

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



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

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

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

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

**ITEM 2. MATERIAL CHANGES**

The original Disclosure Brochure for Sheridan Production Partners Manager III, LLC was filed with its initial registration on September 14, 2020, and most recently amended on March 26, 2024. This update contains no material changes from the most recent Disclosure Brochure.

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## **ITEM 4. ADVISORY BUSINESS**

### **Firm Description**

Sheridan Production Partners Manager III, LLC, a Delaware limited liability company ("Sheridan" or the "Firm"), was formed in 2020. Sheridan is headquartered in Houston, Texas.

Sheridan SMG III, LLC ("SMG") owns 70% of the outstanding equity in the Firm and Sheridan SMG Supplemental III, LLC ("SMG Supplemental") owns the remaining 30%. Lisa A. Stewart is a principal owner of the Firm by virtue of her ownership interest in SMG and SMG Supplemental.

### **Types of Advisory Services**

Sheridan was formed for the purpose of assuming management and control of the following three pre-existing oil and gas investment partnerships, which are referred to herein as the "Funds" and, collectively, as "Sheridan III":

- Sheridan Production Partners III-A, L.P. ("Fund III-A")
- Sheridan Production Partners III-B, L.P. ("Fund III-B")
- Sheridan Production Partners III-M, L.P. ("Fund III-M")

Effective January 1, 2021, affiliates of the Firm became the sole general partner of each of the Funds, and Sheridan assumed the role of manager of each of the Funds under their respective limited partnership agreements (the "Governing Documents").

Sheridan exercises all management and investment decision-making authority with respect to the Funds, subject to limitations included in the Governing Documents or other agreements with the limited partner investors in the Funds. Sheridan has no clients other than the Funds and provides no advisory services other than those described herein. Sheridan is not currently contemplating raising any additional investment vehicles in the near term but may elect to do so in the future.

### **Tailored Advisory Services**

The Funds were organized in 2014 for the sole purpose of making direct or indirect investments in hydrocarbon-producing properties in accordance with the specific investment guidelines set forth in their Governing Documents. All material decisions relating to the operation and management of the Funds, including, but not limited to, those relating to investments, divestitures, hedging, leverage, capital calls and distributions are overseen by an investment committee (the "Investment Committee") composed of members of Sheridan management and independent industry professionals, each with significant experience in the oil and gas exploration and production or oilfield services sectors.

The Funds are generally not permitted to deviate from the investment mandates set out in the Governing Documents without the consent of their respective limited partners or the limited partner advisory committee established for the Funds (the “Advisory Committee”).

Material restrictions on Sheridan III investments include prohibitions on:

- Investing in properties located outside of the United States;
- Limitations on the aggregate amount of capital commitments that may be invested in any single field;
- Engaging in hedging or other derivative transactions purely for speculative purposes;
- Investing in any “blind pool” type investment fund as to which the general partner or manager thereof is entitled to a carried interest, performance fee or management fee; and
- For Fund III-B, Sheridan is required to use reasonable best efforts to operate such Funds in a manner that will not generate unrelated business taxable income.

As of the date of this Brochure, the Investment Period for Sheridan III has expired and the Funds are generally restricted from making further acquisitions of oil and gas properties other than “Follow-On Investments” relating to assets already owned.

#### **Client Assets Under Management**

The value of the Firm’s regulatory assets under management was \$676,000,000 as of December 31, 2023, inclusive of \$200,000,000 of uncalled equity commitments. Sheridan manages all of these assets on a discretionary basis.

### **ITEM 5. FEES AND COMPENSATION**

#### **Management Fees**

In return for its advisory services, Sheridan receives a management fee (the “Management Fee”) from Fund III-A and Fund III-B. The Management Fee is payable quarterly in advance. Pre-paid Management Fees are generally not subject to refund. However, as required by the Investment Advisers Act of 1940, if Sheridan is removed as the manager of a Fund prior to the end of the applicable period, management fees will be charged on a pro rata basis through to the date of removal, and any fees paid in advance but not earned will be refunded. Fund III-M does not pay management fees.

