionary basis.

## **ITEM 5 – FEES AND COMPENSATION**

**It is important that Investors refer to the applicable Fund Documents for a complete understanding of how Morgan Rio and its affiliate are compensated for services, including in particular with respect to performance-based compensation. Investors should also refer to the applicable Fund Documents for a complete understanding of the expenses that will be borne by Investors. The information contained herein is a summary only and is qualified in its entirety by the Fund Documents.**

Morgan Rio receives a management fee (the “Management Fee”), paid quarterly in advance, calculated as a percentage between 0% - 2% of the capital account or capital commitment of each Investor at the beginning of each quarter. Investors may not obtain a refund of any pre-paid fee.

The PE Funds’ Management Fee will be reduced by an amount equal to 80% of any origination, commitment transaction, director’s, monitoring, advisory, topping or break-up fees (net of any unreimbursed out-of-pocket expenses associated with transactions, whether or not consummated) paid to the PE Funds’ GPs, the Adviser or any of their respective affiliates in connection with the PE Funds’ activities (“Offset Amounts”).

Subject to a loss carryforward provision, the Hedge Fund GP is eligible to receive, at the end of each fiscal year, a Performance Allocation from the Hedge Funds calculated as a percentage of realized net profits. The calculation of the Performance Allocation is complex and Hedge Fund Investors and prospective Hedge Fund Investors should carefully review the more detailed terms of the Performance Allocation set forth in the relevant Fund’s offering and governing documents.

Generally, the PE Fund GPs are eligible to receive an incentive amount (the “PE Funds’ Carried Interest”) equal to a percentage of the assets in excess of the respective Fund’s Investor’s capital contribution at the time of distribution in accordance with the Fund’s offering and governing documents. The PE Funds’ Carried Interest is subject to certain provisions, including, but not limited to, a preferred return and clawback.

Management Fees, Performance Allocations and Carried Interest are generally not negotiable but may be (and have been) waived or modified in the sole discretion of Morgan Rio or an affiliate.

Investors do not have the ability to choose to be billed directly for fees incurred.

### **Co-Investments**

Investors in the Co-Investments, including the Coinvest Fund, bear Management Fees and Carried Interest, the terms of which are disclosed in the applicable Fund Documents for each Co-Investment.

### **Operating Expenses**

The Hedge Funds bear all of their operating expenses including the fees payable to Morgan Rio, the Administrator, legal, accounting (including third-party accounting services), the costs of any directors’ and officers’ liability insurance, auditing, tax preparation and other professional expenses, investment expenses such as brokerage fees and commissions, interest on indebtedness, borrowing charges, custodial fees, bank service fees, reporting fees and expenses, research and data/information services and expenses, director’s fees and expenses, fees and expenses (including legal and travel expenses), directly related to sourcing, evaluating, negotiating and monitoring Fund

investments (investment-related fees and expenses, including broken deal expenses, are included as part of the investment cost), investment management or servicing fees or income allocation and expenses related to Platform Investments, its pro rata share of the Master Fund's expenses, organizational expenses, legal, tax, accounting and other expenses incurred in connection with the issuance of interests in the Funds, and other expenses related to the purchase, sale or transmittal of assets.

The PE Master Funds are responsible for all investment-related and operating fees and expenses related to its operations (including those incurred by any special purpose vehicles established from time to time), including but not limited to: (i) all fees and expenses related to the sourcing, acquisition, management and disposition of Portfolio Investments (including any fees and expenses incurred in connection with unconsummated transactions), including, without limitation, the fees and expenses of professional advisers such as legal counsel (including unreimbursed legal fees in connection with Portfolio Investments or proposed Portfolio Investments on behalf of the PE Master Funds and disposing of those investments), travel, administrators, custodians, consultants, bookkeeping and accountants (including audit and certification fees and the expenses associated with the preparation of the PE Master Funds' financial statements and tax returns); (ii) any taxes, fees or other governmental charges levied against the PE Master Funds and the PE Master Funds' investments; (iii) expenses associated with the preparation, printing and distribution of reports to the PE Master Funds' Investors and costs associated with PE Master Funds meetings and meetings of the Advisory Committees, which are comprised of representatives of each PE Master Fund Investors appointed by the PE Master Funds' respective general partner, and fees of the Advisory Committees (if any); (iv) servicing, consulting, professional, research and data services and events and other fees directly associated with the sourcing, acquisition, holding and disposition of Portfolio Investments, including fees and expenses related to Platform Investments and broken-deal expenses and extraordinary expenses (such as litigation, if any); (v) any insurance, indemnity or litigation expenses relating to the PE Master Funds' activities; and (vi) any other expenses that the PE Funds' GPs reasonably determine to be expenses directly related to the respective PE Master Fund's activities. The PE Offshore Funds are responsible for their pro rata portion of their respective PE Master Fund's operating and organizational fees and expenses, as well as their own operating and organizational costs and expenses.

In addition, Co-Investments, including the Coinvest Fund, are generally responsible for all investment-related and operating fees and expenses related to their operations, including but not limited to: (i) all fees and expenses related to the sourcing, acquisition, management and disposition of Portfolio Investments (including any fees and expenses incurred in connection with unconsummated transactions), including, without limitation, the fees and expenses of professional advisers such as legal counsel (including unreimbursed legal fees in connection with Portfolio Investments or proposed Portfolio Investments and disposing of those investments), travel, administrators, custodians, consultants, bookkeeping and accountants (including audit and certification fees); (ii) any taxes, fees or other governmental charges levied against the Co-Investments or the Co-Investments' investments; (iii) expenses associated with the preparation, printing and distribution of reports to the Co-Investments' Investors; (iv) servicing, consulting, professional, research and data services and events and other fees directly associated with the sourcing, acquisition, holding and disposition of Portfolio Investments, including fees and expenses related to Platform Investments and broken-deal expenses and extraordinary expenses (such as litigation, if any); (v) any insurance, indemnity or litigation expenses relating to the Co-Investments' activities; and (vi) any other expenses that the GPs reasonably determine to be expenses directly related to the respective Co-Investment's activities.



