

Granite State Capital Management, LP
Form ADV Part 2A – Disclosure Brochure
March 29, 2019

Granite State Capital Management, LP
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This brochure provides information about the qualifications and business practices of Granite State Capital Management, LP. If you have any questions about the contents of this brochure, please contact Bill Merriman, our Chief Compliance Officer, at (646) 688-3231. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

You can find more information about us at the SEC’s website www.adviserinfo.sec.gov.

www.granitestatecap.com

Item 2 – Material Changes

This Brochure contains important information about Granite State Capital Management, and is intended to provide potential and existing clients with an overview of the Firm and its services. Granite State Capital Management may, at any time, update this Brochure and either send or offer to send a copy to existing clients (either by electronic means or in hard copy form).

There have been no material changes to note in this Brochure since the Firm's most recently filed Form ADV updating amendment, dated March 30, 2018. Rather, this Brochure contains certain key updates to the Firm's business, such as updates to Firm personnel and business practices.

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Item 4 – Advisory Business

The Company

Granite State Capital Management, LP (“we,” “us” or “GSCM”) is an investment adviser registered with the SEC.¹ GSCM was founded in October of 2016 by two of its limited partners, Steven T. Shirreffs and David G. Shirreffs. We are headquartered in New York, New York.

Advisory Services

Our Services

GSCM provides investment advisory services to private investment funds (the “Funds”). We provide investment advice only with respect to certain types of investments, namely U.S. and non-U.S. leveraged loans.

A leveraged loan is a commercial loan provided by a group of lenders. It is first structured, arranged, and administered by one or several commercial or investment banks, known as “arrangers.” It is then sold (or “syndicated”) to other banks or institutional investors. A leveraged loan is often extended to companies that already have considerable amounts of debt. Lenders consider leveraged loans to carry a higher risk of default, and as a result, a leveraged loan is more costly to the borrower. Leveraged loans for companies with debt tend to have higher interest rates than typical loans; these rates reflect the higher level of risk involved in issuing the loan.

Our firm strives to provide our clients with attractive risk adjusted returns. When we select investments for client portfolios, we evaluate characteristics of the corporate borrower, such as market share, asset coverage, cash flow generation, customer retention and recurring revenue streams. More about our firm’s investment strategies and the risks involved can be found under Item 8 of this brochure.

Investment Restrictions

Our advice is tailored to meet the needs of the Funds. Underlying investors may request in writing that we refrain from investing in certain industries or in securities of issuers, and we will generally honor such requests unless it materially affects our ability to execute our investment strategy. Other than accepting such investment restrictions from underlying investors, GSCM does not generally tailor its advisory services based on its analysis of the individual needs of such investors.

Assets Under Management

As of December 31, 2018, we have approximately \$493,731,480 in regulatory assets under management. Client assets managed by us are managed on a discretionary basis.

¹ Registration as an investment adviser does not imply a certain level of skill or training.

Item 5 – Fees and Compensation

Amount of Our Fees

Our annual standard management fee for the Funds is 1.5% of the assets managed for the Funds. In addition to our management fee, we also collect up to 17.5% of the profits generated by the Funds (also called a “carried interest”). These fees are negotiable. Some underlying investors may pay more or less than others depending on certain factors, including the type and size of the account and the total amount of assets managed for a group of related investors.

Payment of Our Fees

Our management fee is paid quarterly in advance at the beginning of each quarter and is deducted from the Funds’ assets. Our management fee is based on the amount of each limited partners’ capital commitment. We do not make adjustments to the quarterly fee due to assets added or withdrawn during a quarter. If our advisory agreement begins during a quarter, we will prorate the fee for the initial partial quarter, based on the number of days from the beginning of the agreement until the end of the initial quarter. If there is not enough cash in the account to pay our fee, we may call capital from our investors.

We collect the carried interest, if due, when the Funds make distributions to investors.

Our advisory agreement with the Funds may be terminated on 30 days’ written notice by us or the Fund’s General Partner. If the agreement with us terminates during a quarter, we will refund a pro rata portion of the fee paid for that quarter, based on the number of days between the end of the 30-day notice period and the end of the quarter.

We do not make adjustments to the quarterly fee due to assets added or withdrawn during a quarter.

Other Fees

Fees in addition to our fees will be incurred by the Funds, and indirectly borne by investors. For example, the Funds will incur costs related to an annual audit and fees payable to a custodian that holds client assets. These fees and expenses are not shared with us. We evaluate the relative annual costs of other service providers as a part of our decision making process. Investors should review the fees charged by these other service providers and our fees to fully understand the total amount of fees paid and to evaluate the advisory services we provide.