The Management Fees payable by the Funds are calculated in accordance with their Governing Documents. The Management Fee for each Fund is calculated by assessing a specified rate against the lesser of the value (calculated in accordance with the Governing Documents) of the limited partners' interest in such Fund or the aggregate limited partner capital commitments.

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

### **Other Fees**

None of Sheridan or its affiliates charges the Funds any fees other than the Management Fee. Pursuant to the Governing Documents, any transaction fees or other fees received by Sheridan or its affiliates from third parties related to the Funds' investments are applied entirely to reduce the Management Fee (excluding any third-party fees received as operator of properties under standard joint operating agreements, which would reduce Fund Expenses (as defined below) on a dollar-for-dollar basis).

### **Fund Expenses**

Each Fund bears all amounts associated with its investment program and operations ("Fund Expenses"), including, without limitation, all liabilities, obligations, fees, costs and expenses related to (i) proposed and actual purchases and sales of properties, (ii) the management and operation of the Fund and development of its properties (including, without limitation, capital expenses, operating expenses, overhead, rent, information technology, travel costs and other general and administrative expenses, expenses of custodians, consultants, legal counsel and auditors, and any insurance, indemnity or litigation expenses), (iii) Funds' administration (including, but not limited to, preparation of financial statements and reports to limited partners, interest, fees and other amounts payable in connection with obtaining, maintaining or terminating any leveraging or hedging arrangements or transactions, and costs of holding any meetings of limited partners), (iv) any taxes, fees or other governmental charges levied against such Funds and (v) any transactions that are not consummated (including, amounts due to any potential counterparty or other third party, any legal, financial, accounting, consulting or other advisors, or any lenders, investment banks and other financing sources in connection).

One or more of the Firm's wholly-owned subsidiaries (collectively, "SPC III"), manage the day-to-day operation and administration of the Funds' oil and gas properties and employs engineers, geoscientists, accountants, attorneys, land professionals and other office staff and field level personnel to carry out these activities. SPC III does not charge the Funds a fee for these services; however, all Fund Expenses (including, but not limited to, compensation and employee benefit expenses for such personnel) incurred by the Firm or its affiliates are reimbursed by the Funds at cost unless included in Manager Expenses, as described below. In the ordinary course of business, SPC III receives revenues and pays expenses associated with the properties owned by the Funds. Sheridan accounts for all such revenues and expenses as among the Funds, and cash held by SPC III is allocated to the Funds on the quarterly financial statements delivered to limited partners.

Fund Expenses that are common to more than one Fund are allocated among the Funds as reasonably determined in good faith by Sheridan. As is customary in the oil and gas

business, field-level operating expenses are charged against the applicable property and allocated to the Funds in proportion to their working interest ownership therein, with any expenses recouped from third-party interest owners being credited back against such costs in the same percentages as borne by the Funds. The Firm allocates general and administrative expenses based on estimates of effort expended, benefit received, assets under management, and other methods that are reasonable under the circumstances, which methods may vary for the different categories of Fund Expenses and are reviewed from time to time.

### **Manager Expenses**

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

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

As additional compensation for Sheridan's services, affiliates of the Firm receive distributions of carried interest from the Funds (other than Fund III-M) based on a share of realized gains obtained by each such Fund. All carried interest distributions are calculated on the basis of actual cash distributed to limited partners as opposed to the value of Fund assets. The methodology for calculating such carried interest distributions is set forth in the Governing Documents. Portions of the Management Fee and carried interest for each Fund are distributed to certain Sheridan supervised persons.

Carried interest distributions may create an incentive for Sheridan and its supervised persons to make investments on behalf of the Funds that may be riskier or more speculative than would be the case in the absence of such carried interest distributions. This potential conflict is mitigated by the fact that certain Sheridan supervised persons have made personal investments in Sheridan III.

