

**Item 1 – Cover Page**

**Parliament Capital Management, LLC**

**Form ADV Part 2A  
(the “Brochure”)**

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This brochure provides information about the qualifications and business practices of Parliament Capital Management, LLC. If you have any questions about the contents of this brochure, please contact us at (787) 200-9004 or [info@parliamentcapital.com](mailto:info@parliamentcapital.com). The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any states’ securities authority.

Additional information about Parliament Capital Management, LLC is also available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Material Changes**

This is the initial Brochure of Parliament Capital Management, LLC's (the "Company" or "we"). We may update this Brochure at any time, and we will either send you a copy or offer to send you a copy (either electronically or in hard copy) as may be necessary or required, but at least on an annual basis.

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## **Item 4 – Advisory Business**

### **Overview**

The Company is a Puerto Rico limited liability company based in San Juan, Puerto Rico, that provides investment advisory and management services solely to pooled investment vehicles or funds, including Parliament High Yield Fund, LLC, a Puerto Rico limited liability company (“PHYF”), Parliament Capital Series I, LLC, a Puerto Rico series limited liability company (“PCS I”), Parliament Capital Series II, LLC, a Puerto Rico series limited liability company (“PCS II”), Parliament Credit Opportunities Fund, LLC, a Puerto Rico limited liability company (“PCO”), Parliament SBIC Growth Fund, LP, a Delaware limited partnership (“PSGF”), and Sunrise Capital, LLC, a Puerto Rico series limited liability company (“Sunrise”) and collectively with PHYF, PCS I, PCS II, PCO, PSGF and Sunrise, the “Funds”). Messrs. Rodolfo Sánchez-Colberg, Luis M. Cabrera-Marín and José R. Otero-Freiría are the Company’s Managing Members.

The Company was organized on December 16, 2009 and is a registered investment adviser with the Securities and Exchange Commission (“SEC”). Its registration as an investment adviser with the SEC does not imply a certain level of skill or training.

Messrs. Sánchez-Colberg, Cabrera-Marín and Mr. Otero-Freiría are currently the Company’s only equity owners.

### **Investment Advisory and Management Services**

The Company offers investment management and advisory services solely to the Funds, which are the Company’s direct clients, even as the Company works indirectly on behalf of the members of the Funds that it advises. The Funds are exempt from registration under the Investment Company Act of 1940, as amended (the “1940 Act”), and their securities are not registered under the Securities Act of 1933, as amended (the “Securities Act”) based on a transaction exemption thereunder. The Company currently provides these services on a discretionary basis in accordance with each Fund’s investment objectives and policies.

The Company adapts its services to meet the needs of each Fund. The Company’s relationship with each Fund is governed by a separate Investment Management Agreement which allows each Fund to communicate general investment guidelines and limitations to the Company.

As of March 28, 2024, the Company has approximately \$318,389,059 million of assets under management, all of which are held within the Funds and managed on a discretionary and non-discretionary basis in accordance with each Fund’s offering documents.

## **Item 5 – Fees and Compensation**

The Company offers its services on a fee basis. Generally, the Company charges each Fund a management fee based on such Fund’s assets. Management fees paid by a Fund are indirectly borne by the investors in such Fund. The Company’s management fee schedule is as follows:

- (a) PHYF: (i) 2.00% per annum on capital commitments by an investor of up to \$3 million and (ii) 1.50% per annum on capital commitments by an investor exceeding \$3 million and is payable quarterly in advance;
- (b) PCS I: generally, 2.00% per annum of the capital committed by each investor in the Fund and is payable quarterly in advance, however it may vary depending on the series size, operational costs, and complexity of the investment strategy of each series;
- (c) PCS II: generally, 2.00% per annum of the capital committed by each investor in the Fund and is payable quarterly in advance, however it may vary depending on the series size, operational costs, and complexity of the investment strategy of each series; and
- (d) PCO: (i) during PCO's investment period, 2.00% per annum on capital commitments by an investor up to \$5 million, 1.50% per annum on capital commitments by an investor between \$5 million and \$10 million, and 1.25% per annum on capital commitments by an investor exceeding \$10 million; and thereafter (ii) 2.00% per annum, 1.50% per annum and 1.25% per annum, respectively, as provided in clause (i) above, of its invested capital.
- (e) PSGF: during the initial management fee period, the PSGF will pay in advance on a quarterly basis two percent (2%) *per annum* (five tenths of one percent (0.5%) per quarter) of its unreduced regulatory capital plus drawn Leverage. After the Initial management fee period, the fee for such fund will be equal to two percent (2%) of the aggregate cost of loans and investments as of the first day of the fiscal quarter in which the fee is paid or begins to accrue for all of the ongoing concerns in which the PSGF has invested and as to which it has not written off its investment, subject to Small Business Administration ("SBA") review.
- (f) Sunrise: (i) 2.00% per annum on capital commitments by an investor up to \$5,000,000; (ii) 1.50% per annum on capital commitments by an investor between \$5 million and \$10 million; (iii) 1.25% per annum on capital commitments by an investor between \$10 million and \$25 million; (iv) 1.00% per annum on capital commitments by an investor between \$25 million and \$75 million; (v) 0.625% per annum on capital commitments by an investor exceeding \$75 million.