Morgan Rio (or its affiliate) renders services to the Funds and Co-Investments at its own expense, including all overhead expenses of an ordinary and recurring nature such as rent, supplies, secretarial expenses, stationery, charges for furniture and fixtures, employee insurance, marketing expenses, accounting and other professional expenses of Morgan Rio, payroll taxes and compensation of employees.

Please see Item 12 of this Brochure for details on Morgan Rio's brokerage practices.

## **ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As noted in Item 5 above, subject to a loss carryforward provision, the Hedge Fund GP is eligible to receive performance-based compensation from Hedge Fund Investors. Also, as described in Item 5, the PE Funds' GPs are eligible to receive performance-based PE Fund Carried Interest from PE Fund and/or Co-Investment Investors upon the distribution of investment proceeds. However, Morgan Rio and/or its affiliates do not receive any management fees or performance-based compensation from Morgan Rio personnel who invest in the Funds.

It should be noted that the possibility of the General Partners' receipt of performance-based compensation creates a potential conflict of interest in that it may create an incentive to make investments that are riskier or more speculative than in the absence of a performance-based fee. The fact that Morgan Rio receives a performance fee based on realized net profits mitigates the incentive for taking on such riskier investments. Furthermore, by designing the compensation structure so that it contains both prongs (i.e., management fees and performance-based compensation potential), Morgan Rio believes that it mitigates the conflict that would arise if either prong were isolated as the sole available compensation – e.g., the stability of the management fee lessens the incentive to make speculative investments that might exist if only a performance-based fee were available.

## **ITEM 7 – TYPES OF CLIENTS**

Morgan Rio provides investment advisory services to the Funds and Co-Investments, as defined in Item 4 above.

The Funds will offer interests only to certain qualified investors who meet qualification requirements under applicable securities laws and other laws. Admission to the Funds is not open to the general public.

The minimum capital commitment of a Hedge Fund Investor in each Hedge Fund is \$1,000,000 and the minimum capital commitment of a PE Fund Investor in the PE Funds is \$5,000,000, although lesser commitment amounts have been accepted at the discretion of Morgan Rio (or its affiliate).

## **ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

### **Investment Objectives and Strategies**

The investment objective of the Funds is to provide sustained, attractive risk-adjusted returns with low levels of volatility through capital appreciation and cash flow (including reinvestment and revolving structures) from, without limitation, private and illiquid asset, asset-based, credit and other investments (each investment, a “Portfolio Investment”). The Funds focus on investments in countries in Latin America and the Caribbean region, which shall include, but are not limited to, Brazil, Mexico, Peru, Colombia, Chile, Uruguay, Panama, Costa Rica, Puerto Rico, and the Dominican Republic. Where possible, foreign exchange risk is generally hedged, in the form and to the extent deemed advisable by the Adviser. The Adviser, in its sole discretion, generally identifies Latin American and Caribbean investments by reference to such factors as the place of organization, principal place of business, primary source of revenues or location of a majority of the assets of a company or the investment. Latin American and Caribbean countries have experienced strong economic growth in recent years. The Adviser expects such growth to continue in the most notable countries, requiring larger and specialized financial capital to support such growth. New sectors of economic, social and infrastructure development have emerged and are expanding yet are prone to the inefficiencies typical of the region and of early stage cycles in emerging markets development. The Adviser views capital and market inefficiency in Latin America as a dynamic constant to be exploited for superior returns. The Funds’ strategy is aimed at systematically identifying where such inefficiency lies, and the most effective way to access and invest in it. The Adviser intends to identify niches of illiquidity that benefit from customized financing solutions where capital is constrained or non-economic motivations exist. This investment strategy involves: (i) a significantly deep and long dated local presence, characterized by immersion and relationships to identify, originate and execute on opportunities; (ii) diverse and multiple strategies to evaluate and optimize those opportunities at all levels of the capital structure; (iii) flexibility to adapt to the sudden and rapid market changes and inefficiency shifts typical of the region; (iv) sophisticated understanding and expertise in local structures to optimize returns and minimize risk, and (v) rigorous and constant asset and risk management supervision and controls from opportunity inception to exit. The investment strategy will be implemented by the Adviser's dedicated Latin American investment team based internationally and in the region, which will be primarily responsible for originating, selecting and managing the Funds’ investments. The team is seamlessly complemented by local leading strategic investment partners and co-investors, although from time to time the Fund’s investments may be originated by other international partners, co-investors, and agent relationships of the Adviser.

The Funds’ investment strategies include, but are not limited to: (i) middle market corporate private lending and corporate debt (including distressed debt and other loan and credit participations); (ii) assets (including direct and indirect debt and equity investments targeting a particular asset or asset class); (iii) real estate private lending and private equity (including development, monetization, sale leasebacks and lease financings); (iv) specialty finance (including structured financings, factoring and other receivables discounting, opportunistic financial assets, restructurings, and event-driven and special situations investments); and (v) private equity (limited and opportunistic complementing other capital structure investments, asset- or cash flow-based, or strategic investment platforms).

The Funds do not generally expect to utilize leverage at the Funds’ level, but utilizes leverage on a non-recourse basis selectively for a particular asset or at an investment vehicle level with the

objectives of enhancing the Funds' return to Funds' Investors or facilitating liquidity and investment exit. In consideration of a particular investment or asset pools of the Funds, the Funds may enter into non-recourse financing or securitization transactions in which the Funds contribute certain of such assets to special purpose vehicles formed for the purpose of facilitating the acquisition, monetization and/or exit of such assets. Investment, risk and return decisions by the Adviser are made on an unlevered basis, independent from any financing decision available for the investment.

For some investments, the Hedge Funds and the PE Funds have established and expect to continue to enter into joint ventures and/or co-investment opportunities ("Platform Investments") with local Latin American or Caribbean investment and asset partners/managers with expertise in a particular market or asset class. Such Platform Investments and other similar arrangements, which may be (and have been) made on an exclusive basis for the Funds, will generally be subject to the active participation, direction, investment control, parameters and policies established by the Adviser, and will require co-investment commitment levels into the Platform Investment by the local partner. Platform Investments at times involve fee agreements whereby the local investment or asset partners will be entitled to fixed or capped asset-based fees and certain profit-sharing arrangements such as an allocation of income over pre-determined realized returns to the Funds. Any such allocations will be in addition to the fees and performance allocations received by the Adviser and General Partner from the Funds. As part of its private equity strategy, the Funds also invest in the business of other such investment partners/managers. Investment in the Funds involves risks, including the fact that there is no assurance that the Funds will achieve their investment objectives and strategies.