### **ITEM 7. TYPES OF CLIENTS**

Sheridan's only clients are the Funds, all of which are pooled investment vehicles subject to the direction and control of Sheridan. Each of the Funds is exempt from registration as an investment company under Section 3(c)(9) of the Investment Company Act of 1940, and none of the Funds are private funds (as defined in the instructions to Form ADV). The Firm does not provide management or advisory services to the individual limited partner investors in the Funds and references to "clients" in this Brochure should be construed accordingly.

Investors in the Funds include, but are not limited to, pension plans, endowments, foundations, pooled investment vehicles, trusts, estates, high net worth individuals, charitable organizations and corporate or business entities. Investors in the Funds were required to meet certain suitability criteria (including commitment minimums) as set forth in their respective Governing Documents and subscription materials, which were furnished to the investors in connection with the formation of the Funds.

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

### **Investment Strategy**

The Funds were created in 2014 with an investment strategy to generate attractive, relatively low-risk returns, current cash distributions, and long-term exposure to oil and gas prices by:

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

As of the date of this Brochure, the Investment Period for Sheridan III has expired, and the Funds are generally restricted from making further acquisitions of oil and gas properties other than limited “Follow-On Investments” associated with assets already owned.

### **Investment Analysis**

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

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

Sheridan manages the ongoing operations of the Funds’ assets as a fully functional oil and gas enterprise through its affiliate operating company. The same professionals in the corporate office responsible for evaluating acquisition opportunities for the Funds and a seasoned teaming of operations personnel in the field are responsible for managing the assets. Sheridan tracks operational metrics associated with ongoing performance of the assets including production, lease operating expense and reinvestment rates of return relative to detailed budgets and plans approved by the Investment Committee on an annual basis. Performance is reported to investors in the Funds on a quarterly basis in accordance with the Funds’ Governing Documents.



## **Risk of Loss**

### *General*

With the Investment Period having expired, the success of the Funds largely depends on Sheridan's ability to (i) operate the properties prudently and efficiently, including by enhancing production and increasing reserves through reinvestment, (ii) execute its hedging strategy to protect cash flow and (iii) negotiate and execute the disposition of the Funds' oil and gas assets at the end of the Funds' life. Sheridan may not be as successful in operating the properties as forecasted or may be unable to liquidate the Funds' assets on favorable terms. The types of investments maintained by the Funds involve a high degree of business and financial risk. Sheridan does not guarantee the future performance of the Funds or any specific level of performance, the success of any investment decision or strategy that Sheridan may use, or the success of Sheridan's overall management of the Funds.

Investment decisions that Sheridan makes for the Funds are subject to various market, economic, political and business risks, and those investment decisions will not always be profitable and may result in a total loss of invested capital. Certain of these risks are set out below. This does not purport to be a complete list of all risks to which the Funds are subject. The Governing Documents and private placement memorandums for the Funds provide more detailed discussion of the potential risk factors.

### *Investment Concentration*

The Funds' investments are concentrated in oil and gas producing properties in Texas and Louisiana, primarily East Texas, the value of which is directly correlated to existing reserves, expected future reserves and production rates, and forward prices for oil and natural gas, which are highly volatile and dependent on numerous factors that are beyond the control of the Funds and Sheridan. While the Funds' investments are generally diversified across multiple wells, the geographic concentration of the Funds' portfolio may subject the Funds to a common set of operational risks. Furthermore, substantially all of the Funds' oil and gas assets were purchased in a single transaction, which may result in a concentration of investment risks associated with that acquisition.