The specific terms and fee structure are negotiated in advance and included in the Investment Management Agreement executed by the Company and each Fund. The Company reserves the right to waive or reduce fees based on specific circumstances, special arrangements, pre-existing relationships or otherwise. In addition, with respect to a Fund organized as a series limited liability company, such as PCS I, PCS II and Sunrise, the specific terms and fee structure may vary between each series of such Funds.

The Company generally bills fees on a quarterly basis and is paid in advance. Any prepaid, but unearned, management fees due to the termination of a Fund's Investment Management Agreement will be refunded to that Fund.

The Company may deduct from each Fund's account any management, advisory or other expenses payable to the Company under the applicable Limited Liability Company Agreement or Investment Management Agreement of a Fund.

In the case of PCO, PSGF and PHYF, the Company and/or any of its managing principals may receive advisory fees, success fees, break-up fees, commitment fees, due diligence fees, structuring fees, directors' fees or other fees from any portfolio company. However, in the case of PCO, the management fee charged to any of its members will be reduced by 80% of such member's ratable share of PCO's pro rata share of any such fees. In the case of PSGF, the management fee charged to any of its members will be reduced by 100% of such member's ratable share of PSGF's pro rata share of any such fees.

In addition to management fees paid to the Company, the Funds may also incur certain additional charges imposed by third parties such as custodians, auditors, banks and other financial institutions. Additional charges may include accounting and audit fees, legal fees, and other fees and expenses. Any such charges, fees and expenses are in addition to the Company's fees.

It is important that each investor who is considering an investment in a Fund review the relevant Private Placement Memorandum, Limited Liability Company Agreement or Limited Partnership Agreement, Separate Series Operating Agreement, Investment Management Agreement, and/or Subscription Agreement (individually and collectively, the "Governing Documents"), as applicable to the Fund, for a detailed description of the fees and expenses applicable to such investment.

Depending on the Fund, the Company, in its sole discretion, may waive or reduce its management and/or incentive fees for investors that are principals, employees or affiliates of the Company or relatives of such persons, or that make a substantial investment or otherwise are determined by the Company to represent a strategic relationship.

#### **Item 6 – Performance-Based Fees and Side-by-Side Management**

The Company is entitled to an incentive or performance-based fee (i.e., a carried interest) equal to 20% of all pre-incentive net income of PHYF (including interest income and capital gains) which is payable once the members of PHYF surpass an 8% annualized return on each member's contributed capital and is subject to a "catch up" provision.

With respect to PCS I, PCS II and Sunrise, one or more series of such Funds may pay the Company an incentive or performance-based fee based on the profits earned by any such series as set forth in the Governing Documents applicable to such series. Such performance-based fee may be a stated percentage of all pre-incentive net income of any such series (including any interest income and capital gains) and may be payable only after the investors associated with such series surpass a stated annualized rate of return.

As to PCO, an affiliate of the Company is entitled to an incentive or performance-based fee equal to 20% of all pre-incentive net income of PCO (including interest income and capital gains) which is payable once the members of PCO surpass a 6% annualized return on each member's contributed capital.

As to PSGF, an affiliate of the Company is entitled to an incentive or performance-based fee equal to 20% of all pre-incentive net income of PSGF (including interest income and capital gains) which is payable once the members of PSGF surpass a 6% annualized return on each member's contributed capital.

A significant portion of the Company's compensation from the Funds may be directly or indirectly related to the capital appreciation of their respective assets, which may create an incentive for the Company to make investments on behalf of each Fund that are riskier or more speculative than would be the case without such compensation.