### **Investment Strategies**

The Adviser seeks to achieve the Funds' investment objectives through a continuous, bottom-up process of identifying and monitoring investment opportunities that may be suitable for investment by the Funds. The Adviser aims to pursue a multiple sub-strategy approach guided by (1) disciplined investment selection, (2) extensive and rigorous due diligence, (3) vigilant risk management with a focus on capital preservation, constant monitoring of investment performance and efficient reaction to sudden changes, and (4) attention to business development aiming both at new investment opportunities and enhancing existing investments and realizations. The Adviser focuses the Fund's investments on the following strategies, among others:

#### ***Corporate Private Lending***

The Funds invest in a variety of opportunistic corporate lending situations, as both a lead investor and participant, with the goal of assuming process risk versus asset or enterprise value risk. Some of these investments may presume a probability of a restructuring, liquidation or bankruptcy filing and are structured to compensate the Fund for their illiquidity while providing downside protection. Examples of such lending opportunities may include bridge loans, transition financing, secured and unsecured mezzanine financings, reorganization financing, senior and junior secured asset-based loans for asset-rich companies requiring near-term liquidity.

#### ***Corporate Debt***

The Funds' corporate debt investments may include senior and subordinated private and public corporate debt securities and loans, secondary bank debt securities and loans, distressed debt, convertible debt securities, trade claims and other unsecured obligations. Senior secured debt may constitute a significant portion of the Funds' corporate debt investments, normally at the most

senior level of a borrower's capital structure and secured by specific collateral such as accounts receivable, inventory, plant, property and equipment, real estate and intangibles.

- **Distressed Debt.** The Funds' distressed debt investments may include, without limitation, secondary market senior public and private corporate debt, secured bank debt incurred either prior to or during a company's bankruptcy filing or reorganization, bonds and trade claims in liquidation. Additionally, in anticipation of a recapitalization or other clearly defined event, the Funds may invest in the most senior impaired class of securities in a given capital structure with the goal of receiving cash or near-cash consideration, but rarely unless in exceptional situations, with a view to obtain private company equity. The Funds generally make distressed debt investments on a passive basis; the Adviser does not generally participate in broad activist processes, creditor steering committees or equivalent mechanisms as part of its strategy to realize returns.
- **Convertible Debt and Trade Claims.** The Funds also invest in convertible debt securities and securities with preferred, zero-coupon or pay-in-kind interest payment terms. These obligations are generally unsecured and may be contractually or structurally subordinated to senior bank debt. The Funds also invest in trade claims, which are interests in claims of trade creditors and other general unsecured claim holders of a debtor. Trade claims generally include claims of suppliers for goods delivered and not paid for, claims for unpaid services rendered, claims for contract rejection and claims related to litigation. Such claims are typically unsecured and may be subordinated to other unsecured obligations of a debtor. Unsecured or highly-subordinated corporate debt and trade claims typically offer higher yields, and more risk, than distressed bank debt.

### ***Assets***

The Funds target particular assets or asset classes by investing in, or establishing relationships with, business persons engaged in particular types of asset origination, management and/or servicing activities or by investing directly in such activities as, without limitation, lending money to small and middle-market companies. The Funds invest in such entities directly, through an intermediate investment vehicle, or through an entity which is jointly owned by the Funds and such business persons and/or another investment fund with which the Funds may be partnering or co-investing on a joint venture basis.

The Funds invest opportunistically in asset sub-classes, including entities (including start-up businesses) engaged, or to be engaged, in activities or investments such as (i) commercial and industrial assets such as asset-based loans, trade claims and vendor puts, specialized equipment leases and machinery and equipment trading and liquidation, (ii) consumer receivables such as automobile loans, credit card receivables, consumer bills, residential mortgages, consumer loans, paycheck- and pension-deduction loans and other consumer assets and receivables, and (iii) structured finance products such as asset-backed securities, collateralized debt obligations, commercial and residential mortgage-backed securities, securitizations of new issues and real estate. Investments may also include, on a senior subordinated or equity basis, leases, including, without limitation, equipment leases, trade and commercial receivables, residential and commercial mortgage loans, limited partnership interests, insurance policies, credit cards, contract receivables, royalties and trust certificates, as well as other financial instruments that provide for the contractual or conditional payment of an obligation. Asset investments by the Funds may be tranching, securitized, subordinated or pooled as part of a particular asset strategy.

- **Asset-Backed Securities.** The Funds purchase senior or subordinated asset-backed securities, collateralized debt obligations and other structured finance securities on an opportunistic basis where, through a better understanding of the structure or through

servicing, the Funds can acquire the asset-backed securities at a discount to the value of the underlying collateral, and for the full or partial term of repayment and return of such collateral. This strategy attempts to capture income streams and minimize return volatility through the ability to identify and structure or purchase undervalued securities; a deeply analytical approach to the collateral and expected payment terms; a stable long-term capital base; and strong servicing and management capabilities of the securities' agent.

- **Asset Monetizations.** The Fund also acquire, finance or monetize real property, lease or other income flow residuals, equipment and other assets or cash flows in situations where the liquidity needs or certain non-economic motivations of sellers allow the Funds an entry point below current market value and/or at above market yields. These opportunities may be sourced through existing agent, partner and co-investor relationship networks of the Adviser.