### *Investments in the Energy Sector Generally*

Investments in the energy sector may be subject to a variety of risks including, but not limited to: (i) the risk that the technology employed in an energy project will not be effective or efficient; (ii) risks that regulations affecting the energy industry will change in a manner detrimental to the industry; (iii) environmental liability risks related to energy properties and projects; (iv) risks of equipment failures, fuel interruptions, loss of sale and supply contracts or fuel contracts, escalations in power contract or fuel contract prices, bankruptcy of key customers or suppliers, tort liability in excess of insurance coverage (if any), inability to obtain desirable amounts of insurance at economic rates and acts of God or other catastrophes; and (v) the risk of changes to the underlying value of energy assets resulting from fluctuations in commodity prices (which can change significantly over a short period of time due to changes in international politics, political instability, armed conflicts, energy conservation, changes in supply, the tax and other regulatory policies of various governments and the economic growth of countries that are large consumers of energy, as well as other factors). Additionally, investments in the energy and energy services sectors are subject to force majeure and other catastrophic events, such as fires, earthquakes, adverse weather conditions, changes in law, eminent domain, war, riots, terrorist attacks and similar risks. These events could

result in the partial or total loss of an investment or significant downtime resulting in lost revenues, among other potentially detrimental effects.

Asset transactions in the energy industry generally tend to be large due to the general nature and size of facilities and assets and the value of the associated commodities. The values for these assets can range significantly, and the Funds' assets may not be easily separated into individual asset acquisitions or dispositions. There are limited pools of capital available in the sector that can make such sizeable investments and limited numbers of market participants. As a result, the Funds may have to pursue alternative investment exit strategies that may not be typical in order to monetize its investments, and there can be no assurance that the Funds will be able to dispose of certain of its investments on favorable terms, in a timely manner or at all.

#### *Leverage*

Sheridan causes the Funds to leverage their investment program and cash flow needs in amounts deemed prudent from time to time by Sheridan and approved by the Investment Committee. While this leverage component is intended to enhance the equity returns to investors, the leverage also magnifies the risk of loss if the value of a Funds' assets declines. Furthermore, there can be no assurance that leverage will be available to the Funds in amounts and on terms desired.

#### *Derivatives*

Sheridan causes the Funds to enter into commodity price risk management transactions for a portion of expected future production. All hedges entered into at the time the Funds originally acquired their assets have expired and the Funds now typically enter into rolling near-term to mid-term hedges of forward production. While such hedging techniques are intended to reduce the effects of volatile oil and gas prices, commodity price risk management transactions may limit potential gains. Conversely, commodity price risk management transactions may be insufficient if oil and gas prices decline significantly. In addition, hedging transactions may expose a Fund to the risk of financial loss regardless of the underlying value of its oil and gas properties. There can be no assurance that Sheridan will be able to execute the transactions necessary to implement its hedging strategy.

#### *Reliance on Estimates of Oil and Gas Reserves*

Sheridan will rely to a large degree on estimates of oil and gas reserves to determine the value of the Funds' assets and to negotiate the acquisition and disposition terms of its investments. Estimates of oil and gas reserves are inherently uncertain. Estimates of oil and gas reserves, by necessity, are projections based on engineering and geological data. There are uncertainties inherent in the interpretation of such data as well as the projection of future rates of production and the timing of development expenditures. Reserve engineering is a subjective process of estimating underground accumulations of oil and gas that are difficult to measure. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation, and judgment. Estimates of economically recoverable oil and natural gas reserves and future net cash flows necessarily depend on a number of variable factors and assumptions, such as historical production from the examined area compared with production from other producing areas, the assumed effects of regulations by governmental agencies, and assumptions concerning future oil and gas prices, future operating costs, severance and excise taxes, development costs and workover and remedial costs, all of which may in fact vary considerably from assumed results. For these reasons, estimates of the

economically recoverable quantities of oil and gas attributable to any particular group of properties, classifications of such reserves based on risk of recovery and estimates of the future net cash flows expected from such reserves may vary substantially. Any significant variance in the assumptions could materially affect the estimated quantity and value of the reserves.