The Funds may also incur transaction costs, as discussed below in Item 12.

Compensation from Sales of Securities

We do not accept compensation for the sale of securities or other investment products.

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

As stated above in Item 5, with respect to the Funds, in addition to our asset-based management fee, we also collect a carried interest.

Item 7 – Types of Clients

Types of Clients

We generally provide asset management services and advice to private investment funds, including the Funds.

Minimum Account Size

We generally impose on the Funds' investors a minimum \$5 million capital commitment. We reserve the right to waive minimum account size requirements at our discretion.

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

Investment Strategies and Methods of Analysis

As stated above in Item 4, we strive to provide our clients with attractive risk adjusted returns from leveraged loan investments that may carry an elevated risk of default. When identifying prospective investment opportunities, we use fundamental credit analysis in an effort to attempt to minimize the loss of capital, which involves an evaluation of:

- *Industry characteristics.* We review how the relevant industry is performing, taking into cyclical and seasonal characteristics. We also review the current regulatory environment of the relevant industry.
- *Company-specific factors.* We review the viability of the borrower by looking at company-specific factors such as the sustainability of their business, customer retention and recurring revenues and the size of the issuer's market share.
- *Strength of management.* We evaluate the company's management by reviewing quality and length of individual experience and the support management receives by third parties. We also review whether management is focused on reducing the amount of debt a company currently has.
- *Capital structure.* We review whether a particular company's capital structure reflects a robust ability to repay debt by evaluating factors such as amount of total borrowing and subordination of debt. We also review a company's "asset coverage ratio," which is a measure of the company's ability to cover short-term debt obligations with its assets.

- *Contractual obligations.* We assess the current contractual obligations of a borrower that may impact its ability to repay a loan, such as thresholds for certain financial debt to asset ratios that the company may not exceed (often referred to as “debt covenants”).
- *Sponsorship.* Often we will seek to participate in transactions sponsored by what we believe to be high quality private equity firms, for we believe that a private equity sponsor’s willingness to invest significant sums of equity capital into a company is an implicit endorsement of the quality of the investment.

Risks Associated with Our Methods of Analysis

The success of our strategies depends in large part on our ability to accurately assess the fundamental value of an investment. An accurate assessment of fundamental value depends on a complex analysis of a number of economic, financial, operating, legal and other factors. No assurance can be given that we can assess the nature and magnitude of all material factors having a bearing on the value of securities.

In performing our analysis, our judgment about the attractiveness, value and potential performance of an individual security may be incorrect, and there is no guarantee that the securities we select will perform as anticipated. The value of an individual security can be more volatile than the market as a whole, or our approach may fail to produce the intended results. Our estimate of a security’s intrinsic value may be wrong or, even if our estimate of intrinsic value is correct, it may take a long time before the price and intrinsic value converge. As a result, there is a risk of loss of the assets we manage that is out of our control. Although we will do our best in managing your assets, we cannot guarantee any level of performance or that you will not experience a loss in your assets.

Additionally, in performing our analysis, we may use commercially available information services and financial publications, research materials prepared by various broker-dealers and other research developed by other third-party providers. Our methods rely on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

Risks Associated with Our Investment Strategies

Risks Associated with Our Strategies - General

All investments in securities include a risk of lost principal (invested amount) and any profits that have not been realized. Clients should be prepared to bear that risk. In addition, the performance of any investment is not guaranteed.

Our advisory agreement states that we are not liable for:

- any loss suffered because of any investment decision we make or other action we take or do not take in accordance with our advisory agreement
- any loss suffered because we follow a client's oral or written instructions
- any act or failure to act by any custodian, broker or other financial intermediary

Nevertheless, nothing in our advisory agreement constitutes a waiver of any legal right under applicable federal or state securities laws or any other law whose applicability may not be waived through contract. If there is a discrepancy between the information in this brochure and a client's agreement with us, the agreement will control.

Risks Associated with Our Primary Client Investments

In the execution of our strategies, we principally invest in U.S. and non-U.S. leveraged loan investments. Our strategies may subject investors in the Funds to the investment risks noted below. The investment risks described below should not be considered an exclusive list of risks or investments. Fund investors should also read the offering memorandum for the Funds in which they are investing for additional information regarding investment risks.