### *Real Estate*

- **Real Estate Private Lending.** The Funds seek to invest in selected secured real estate private debt opportunities where a borrower seeks modest levels of leverage against the lower of collateral cost or value. The Funds' strategy is to provide "gap" debt financing for development, construction, permanent or monetization financing where traditional bank and permanent real estate lenders do not compete or may be complemented in their lending practices. The Funds' investments include, but are not limited to, (i) land development financing after a borrower has purchased the land but prior to committed bank construction financing becomes disbursable, (ii) construction loan refinancing upon commercial, retail and other income property completions during stabilization, prior to permanent financing available only for stabilized properties, (iii) subordinated debt on low leveraged properties under senior permanent financings, and (iv) real property monetizations such as sale leasebacks or lease financings at materially discounted levels to market value which may include purchase options or repurchase agreements with the borrower. The Funds seek substantial equity value and equity upside supporting any financing pursued (including significant disbursement by borrower and partial regard to imputed equity), highly conservative total levels of leverage, high marketability of the financed properties, structuring allowing prompt collateral execution, seasoned track record of the sponsor/operator, strategic value of the property to borrower's operations, and where possible firm take out commitments from permanent or construction lenders. The Funds focus on diverse property types including low and middle income housing and multi-family apartments, condominium projects, and commercial, industrial and retail properties.
- **Real Estate Private Equity.** The Funds seek to create opportunities to invest in a number of niche sector, special situation, value-added real estate private equity investments, some of which may leverage the Fund's capabilities in real estate private debt and distressed investing. These investments include, but are not limited to, (i) co-investments with strategic, value-added operating partners, (ii) diversified property portfolios or platforms to support strategic expansion, development, or operational needs of large corporates and retailers, (iii) opportunistic purchases of assets for liquidation, and (iv) certain distressed debt, "debt-to-equity", and asset (including REOs and asset claims) purchases. Investments may comprise small urban and suburban land parcel acquisitions for improvement or development, joint venture development projects for sale or rent, opportunistic acquisitions of operating properties or leasehold interests, sale leasebacks and others. The Funds focus on the merits of each specific opportunity as opposed to undertaking a portfolio allocation strategy across property types. Sectors may include,

without limitation, housing developments, small retail property portfolios, and certain commercial and industrial properties. Particular focus will be placed on small and low to mid-market properties, short to medium term exits, high value sustenance and high marketability, and portfolio diversification via reduced individual property investments across widespread locations.

### ***Specialty Finance***

The Funds invest in a variety of specialty finance assets and platforms, both proprietary and in structured partnership vehicles, allowing for efficient access to and scaling of high yielding and high return assets and credits. Specialty finance investments include structured financings, middle market factoring and other receivables discounting, opportunistic financial assets, restructurings, and event-driven and special situations investments. Proprietary vehicles may include revolving or self-amortizing structures.

The Funds' specialty finance strategy at times comprise / overlap with asset and credit investments in other Funds' strategies, including particularly middle market loans and consumer and commercial financial assets. Specialty finance structures may be formed to enhance returns or facilitate scaling, monetization or exit of certain assets invested into by the Funds.

- **Treasury Shares and Repurchased Bond Financings.** On a highly selective and limited basis, the Funds may opportunistically invest in debt and equity securities of public companies with the purpose of monetizing or providing liquidity to its issuer under private and proprietary arrangements backed by such securities, such as treasury shares and bond financings to be subsequently repurchased by the issuer at pre-agreed tenors and returns or divested gradually in the markets. In such opportunistic transactions, the Fund intends to assume only minimal market risks. Appropriate market and other hedging mechanisms may be pursued, whereby expected returns from the investment are derived from the financing itself rather than particular long or short views on the invested securities being monetized.

### ***Private Equity***

- **Opportunistic Corporate Private Equity.** The Funds make private equity investments in a variety of middle-market companies with a particular focus on special situations and generally in extension of other Funds' strategies such as asset or debt investments. Private equity is not an actively marketed strategy of the Funds but will be driven by the individual opportunity, rather than being bound by any particular industry orientation or deal structure. Investments may range from second lien, mezzanine and preferred stock to common equity, and may include control or non-control transactions, recapitalizations, restructurings, public to private transactions, industry consolidations, growth financings and buyouts.
- The Funds' corporate private equity activity may frequently work in tandem with the Funds' corporate private lending strategies to provide both debt and private equity capital to middle-market companies. This joint effort gives the Funds a competitive advantage because it may enable the Funds to efficiently evaluate and close transactions and be in a position to participate in the entire capital structure of companies or asset portfolios at closing. Given the nature of the Funds' other strategies, particular focus is placed on specialty finance- and real estate-related equity opportunities and special situation private equity partnerships. Private equity investments are anticipated to be limited in size relative



to the Funds' other investment strategies and will place particular emphasis on limited term exits and returns not fully dependent on capital markets offerings or strategic purchasers.

- **Structured Private Investments in Listed Equity.** The Funds may opportunistically engage in structured equity investments whereby they acquire an equity or equity-linked position in a listed company, generally of illiquid trading in a privately negotiated process. These investments are made directly into the company as opposed to secondary market transactions. Examples of structured equity investments include common stock, warrants, convertible preferred stock, and convertible bonds. The Funds place particular focus on value catalysts and exit mechanisms independent of capital market conditions, valuation and shareholder risks, and on the depth of particular relationships and knowledge of the issuer by the Adviser.

### **Risk Management**

The Funds seek to manage risk through portfolio allocation considerations, position size limits, security construction, asset and performance management, and currency hedging. The Funds undertake (i) a highly disciplined bottom-up approach to investment selection, (ii) extensive and rigorous due diligence, structuring and underwriting prior to and post-investment, (iii) ability to control the asset and the investment at all times, from inception to exit, and (iv) vigilant risk management with a focus on capital preservation, constant monitoring of investment performance and efficient reaction to any changes in performance, counterparty or sponsor situation, and market conditions that the Adviser considers may affect the investment. Asset management on an active basis will be generally conducted by the investment team having executed the investment, allowing for continued investment knowledge, relationship and accountability from origination to exit. The Funds monitor and review individual performance, its capital usage and return on capital performance regularly on an individual basis and across all investments, portfolios, strategies and sub-strategies. The Funds' multi-strategy approach will allow it to flexibly invest in those strategies and/or sub-strategies that offer the most attractive risk/reward characteristics while maintaining its disciplined investment philosophy.

The Funds seek to build downside protection into its investments by (i) investing in typically secured levels in the capital structure or otherwise investing within a "margin of safety", (ii) investing in companies, properties or assets with attractive cash flow ratios, (iii) pricing perceived risk and illiquidity appropriately into investments, (iv) writing strict covenants into transactions that may ultimately create yield enhancement opportunities through amendments and other document changes, (v) minimizing contractual and judicial risks to enforce remedies via, among others, outright asset ownership or asset rights as opposed to local liens requiring judicial execution and removal of local process by shifting assets to readily executable vehicles, and (vi) pursuing transactions with partners, co-investors and counterparts of top reputation having undergone substantial standard and soft due diligence, high alignment of interests in the transaction and beyond, and long dated, long term relationships.