#### *Commodity Price Volatility*

The value of the Funds' investments in oil and gas properties is substantially dependent upon the market prices for oil, natural gas and other hydrocarbons. Historically, the markets for hydrocarbons have been volatile and such volatility is likely to continue in the future. Various factors beyond the control of the Sheridan or the Funds will affect hydrocarbon prices, including: (i) the worldwide and domestic supplies of oil and natural gas, (ii) the rate of growth of demand for oil in developing economies, (iii) the ability of the members of OPEC to agree to and maintain oil prices and production controls, (iv) political instability or armed conflict in oil or natural gas producing regions, (v) terrorist acts, (vi) the price and level of foreign imports, (vii) the level of consumer demand, (viii) the price, availability and acceptance of alternative fuels, (ix) the availability of pipeline capacity, (x) weather conditions, (xi) transportation interruption, (xii) domestic and foreign governmental regulations, price controls, taxes, and subsidies, (xiii) domestic and foreign environmental laws and regulations, including actions taken to reduce greenhouse gas emissions, and (xiv) the overall economic environment, including interest rates, levels of economic activity, the price of securities and the participation by other investors in the financial markets. Price volatility also makes it difficult to budget for, and project the return on, acquisitions and development and exploitation projects. Of particular note, the recent Russia-Ukraine conflict has seen significant commodity price volatility thus far in 2022.

#### *Valuation*

Valuations of the Funds' assets are determined by Sheridan in accordance with the Governing Documents, with the valuation methodology approved by the Investment Committee each quarter. When determining fair value, Sheridan will apply a methodology it determines in good faith to be appropriate considering all factors, information and data deemed pertinent. However, the process of valuing relatively illiquid oil and gas assets is based on inherent uncertainties and the resulting values may differ materially from values that would have been determined had an active market existed for such assets and may differ materially from the prices at which such assets ultimately may be sold.

#### *Uncertainty of Financial Projections*

Sheridan uses financial projections to help analyze valuation determinations as well as potential acquisition, reinvestment, disposition and other transactions on behalf of the Funds. Projected operating results will often be based on management judgments, with adjustments to such projections made by Sheridan in its discretion. In all cases, projections are only estimates of future results that are based upon assumptions made at the time that the projections are developed. The inaccuracy of certain assumptions, the failure to satisfy certain financial requirements and the occurrence of other unforeseen events could impair the ability of a portfolio company to realize projected values. There can be no assurance that the projected results will be obtained, and actual results may vary significantly from the projections. General economic conditions, which are not predictable, can have a material adverse effect on the reliability of such financial projections.

### *Increased Regulation*

The upstream oil and gas industry has always been subject to substantial regulation by federal, state and local governmental bodies relating to taxation, operations and environmental and safety matters. New and existing regulations, increased taxation, changing regulatory schemes, increased governmental reporting or registration requirements, and the burdens of regulatory compliance, as well as changes in national energy, environmental or other policies, all may increase the Funds' expenses and may have a material negative impact on the performance of the Funds.

The growth of the private equity industry, and the increasing size and reach of transactions, has prompted additional governmental and public attention to the industry and its practices. Regulation generally, as well as regulation more specifically addressed to the private equity industry, including tax laws and regulation, whether in the U.S. or outside of it, could further increase the cost of acquiring, holding or divesting portfolio investments and the cost of operating the Funds, as well as harm the profitability of enterprises and interfere with the ability of the Funds to engage in certain transactions.

### *Public Health Emergencies; COVID-19*

Pandemics and other widespread public health emergencies, including outbreaks of infectious diseases such as SARS, H1N1/09 flu, avian flu, Ebola and the current outbreak of COVID-19 (defined below), have and are resulting in market volatility and disruption, and future such emergencies have the potential to materially and adversely impact economic production and activity in ways that are impossible to predict, all of which may result in significant losses to the Funds.