- *Lower Quality Debt Securities Risk:* Leveraged loan investments are generally of lower quality than other debt investments, and they can involve a substantially greater risk of default than higher quality debt securities. They can be illiquid, and their values can have significant volatility and may decline significantly over short periods of time. Lower quality debt securities tend to be more sensitive to adverse news about the issuer, or the market or economy in general.
- *Fixed Income Risk:* Our strategy targets fixed income investments. The credit quality rating of securities may be lowered if an issuer's financial condition deteriorates and issuers may default on their interest and/or principal payments. Typically, a rise in interest rates causes a decline in the value of fixed income securities. Note also that the U.S. is currently experiencing historically low interest rate levels. However, economic recovery and the tapering of the Federal Reserve Board's quantitative easing program increase the likelihood that interest rates will rise in the future. A rising interest rate environment may cause the value of the investments held in client accounts to decrease, and an adverse impact on the liquidity of the investments held in client accounts.
- *Credit Risk:* Borrowers targeted by our strategy are frequently highly leveraged and may not make interest or principal payments on securities, resulting in losses to an investor. Default rates, though low today, could increase. In addition, the credit quality of an issuer's securities may be lowered if an issuer's financial condition changes.
- *Liquidity Risk:* There is no organized exchange on which leveraged loan investments are traded and reliable market quotations may not be readily available.

A majority of the assets held in client accounts are likely to be invested in loans that are less liquid than securities traded on national exchanges.

- *Floating Rate Risk:* Leveraged loans frequently have “floating rate” (not fixed) interest rates that may rise at a slower rate than anticipated, reducing the amount of return on the investment.
- *Debt Covenant Risk:* There has been a recent trend to reduce the number of debt covenants in credit agreements. This may adversely affect our ability to recover on a particular leveraged loan.
- *Diversification Risk:* A client’s portfolio may be limited to only a few investments. As a result, the client’s performance may be more sensitive to any single economic, business, political or regulatory occurrence, relative to the value of a more diversified portfolio.
- *Foreign Investment Risk:* Foreign investing involves risks not typically associated with U.S. investments, including adverse fluctuations in foreign currency values, adverse political, social and economic developments, less liquidity, greater volatility, less developed or less efficient trading markets, political instability and differing auditing and legal standards.
- *Key Personnel Risk:* The success of our strategies depends greatly on the investment skills of our principals and key personnel. Performance of a client’s portfolio could be adversely affected if, due to illness or other factors, the services of certain principals or key personnel were not available for any significant period of time.
- *Market Risk:* Overall fixed income market risks affect the value of a client’s portfolio. Factors such as domestic or global economic growth, market conditions, interest rate levels and political events affect the securities markets.
- *Strategy Risks:* The business of investing in securities is highly competitive and the identification of attractive investment opportunities is difficult and involves a high degree of uncertainty.
- *Valuation Risk:* Some portfolio holdings, potentially a large portion of a client’s investment portfolio, may be valued on the basis of factors other than market quotations. There are multiple methods that can be used to value a portfolio holding when market quotations are not readily available. The value established for any portfolio holding at a point in time might differ from what would be produced using a different methodology or if it had been priced using market quotations.

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 a client’s evaluation of us or the integrity of our management.

We have no legal or disciplinary events to report.²

Item 10 – Other Financial Industry Activities and Affiliations

We are obligated to disclose if we, any of our employees and independent contractors, or any of our affiliates are involved in other financial industry activities, such as those of a broker-dealer, commodity pool operator or a futures commission merchant. We are also obligated to disclose if we receive compensation from other advisers for recommending or selecting those advisers.

Jeffrey Gelles is a principal in a partnership focused on making private equity investments in lower middle-market businesses and providing financial advisory services generally. He is not engaged in any other business or occupation that provides a substantial source of his income or consumes a substantial portion of his time.

We do not have any other financial industry activities or affiliations to report. In addition, we do not receive compensation from other advisers for recommending or selecting them.

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

Code of Ethics

We expect our supervised persons to always act in the best interest of our clients, and to place the interests of our clients ahead of their own. We have adopted a Code of Ethics (the “Code”) that sets forth the standard of business conduct expected from each member of our team.

The Code places restrictions on trading a security for which we believe we may be privy to material non-public information. Trading in personal accounts is permitted, subject to any restrictions in place at the time of the request to execute a personal account trade, with the prior approval of the CCO. It also restricts personal trading activities to prevent any conflict of interest between personal trading and client trading. The Code limits gifts and entertainment, whether received or given, to avoid conflicts of interests. The Code causes all outside business activities of our team members to be disclosed so that potential conflicts can be detected and addressed. Finally, it limits the political contributions of our managers and employees to prevent any potential

² We note that registered advisors are required to report, in Part 1A of Form ADV, all disciplinary events regardless of whether they are material. We have no disciplinary events of any kind to report.

conflicts in that area as well. All our managers and employees must accept in writing the terms of the Code upon employment, annually, and as amended.

We will provide a copy of the Code to any client or prospective client upon request by contacting the firm's Chief Compliance Officer at the telephone number or the address specified on the cover page of this brochure.