The Funds have no specific limitations on concentrations. Exposures will not be expanded beyond intended limitations through the use of options or derivatives. Generally, the Funds do not expect to utilize options or derivatives to undertake positions for speculative purposes. Derivatives, options, forwards and/or short positions may be used solely for the purpose of hedging currency risk and, in particular cases, other macro risks to which the Funds' investments may be exposed. Hedging strategies may include, without limitation, FX forwards, currency options and sovereign risk credit default swaps in the form and to the extent deemed advisable in the Adviser's discretion.

## **Main Risk Factors**

### ***Lack of Liquidity of Fund Assets***

Assets will, at any given time, include securities, assets and other financial instruments or obligations that are not traded, or for which no liquid market exists requiring privately negotiated divestments, or which may be restricted as to their transferability under applicable laws. The sale of any such investments at a certain point in time may require substantial discounts. Further, such investments may be extremely difficult to value with any degree of certainty. Distributions prior to the termination of the Fund may be in the form of cash or freely tradable securities. Upon termination of the Fund or in connection with the withdrawal of any Limited Partner, distributions also may consist of restricted securities or other assets.

### ***Valuation***

The Funds' assets are often invested in securities and other assets that are illiquid or very thinly traded. These investments may be extremely difficult to value accurately. Valuations of some or all of the Funds' investments will require input from the Adviser and third parties. Valuations requiring input from the Adviser or third parties may be based on subjective inputs of the Adviser or such third parties. In some cases, valuation of certain investments may be based upon models, indicative quotes or estimates of value and not actual executed historical trades. There can be no assurances that illiquid investments can be disposed of or liquidated at the valuations established by the Adviser or other third parties.

### ***Non-U.S. Markets Generally***

Morgan Rio invests in assets and securities domiciled or operating in markets outside the United States. Such investments involve incremental enhanced risks not usually associated with investing in the United States. The financial markets outside the United States are generally less regulated than those within the United States. Notwithstanding recent government interventions in the United States, some non-U.S. markets tend to be generally more prone to government intervention, price volatility and illiquidity than U.S. markets. In certain countries, there may be an increased risk of: expropriation or confiscatory taxation; political, economic or social instability; changes in governmental administration or economic monetary policy; limitation on the removal or repatriation of funds or other assets; taxes on interest, capital gain, or other income; import duties or other protectionist measures; credit controls; various laws enacted for the protection of creditors or others; possible difficulty in enforcing contractual obligations or taking judicial action; less stringent laws regarding fiduciary duties of officers and directors and protection of Investors; and nationalization or diplomatic developments that could adversely affect the value of assets of the Fund in such countries. In addition, the value of the Fund's non-U.S. assets may be affected by inflation, interest rates, taxation, commodity prices, political and economic developments, and other risk factors that diverge from the risk factors affecting the United States and its markets. Some of these risks may be magnified in emerging markets.

The application of foreign tax laws (e.g., the imposition of withholding taxes on dividend, interest or other payments) or confiscatory taxation may also affect investment in non-U.S. assets and securities. Higher expenses may result from investment in non-U.S. investments than would from investment in U.S. securities because of the costs that must be incurred in sourcing, diligencing and monitoring such investments, as well as costs incurred in connection with conversions between various currencies.

In addition, costs associated with transactions in non-U.S. markets (including, but not limited to, structuring, legal, brokerage, execution, clearing, custodial and transfer costs) may be substantially higher than costs associated with transactions in U.S. markets. Such non-U.S. transactions may also involve additional costs for the purchase or sale of currencies in which the Fund's assets are denominated in order to settle such transactions. Furthermore, clearing and registration procedures may be under-developed enhancing the risks of error, fraud, or default.

### ***Currency Risks***

Morgan Rio invests in non-U.S. currencies or securities, assets and instruments denominated in non-U.S. currencies, the prices of which are determined with reference to currencies other than the U.S. dollar. While the Funds generally hedge foreign exchange risk to which its investments may be exposed, to an extent and in the form deemed advisable by the Adviser, the Fund will be subject to currency, foreign exchange, convertibility and hedges' mark-to-market risks in cases where (i) foreign exchange hedging may not be possible, economical or fully available in certain jurisdictions and/or for certain currencies, (ii) the available hedging mechanisms or the hedging strategy pursued by the Adviser (based on cost-benefit analyses and other factors in its sole discretion) does not provide full protection against adverse currency movements, and (iii) the hedging strategy becomes unsuccessful due to counterparty, market, contractual and other risks to which the hedging mechanism itself is exposed. Investments in securities, assets or other instruments that are denominated in a foreign currency are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. An increase in the value of the U.S. dollar compared to the other currencies in which the Funds make their investments will reduce the effect of increases and magnify the effect of decreases in the prices of the Funds' investments in their local markets. The Funds could realize a net loss on an investment, even if there were a gain on the underlying investment before currency losses (including net of hedging benefits) were taken into account.

Investments in foreign currency may be also subject to the risk that such currency may not be converted back into U.S. dollars by extreme macro and economic conditions affecting the country of the currency's legal tender, deterioration in foreign exchange markets affecting liquidity and trading levels of such currency in the international foreign exchange markets, or foreign governments' decrees interrupting the convertibility of its currency into international tender under extreme economic, political or social conditions.

Morgan Rio seeks to hedge currency risks by investing in currency exchange forward or futures contracts, foreign currency options, swaps, swaptions, or any combination thereof (whether or not exchange-traded), but these or other instruments necessary to hedge such currency risks may not generally be available, may not provide a perfect hedge, or may not be, in the Adviser's judgment, economically priced. There can be no assurance that these strategies will be effective, and such techniques entail costs and additional risks.