In March 2020, the World Health Organization formally declared the outbreak of the novel and highly contagious form of coronavirus ("COVID-19") to be a global "pandemic." This outbreak has caused a worldwide public health emergency, straining healthcare resources and resulting in extensive and growing numbers of infections, hospitalizations and deaths. In an effort to contain COVID-19, national, regional and local governments, as well as private businesses and other organizations, have taken severely restrictive measures, including instituting local and regional quarantines, restricting travel (including closing certain international borders), prohibiting public activity (including "stay-at-home" and similar orders), and ordering the closure of large numbers of offices, businesses, schools, and other public venues. As a result, COVID-19 has significantly diminished global economic production and activity of all kinds and has contributed to both volatility and a severe decline in all financial markets. Among other things, these unprecedented developments have resulted in material reductions in demand across many categories of consumers and businesses, dislocation (or in some cases a complete halt) in the credit and capital markets, labor force and operational disruptions, slowing or complete idling of certain supply chains and manufacturing activity, steep increases in unemployment levels in the U.S. and several other countries, and strain and uncertainty for businesses and households, with a particularly acute impact on industries dependent on travel and public accessibility, such as transportation, hospitality, tourism, retail, sports and entertainment.

The ultimate impact of COVID-19—and the resulting precipitous decline in economic and commercial activity across almost all of the world's largest economies—on global economic conditions, and on the operations, financial condition and performance of any particular industry or business, is impossible to predict, although ongoing and potential additional materially adverse effects, including a further global or regional economic

downturn (including a recession) of indeterminate duration and severity, are possible. The extent of COVID-19's impact will depend on many factors, including the ultimate duration and scope of the public health emergency and the restrictive countermeasures being undertaken, as well as the effectiveness of other governmental, legislative and financial and monetary policy interventions (including the effectiveness of vaccines and the implementation of vaccination programs) designed to mitigate the crisis and address its negative externalities, all of which are evolving rapidly and may have unpredictable results. If and when the spread of the COVID-19 virus itself is substantially contained and economies are able to "re-open," it will be difficult to assess what the longer-term impacts of an extended period of unprecedented economic dislocation and disruption will be on future macro- and micro-economic developments, the health of certain industries and businesses, and commercial and consumer behavior.

The ongoing COVID-19 crisis and any other public health emergency could have a significant adverse impact on and result in significant losses to the Funds. The extent of the impact on the Funds' operational and financial performance will depend on many factors, all of which are highly uncertain and cannot be predicted, and this impact may include significant reductions in revenue and growth, unexpected operational losses and liabilities, impairments to credit quality and reductions in the availability of capital. These same factors may limit the ability of the Funds to source, diligence and execute new investments and to manage, finance and exit investments in the future, and governmental mitigation actions may constrain or alter existing financial, legal and regulatory frameworks in ways that are adverse to the investment strategy the Funds intend to pursue, all of which could adversely affect the Funds' ability to fulfill its investment objectives. They may also impair the ability of the Funds to perform their respective obligations under debt instruments and other commercial agreements (including their ability to pay obligations as they become due), potentially leading to defaults with uncertain consequences, including the potential for defaults by borrowers under debt instruments held by the Funds. In addition, the operations of the Funds, the general partners of the Funds and Sheridan may be significantly impacted, or even temporarily or permanently halted, as a result of government quarantine measures, restrictions on travel and movement, remote-working requirements and other factors related to a public health emergency, including its potential adverse impact on the health of any such entity's personnel. These measures may also hinder such entities' ability to conduct their affairs and activities as they normally would, including by impairing usual communication channels and methods, hampering the performance of administrative functions such as processing payments and invoices, and diminishing their ability to make accurate and timely projections of financial performance.

#### *Cybersecurity Breaches and Identity Theft*

With the increased use of technologies such as the Internet to conduct business, Sheridan and the Funds are susceptible to digital operational, information security and related risks. In general, cyber incidents can result from deliberate attacks or unintentional events. Cyber-attacks include, but are not limited to, gaining unauthorized access to digital systems (e.g., through "hacking" or malicious software coding) for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. Cyber-attacks may also be carried out in a manner that does not require gaining unauthorized access, such as causing denial-of-service attacks on websites (i.e., efforts to make network services unavailable to intended users). Cyber incidents affecting Sheridan and our service providers (including, but not limited to, accountants, prime brokers and financial intermediaries) have the ability to cause

disruptions and impact business operations, potentially resulting in financial losses, interference with the Funds' ability to value its securities or other investments, impediments to trading, the inability of investors to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs. Similar adverse consequences could result from cyber incidents involving counterparties with which the Funds engage in transactions, governmental and other regulatory authorities, exchange and other financial market operators, banks, brokers, dealers, insurance companies and other financial institutions (including financial intermediaries and service providers for investors) and other parties.