Participation or Interest in Client Transactions and Personal Trading

We and/or our supervised persons do not (i) buy or sell the same securities or related securities (for example, warrants, options or futures) that we buy or sell for our clients, (ii) buy or sell securities for our own accounts at the same time that we buy or sell the same securities for client accounts, or (iii) include buy or sell orders in an aggregated transaction along with client buy or sell orders.

We do not buy or sell securities for client accounts if we and/or one of our supervised persons have a material financial interest in the issuer or the securities.

Item 12 – Brokerage Practices

Our management discretion generally includes the selection of the investment, the amount to be purchased or sold, the financial intermediary (generally a bank) to be used, and the transaction expense, if any, to be paid.

We do not use traditional broker-dealers to purchase leveraged loan investments for client portfolios. Instead, we source potential investment opportunities through banks that have substantial experience with leveraged loan investments.

When we purchase a leveraged loan for a client account, we may be assessed an assignment fee on top of the selling price of the loan. However, such assignment fees are often waived. Any non-waived assignment fees are paid by the client. We review the reasonableness of any assignment fees to be paid by clients in light of current industry standards.

We do not consider, in selecting banks, whether we or an affiliate receives client referrals from a broker or third party. We do not enter into agreements to receive research or other products or services in connection with executing client transactions (often called “soft dollar” benefits).

No Directed Brokerage. We do not permit clients to direct us to effect securities transactions in client accounts through a specific bank or other financial intermediary.

Trade Aggregation and Allocation

Certain investments pursued by Granite State on behalf of its client Funds may be capacity constrained by the amount of the available investment. To the extent possible, the Adviser will allocate investment opportunities that are appropriate for more than one Fund or Client on a fair and equitable basis guided by attributes of each specific Fund or Client’s investment restrictions

along with other portfolio or risk parameters, as well as other factors as deemed appropriate by the Firm at the time the investment is allocated.

Trade Errors

When a trade error occurs, the client will retain any net gains resulting from the error correction, and we will compensate the client wholly for any loss resulting from the error correction.

Item 13 – Review of Accounts

Account Reviews

We review client accounts annually. Certain circumstances, such as a significant market event, may trigger us to review account holdings promptly even if the account is not due for its regular annual review. Matters reviewed include securities held, adherence to the investment strategy, adherence to investment restrictions, and performance. We review accounts after each trade to help ensure that execution and settlement are satisfactory, and this review is conducted by our President or Chief Compliance Officer.

Written Reports

Fund investors will receive their unaudited capital account statements on a quarterly basis and the Funds' audited financial statements on an annual basis.

Item 14 – Client Referrals and Other Compensation

No Compensation for Client Referrals

We do not currently compensate any person for client referrals. We are obligated to disclose any such arrangements.

Other Compensation

Other than the compensation described in Item 5, we do not receive any compensation from anyone other than our clients.

Item 15 – Custody

We do not provide custodial services to our clients. Client assets must be held by a bank, registered broker-dealer or other “qualified custodian.”

Under Rule 206(4)-2 of the Advisers Act (the “**Custody Rule**”), we and certain affiliated entities are deemed to have custody of the cash and/or securities of the Funds. GSCM and its affiliates are exempt from many of the requirements of the Custody Rule because (i) the Funds are

audited in accordance with U.S. generally accepted accounting principles on an annual basis by an independent public accountant that is registered with, and subject to regular inspection by the Public Company Accounting Oversight Board, and (ii) GSCM distributes the Funds' audited financial statements to investors in each Fund within 120 days of the Funds' fiscal year end.

Item 16 – Investment Discretion

Our agreements with clients provide us with discretionary authority to manage securities accounts on behalf of clients. Such agreements give us the full discretionary power to select financial intermediaries, purchase, sell and exchange securities and other instruments, and reinvest all proceeds. However, we observe investment limitations and restrictions that are provided to us in writing, provided that we determine in our sole discretion that such limitations and restrictions are consistent with the strategy we are using for a particular account.

We do not advise or act on a client's behalf in legal proceedings involving companies whose securities are held in an account, including, but not limited to, the filing of class action settlement claim forms.

Item 17– Voting Client Securities

We do not accept authority to vote client securities. Proxy materials, if any, will generally be received by the Funds directly and processed by the Funds' General Partner on behalf of the Funds. We encourage investors to contact the Funds if they have questions related to proxy materials.

Item 18 – Financial Information

We must disclose any financial condition that could impair our ability to meet our contractual obligations to clients. We must also disclose if we have been the subject of any bankruptcy proceeding within the last 10 years.

We have no such financial condition to disclose at this time, and we have never been the subject of any bankruptcy proceeding.