### ***Leverage***

The Funds utilize leverage on a non-recourse basis selectively for a particular asset or at an investment vehicle level with the objectives of enhancing the Funds' return to Investors from that investment or facilitating liquidity and investment exit. While the use of such leverage would be non-recourse to the Funds, it will result in the Funds controlling more assets than they have equity. Leverage increases returns to the Limited Partners if the Funds earn a greater return on the invested

asset or vehicle purchased or financed with borrowed funds than the Funds' cost of borrowing such funds for that particular asset or vehicle. However, the use of leverage exposes the Funds to additional levels of risk including (i) greater potential losses from the invested asset or vehicle than would otherwise have been the case had the Funds not borrowed to make such investment, (ii) certain covenant defaults or failure to meet the asset's or vehicle's financial obligations to its creditor may force premature liquidation of the investment and (iii) losses on investments where the investment fails to earn a return that equals or exceeds the Funds' cost of borrowing such funds for such asset or vehicle.

### ***Event Driven Strategy***

For an event driven strategy, if Morgan Rio determines that it is probable that a proposed transaction will be consummated, the Funds may purchase securities or assets at prices expected to be below the anticipated value to be paid or exchanged for the securities or assets in the proposed event or transaction. If the proposed event or transaction appears likely not to be consummated or in fact is not consummated or delayed, the market price of the security or asset purchased may decline sharply by an amount greater than the difference between the Funds' purchase price and the anticipated consideration to be received.

In investments related to liquidations, bankruptcies, recapitalizations and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (for example, for failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the Funds of the security or asset in respect of which such distribution was made.

Morgan Rio will attempt to assess all of the foregoing risk factors, and others, in determining the extent of the position it will take in the relevant securities or assets and the price it is willing to pay for such securities. However, many risks, such as the outcome of pending or threatened litigation, cannot be quantified.

### ***Investment in Reorganizations and Restructurings***

The Funds make investments in restructurings that involve companies and assets that are experiencing or are expected to experience severe financial difficulties. These severe financial difficulties may never be overcome and may cause such companies or assets to become subject to bankruptcy proceedings. In such situations, the Funds' investment is subject to the risk that a bankruptcy filing may adversely and permanently impact the value of a company or assets and that high bankruptcy administrative costs may impair the value of the company or asset.

Having a position in a security that is subject to a plan of reorganization or a restructuring entails significant risks if the Funds' evaluation of the anticipated outcome of the investment situation should prove incorrect. In addition, an investment in a company involved in a reorganization proceeding or restructuring entails significant risks if the Funds' evaluation of the anticipated outcome of the investment situation should prove incorrect. Furthermore, an investment in a company involved in a reorganization proceeding or restructuring may be adversely impacted if the Funds' evaluation of the timing of such outcome should prove incorrect.

While the Funds intend to invest in any reorganizations and restructurings on a passive basis, some of the investments of the Funds may require representation on official and unofficial creditors' or other committees involved in a reorganization proceeding or restructuring. Accordingly, the Funds

seek representation on such committees from time to time if the Adviser, in its discretion, determines that such representation is necessary or advisable to protect or further the Funds' interests. As the Funds will indemnify any person serving on a committee on its behalf for claims arising from such participation, indemnification payments could adversely affect the return on the Funds' investment.

### ***Loan Participations***

The value of Morgan Rio's investment in loans (and hence, each Investor's Interests) may be detrimentally affected to the extent a borrower defaults on its obligations, there is insufficient collateral and/or there are extensive legal and other costs incurred in collecting on a defaulted loan. The Adviser attempts to minimize this risk by maintaining low loan-to-liquidation values with each loan and the collateral underlying the loan. However, there can be no assurance that the value assigned by the Adviser to collateral underlying a loan of the Fund can be realized upon liquidation, nor can there be any assurance that collateral will retain its value. In addition, certain loans may be supported, in whole or in part, by personal guarantees made by the borrower or a relative, or guarantees made by a corporation affiliated with the borrower. The amount realizable with respect to a loan may be detrimentally affected if a guarantor fails to meet its obligations under the guarantee. Moreover, the value of collateral supporting loans may fluctuate. In addition, active lending/origination by the Fund may subject it to additional regulation, as well as possible adverse tax consequences to the Limited Partners. Finally, there may be a monetary, as well as a time cost involved in collecting on defaulted loans and, if applicable, taking possession of and subsequently liquidating various types of collateral.

### ***Real Estate***

The Funds invest a significant portion of its portfolio in real estate assets and/or companies or entities primarily based, or having or pursuing operations, in the Latin American real estate industry. Therefore, the Fund may be subject to risks associated with the direct ownership of real estate, such as decreases in real estate values, heavy cash flow dependency, possible lack of availability of mortgage funds, overbuilding, increased competition and other risks related to local or general economic conditions, increases in operating costs and property taxes, changes in zoning laws, casualty or condemnation losses, possible environmental liabilities, regulatory limitations on rent and fluctuations in rental income.

### ***Asset-Backed Securities***

The Funds invest in asset-backed securities, which may be subject to risks including to the extent that they may not have the benefit of a security interest in the related collateral. Each type of asset-backed security entails unique risks depending on the type of assets involved and the legal structure used. For example, credit card receivables are generally unsecured and the debtors are entitled to the protection of a number of consumer credit laws, many of which give debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. Similarly, mortgage-backed securities are subject to pre-payment risk in environments where interest rates are decreasing. Asset-backed securities are also subject to credit risk.

### ***Corporate Private Equity Investments***

While Morgan Rio intends to make corporate private equity investments only on a limited and opportunistic basis, such investments in privately held companies present challenges, including the lack of available information about these companies, a dependence on the talents and efforts of

only a few key company personnel and a greater vulnerability to economic downturns. Generally, little public information exists about privately held companies, and the Funds will be required to rely on the ability of its investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. If the Funds are unable to uncover all material information about these companies, it may not make a fully informed investment decision, and may lose money on its investment.

The ability of Morgan Rio to profit from such investments will be highly dependent upon the ability of the invested company to progress in its development to the point where it can become an attractive acquisition or merger candidate, effect a public offering of securities or provide another exit strategy to the Funds' investment. Numerous factors may impede or prevent a company from reaching this point, including inadequate capital, unfavorable competitive developments, inadequate management or loss of key persons, technology obsolescence, less diverse product lines, and smaller market presence or lack of market acceptance. Companies may face significant capital shortfalls for a wide variety of reasons. These factors could negatively affect the Funds' investment returns. Product development, modernization of technology or acquisition and integration of a new unit or subsidiary may prove more expensive or take more time than anticipated and the growth in revenues may be slower than expected. In any such event, the Funds may be asked to provide additional capital. If the Funds are unable or refuse to provide the additional capital, the company may obtain the needed funds from another source, diluting the earlier investment by the Funds. Alternatively, the inability of the company to obtain the needed financing may result in the failure of the company and a loss of the Funds' investment.