To the extent that Sheridan or the Funds are subject to cyberattack or other unauthorized access is gained to their systems, the Funds may be subject to substantial losses. In addition, substantial costs may be incurred in order to prevent any cyber incidents in the future. While the Funds' significant service providers have established business continuity plans and risk management measures in the event of cyber incidents, there are inherent limitations in such plans and measures including the possibility that certain risks have not been identified. Furthermore, the Funds cannot control the cyber security plans and systems put in place by its service providers or any other third parties whose operations may affect the Funds or their investors. The Funds and their investors could be negatively impacted as a result.

#### *Privacy and Data Protection Law Compliance Risk.*

The adoption, interpretation and application of consumer protection, data protection and/or privacy laws and regulations in the United States, Europe and other jurisdictions (collectively, "Privacy Laws") could significantly impact current and planned privacy and information security related practices, the collection, use, sharing, retention and safeguarding of personal data and current and planned business activities of Sheridan and/or the Funds, and increase compliance costs and require the dedication of additional time and resources to compliance for such entities. A failure to comply with such Privacy Laws by any such entity or their service providers could result in fines, sanctions or other penalties, which could materially and adversely affect the results of operations and overall business, as well as have a negative impact on reputation and Fund performance. As Privacy Laws are implemented, interpreted and applied, compliance costs for Sheridan and/or the Funds are likely to increase, particularly in the context of ensuring that adequate data protection and data transfer mechanisms are in place.

#### *Limited Access to Information*

Investors' rights to information regarding a Fund, the relevant General Partner or Sheridan generally will be specified, and in many cases strictly limited, by the Governing Fund Documents. In particular, it is anticipated that the General Partner and its affiliates will obtain certain types of material information from or relating to a Fund's investments that will not be disclosed to investors because such disclosure is prohibited, including as a result of contractual, legal or similar obligations outside of Sheridan's control. Decisions by Sheridan or its affiliates to withhold information may have adverse consequences for investors in a variety of circumstances. For example, an investor that seeks to transfer its interest in a Fund may have difficulty in determining an appropriate price for such interest. Decisions to withhold information may also make it difficult for an investor to monitor Sheridan and its performance. Additionally, it is anticipated that investors that designate representatives to participate on a Fund's advisory board

generally may, by virtue of such participation, have more or earlier information about a Fund and its investments in certain circumstances than other investors.

#### *Capital Recycling*

Sheridan has the right to recall (or “recycle”) certain distributed amounts, including in respect of returned fees and expenses and returned capital, in accordance with the Governing Documents. Accordingly, during the term of a Fund, an investor may be required to make capital contributions in excess of its commitment. Any such reinvestment could increase the risks associated with investing in the Funds. Further, any such recycling could have the effect of increasing the management fee, and as a result Sheridan may face a conflict of interest with respect to deploy recycled capital when it might not otherwise have done so.

#### *Side Letters*

In connection with the formation of the Funds, the general partners of the Funds entered into “side letter” agreements with certain institutional and other investors pursuant to which such investors were granted specific rights, benefits or privileges that were not generally made available to all investors. Such rights, benefits or privileges include “most favored nation” clauses, access to co-investment opportunities, the right to be excused from participating in certain investments, notice rights upon the occurrence of certain events, seats on the Funds’ limited partner advisory committee, specialized or additional reporting rights, rights related to tax treatment, rights related to regulatory matters, rights related to immunities or indemnification, rights related to the ability of the investor to transfer its interest in the Funds, additional representations and warranties, modifications to the subscription agreement and other benefits. The terms of such “side letters” agreements are generally not disclosed to other investors in the Funds, except to investors that have separately negotiated for the right to review such agreements.