When Morgan Rio makes a new corporate private equity investment, its projected operating results will normally be based primarily upon management's judgments. Such projections will only be estimates of future results that are based upon assumptions made at the time that such projections are developed. There can be no assurance that the projected results will be obtained, and actual results may vary significantly from management's projections. Additionally, actual future conditions may require actions that differ from those contemplated at this time, and there can be no assurance that management's projected results will be achieved. There may be differences between such projections and actual results because events and circumstances frequently do not occur as expected, and those differences may be material and adverse. In addition, general economic conditions, which are not predictable, can also have a material adverse impact on the reliability of management's projections.

**It is critical that Investors refer to the Fund Documents for a complete understanding of the material risks involved in an investment in the Funds. The information contained herein is a summary only and is qualified in its entirety by the Fund Documents.**

## **ITEM 9 – DISCIPLINARY INFORMATION**

To the best of Morgan Rio's knowledge, there are no legal or disciplinary events that are material to a client's or prospective client's or an Investor's or potential Investor's evaluation of Morgan Rio's advisory business or the integrity of Morgan Rio's management.

## **ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

Neither Morgan Rio nor any of its officers or principals is registered, or has an application pending to register, as: (i) a broker-dealer; (ii) a registered representative of a broker-dealer; (iii) a futures commission merchant; (iv) a commodity pool operator; (v) a commodity trading advisor; or (vi) is an associated person of any of (iii), (iv) or (v).

Morgan Rio serves as investment adviser to the Funds and Co-Investments. Affiliates of Morgan Rio also invest directly in the Funds and Co-Investments and employees of Morgan Rio or its affiliates also invest indirectly in the Funds and Co-Investments (through an affiliate).



## **ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

Morgan Rio’s Code of Ethics (the “Code”) is designed to meet the requirements of Rule 204A-1 of the Investment Advisers Act of 1940 (the “Advisers Act”). The Code applies to Morgan Rio’s “Access Persons.” Access Persons include, generally, any partner, officer or director of Morgan Rio and any employee or other supervised person of Morgan Rio (or an affiliate) who, in relation to the Funds, (1) has access to non-public information regarding any purchase or sale of securities or assets, or non-public information regarding securities or assets holdings or (2) is involved in making securities or assets recommendations, executing securities or assets recommendations, or has access to such recommendations that are non-public.

The Code sets forth a standard of business conduct that takes into account Morgan Rio’s status as a fiduciary and requires Access Persons to place the interests of the Funds and Investors above their own interests and the interests of Morgan Rio and its affiliates. The Code requires Access Persons to comply with applicable federal securities laws. Further, Access Persons are required to promptly bring violations of the Code to the attention of Morgan Rio’s Chief Compliance Officer (the “Chief Compliance Officer”). All Access Persons are provided with a copy of the Code and are required to acknowledge receipt and understanding of the Code upon hire and on at least an annual basis thereafter.

The Code also sets forth certain reporting and pre-clearance requirements with respect to personal trading by Access Persons. Access Persons must provide Morgan Rio’s Chief Compliance Officer with a list of their personal accounts and an initial holdings report within 10 days of becoming an Access Person. In addition, Morgan Rio’s Access Persons must provide annual holdings reports and quarterly transaction reports in accordance with Advisers Act Rule 204A-1.

In addition, the Code seeks to ensure the protection of non-public information about the activities of the Funds. Investors or prospective Investors may obtain a copy of the Code by contacting the Chief Compliance Officer at [asegal@morganriocap.com](mailto:asegal@morganriocap.com).

Certain Access Persons and Morgan Rio affiliates may, and do, invest from time to time alongside the Funds directly in interests in which the Funds invest. The fact that Morgan Rio affiliates and Access Persons have a financial ownership interest in the Funds and underlying vehicles creates a potential conflict in that it could cause Morgan Rio and its affiliates to make different investment decisions than if such parties did not have such financial ownership interests.

Morgan Rio addresses these potential conflicts through regular monitoring of the Funds’ portfolio and investments for consistency with the Funds’ objectives, strategies and target capacity. Furthermore, Morgan Rio and its affiliates carefully consider the risks involved in any investments and provide extensive disclosure to clients regarding the potential risks that come with an investment in the Funds.

Morgan Rio (or its affiliate) receives management and performance-based compensation. The management fees are payable without regard to the overall success or income earned by the Funds and, therefore, may create an incentive on the part of Morgan Rio to raise or otherwise increase assets under management to a higher level than would be the case if Morgan Rio was receiving a lower or no management fee. Performance-based fees may create an incentive for Morgan Rio to make investments that are riskier or more speculative than in the absence of a performance-based fee. The fact that Morgan Rio receives a performance fee based on realized net profits mitigates

the incentive for taking on such riskier investments. Furthermore, by designing the compensation structure so that it contains both prongs (i.e., management fees and performance-based compensation potential), Morgan Rio believes that it mitigates the conflict that would arise if either prong were isolated as the sole available compensation – e.g., the stability of the Management Fee lessens the incentive to make speculative investments that might exist if only a performance-based fee were available.

As described in Item 4, Morgan Rio enters into co-investment arrangements, including but not limited to when a particular investment or investment strategy may be deemed too large for prudent portfolio allocation solely by the Funds. Morgan Rio has established a number of Co-Investments and may establish others in the future. Co-Investments in the form of single purpose vehicles, economic agreements or others are entered into specifically for the purpose of investing in an investment alongside the Funds, as determined by the Adviser based on its evaluation of the merits of each Co-Investment on a case-by-case basis. Co-investments generally participate in underlying investments on the same terms as the Funds, including investing into and divesting such interests in underlying investments at the same time and on substantially the same terms as the Funds.

Morgan Rio's investment program does not generally involve investments in publicly traded securities.

Access Persons are permitted to make securities transactions in their personal accounts. This presents potential conflicts in that an Access Person could make improper use of information regarding the Funds' holdings or future transactions. Morgan Rio manages the potential conflicts of interest inherent in an Access Person's personal trading by rigorous enforcement of its Code, which contains pre-clearance and reporting guidelines for Access Persons. Morgan Rio requires that Access Person's transactions in limited offerings and initial public offerings be pre-cleared with the Chief Compliance Officer.