### **ITEM 9. DISCIPLINARY INFORMATION**

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

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

The organizational structure of the Sheridan Funds requires that certain transactions involving conflicts of interest be entered into between Funds or between a Fund and an affiliate of the Firm. For example, (i) Fund III-B purchases net profits interests in all oil and gas properties acquired by Fund III-M, (ii) Fund III-B lends funds to Fund III-M in connection investments made by Sheridan III, and (iii) a Sheridan affiliate owns preferred equity interests issued by Fund III-B that earn a return which is, in part, determined by Sheridan. These structural conflicts were fully disclosed in the offering materials for the Funds and are specifically authorized in the Governing Documents. Transactions between a Fund, on one hand, and Sheridan (or an affiliate of Sheridan, including another Fund), on the other, generally require the consent of the Advisory Committee of such Fund unless falling within exceptions specified in the Governing Documents.

Except to the extent prohibited by the Funds’ governing documents, Sheridan and its personnel are permitted to market, organize, sponsor or act in other capacities for other pooled investment vehicles, accounts, or business enterprises and to receive compensation relating thereto. Subject to the relevant Governing Documents, the

employees of Sheridan will devote such time to the Funds as deemed necessary, in Sheridan's sole discretion, to carry out the operation of the Funds effectively. Conflicts of interests may arise in allocating investment opportunities, management time, services, and such functions among the Funds.

Subject to the Governing Documents, the Funds' general partners are generally required periodically to disclose to the Advisory Committee the terms of any material contracts or transactions entered into between a Fund, on the one hand, and any of the general partners, their affiliates or any other Fund, on the other.

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

### **Code of Ethics**

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

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

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

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

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

### *Misuse of Nonpublic Information*

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

### *Personal Securities Trading*

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



### *Conflicts of Interest*

The Code of Ethics generally requires disclosure by Supervised Persons of any conflicts of interest with the Firm or its clients and pre-approval of any transaction that could be deemed to constitute a conflict.

### **Interest in Client Transactions**

As described in "Item 10. Other Financial Industry Activities and Affiliations - Affiliations among Sheridan and the Funds or among the Funds" above, certain Funds issue preferred equity interests to affiliates of Sheridan, and certain Funds enter into transactions with each other. These transactions are required by the organizational structure of the Sheridan Funds and are expressly contemplated by the Governing Documents.

Certain Sheridan supervised persons have made personal investments in Sheridan III. These investments are made through Fund III-M, which acquires a pro rata interest in all assets acquired by Sheridan III. These investments were contemplated in the original offering documents for the Funds and we believe work to align the interests of Sheridan and our investors.

### **ITEM 12. BROKERAGE PRACTICES**

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

### **ITEM 13. REVIEW OF ACCOUNTS**

As manager of the Funds, Sheridan is responsible for day-to-day oversight of the Funds' operations and assets. Through our affiliate operating company, SPC III, the Firm administers all accounts and transactions on behalf of the Funds under the direction of our senior management team and the Investment Committee.

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

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

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

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

### **ITEM 15. CUSTODY**

Due to its position as manager and its affiliates' position as general partner, Sheridan is deemed to have custody of all funds and securities of the Funds. All account statements are delivered to Sheridan (or its affiliates) on behalf of the Funds. See Item 13. above for a discussion of reports sent to investors in the Funds.

**ITEM 16. INVESTMENT DISCRETION**

Subject to the limitations set forth in the Governing Documents, Sheridan has sole discretion regarding the acquisition and disposition of assets on behalf of the Funds, the size or amount of each asset to be bought or sold, and the price at which the Funds' assets are acquired or disposed. In addition, Sheridan has the authority to deduct fees, expenses and performance allocations from amounts otherwise distributable to the investors' accounts.

**ITEM 17. VOTING SECURITIES**

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

**ITEM 18. FINANCIAL INFORMATION**

Sheridan is not required to provide any financial information because we do not require the prepayment of fees more than six months in advance. There is no financial condition that is reasonably likely to impair Sheridan's ability to meet its contractual obligations to its clients.