Morgan Rio maintains a "Restricted List" with the names of issuers of securities about which Morgan Rio (or its Access Persons) has learned material, non-public information. Access Persons are strictly prohibited from trading securities on the Restricted List (or any other securities to which the material, non-public information relates).

In addition, Morgan Rio receives transaction and holdings reports in accordance with Advisers Act Rule 204A-1. The Chief Compliance Officer or her designee also reviews Access Persons' personal transaction and holdings reports to make sure each Access Person is conducting his or her personal securities transactions in a manner that is consistent with the Code.

## **ITEM 12 – BROKERAGE PRACTICES**

As described in Item 4 above, Morgan Rio is the investment adviser to private investment funds that invest in private and illiquid assets. Due to the nature of the Funds' investment programs, Morgan Rio and its affiliates do not select or recommend broker-dealers for Fund transactions.

Morgan Rio does not utilize "soft dollars."

Morgan Rio manages the Hedge Funds via a master-feeder structure, generally with all investments made at the master fund level, although the Hedge Fund U.S. and Offshore Funds may make certain investments directly outside of the Hedge Fund Master Fund. Morgan Rio also manages the PE Funds via a master-feeder structure, generally with all investments made at the master fund level. It should be noted that the investment strategies of the Hedge Funds and the PE Funds are similar. At times, the Funds invest alongside each other in Portfolio Investments that are appropriate for both the Hedge Funds and the PE Funds. Morgan Rio recognizes that, as a fiduciary, it has a duty to allocate investment opportunities among its private funds in a fair and equitable manner. In the event that Morgan Rio determines that it would be appropriate for more than one Fund to participate in an investment opportunity, Morgan Rio will seek to allocate the investment opportunity to all of the participating Funds on a fair and equitable basis. Generally, investment opportunities will be allocated pro rata based upon each participating Fund's relative size to each other, subject to their available capital at the time of the investment. Morgan Rio in its sole discretion may allocate investments based upon other considerations. In certain circumstances, Morgan Rio may not be able to allocate an investment opportunity (or portion thereof) to a Fund because of minimum investment restrictions, liquidity limitations, terms particular to, illiquidity and/or risk profile of an investment, prudent portfolio allocations or excessive costs. In these situations, Morgan Rio will determine which Funds will participate based not only on relative Fund size but also these additional factors. Funds without sufficient investment capital for an allocation would not participate. The final allocations among Funds at the time of investment will be documented, including a description of such allocation process.

## **ITEM 13 – REVIEW OF ACCOUNTS**

Hedge Fund Investors receive monthly NAVs and quarterly unaudited financial reports. PE Fund Investors receive quarterly NAVs and quarterly unaudited financial reports. In addition, Investors receive annual audited financial statements within 120 days of the Funds' fiscal year-ends.

The portfolios and investments of the Funds and the Co-Investments are under continuous review by Morgan Rio's team. Such reviews include a review of investment performance, valuation changes, adherence to investment guidelines and strategies, risk analysis and monthly reporting.

## **ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION**

Morgan Rio does not compensate any third parties in connection with the referral of investors to the Funds or for any client referrals.

Morgan Rio does not receive any economic benefits from third parties in connection with the provision of investment advisory services or with respect to investments made by the Funds.

## **ITEM 15 – CUSTODY**

Morgan Rio is deemed to have custody of the Funds' assets pursuant to Advisers Act Rule 206(4)-2. To ensure compliance with Rule 206(4)-2 under the Advisers Act, Morgan Rio provides audited financial statements to Investors within 120 days after the end of the relevant Funds' fiscal year (i.e., generally by April 30).

As Morgan Rio's investment program primarily involves investments in private and illiquid assets, Morgan Rio generally will be exempt from the requirement that securities be maintained with a "qualified custodian." Morgan Rio anticipates that the majority of its investments in private and illiquid assets will involve securities that are (i) acquired from the issuer in a transaction or chain of transactions not involving any public offering; (ii) uncertificated to the extent ownership thereof is recorded only on the books of the issuer or its transfer agent in the name of the client; and (iii) transferable only with prior consent of the issuer or holders of the outstanding securities of the issuer.

To the extent that Morgan Rio's investments in private and illiquid assets involve securities that are certificated, but also are (i) acquired from the issuer in a transaction or chain of transactions not involving any public offering and (ii) transferable only with prior consent of the issuer or holders of the outstanding securities of the issuer, Morgan Rio will maintain such certificates with a qualified custodian.

## **ITEM 16 – INVESTMENT DISCRETION**

Morgan Rio has discretionary authority to manage investments on behalf of the Funds, subject to the terms of the Fund Documents. Morgan Rio is authorized to make transaction recommendations for the Funds. The Funds are collective investment vehicles and Morgan Rio will not tailor its advisory services to such entities for any particular Investor. Investors do not have the ability to impose limitations on the discretionary authority of Morgan Rio.

In addition, Morgan Rio has discretionary authority to manage Co-Investments, subject to the terms agreed upon with respect to such Co-Investments.

Investors of certain of the Funds must generally execute a subscription agreement or similar document in which they make various representations, including representations regarding their suitability to invest in a high-risk investment pool. In addition, Investors of certain of the Funds must execute a limited partnership agreement that contains a power of attorney.

## **ITEM 17 – VOTING CLIENT SECURITIES**

Morgan Rio has authority to vote client securities. However, based upon Morgan Rio's investment strategy and business as generally investing in private and illiquid securities (and lack of involvement in publicly-traded equities), it does not vote proxies. If in the future it is contemplated that Morgan Rio may exercise voting authority with respect to any client securities, Morgan Rio will adopt proxy policies and procedures that are consistent with Rule 206(4)-6.



## **ITEM 18 – FINANCIAL INFORMATION**

Morgan Rio does not require or solicit prepayment of Advisory fees 6 months or more in advance.

Morgan Rio is not aware of any financial condition that is reasonably likely to impair its ability to meet contractual commitments to its clients.

Morgan Rio has not been the subject of a bankruptcy petition at any time during the past 10 years.