To mitigate such risks and address any potential conflicts, the Company has adopted policies and procedures, and implemented internal controls, including reviewing the performance of each Fund and having its investment team screen each proposed transaction to assess its suitability and probability of success using several criteria, and consulting with the Company's Chief Compliance Officer as necessary. For more information regarding such policies, please see Item 11 below.

## **Item 7 – Types of Clients**

The Company provides its advisory services solely to the Funds (not individually to the members of each Fund nor to any other person). All investors in the Funds are "accredited investors" and all investors in PHYF, PSGF and PCO are also "qualified clients" (as such terms are defined by the Securities and Exchange Commission under applicable rules). Each of PHYF, PSGF and PCO has a minimum investment commitment for each member. However, the managing member of each such Fund, in its sole discretion, may permit investments that are less than the required minimum investment commitment set forth in the applicable Fund documents.

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

### **Methods of Analysis and Investment Strategies**

PHYF's investment objective is to provide investors with current income and capital appreciation by providing primarily debt and, to a lesser extent, equity financing alternatives to targeted privately-held companies, most of which are organized and engaged in trade or business in Puerto Rico. In order to achieve said objectives, PHYF may provide financing for companies through senior, mezzanine and subordinated debt, and, to a lesser extent, preferred equity and other equity-like structures. The companies in which PHYF invests are typically highly leveraged and if such investments were rated, PHYF believes they would likely receive a below-investment grade rating, which is often referred to as "high-yield" or "junk".

PCS I, PCS II and Sunrise, are organized as a Puerto Rico series limited liability company. As such, each series of PCS I or PCS II represents a separate pool of assets and liabilities and investors purchasing interests of a series may share in the income only of such series. Each series of PCS I, PCS II or Sunrise will generally seek to provide investors with either capital appreciation or fixed income, or a combination of both, primarily through equity investments in privately-held companies that exhibit the potential for dividend or distribution payments or capital appreciation. This may include seed, early and/or late-stage capital for companies that are generally smaller and at the early stages of their development and may be capable of outstanding future growth or may benefit from additional capital or expertise in realizing their business potential. Each series of PCS I, PCS II or Sunrise may have a more specific investment objective and/or strategy which is discussed in the applicable Governing Documents of each such series.

PCO seeks to provide investors with current income by providing commercial credit facilities and other debt financing alternatives to targeted privately-held companies in Puerto Rico, the United States, the U.S. Virgin Islands and, to a lesser extent, Latin America. PCO may also seek capital appreciation through equity and equity-like investments in such debtors or obligors. PCO seeks opportunities within credits markets including senior, mezzanine, subordinated debt, uni-tranche and, to a lesser extent, preferred equity and other equity-like structures. The companies in which PCO invests are typically highly leveraged and if such investments were rated, PCO believes they would likely receive a below-investment grade rating, which is often referred to as “high-yield” or “junk”.

PCO may borrow up to an amount equal to 100% of the capital contributions of its respective members, including its managing member, from banks or other financial institutions to attempt to enhance its yield or for temporary or emergency purposes, and secure payment of any such borrowings by hypothecation or pledge of its assets or otherwise. Borrowing by PCO would create leverage and would entail speculative factors similar to those applicable to the issuance of debt securities. PCO’s ability to obtain leverage through borrowings is dependent upon its ability to establish and maintain an appropriate credit facility. Borrowings will cost interest and other fees. Also, it may be required to maintain minimum average balances in connection with any such borrowing. The cost of borrowing may reduce its returns.

The principal purpose of PSGF is to invest in “small businesses” (as defined by the SBA) that have a positive economic, social, or environmental impact in the communities they serve mainly in Puerto Rico, key U.S. Hispanic/Minority markets and the U.S. Virgin Islands primarily through senior secured loans. Most of the potential companies that will be considered will focus on critical sectors of the Puerto Rico, United States and U.S. Virgin Islands economies while also having a strong bias towards companies established or impacting low- and moderate-income communities. PSGF has restrictions as to the size and types of businesses in which it can invest.

On November 16, 2022, PSGF obtained a SBIC Fund license from the SBA, which granted access to SBA leverage of 1:1 of the total of PSGF unreduced regulated capital. Borrowings will cost interest and other fees. Also, it may be required to maintain minimum average balances in connection with any such borrowing. The cost of borrowing may reduce its returns.



These strategies may be deemed to be highly speculative and are not intended as a complete investment program. They are designed only for sophisticated persons who can bear the risk of the loss of their entire investment in any of the Funds and who have a limited need for liquidity. The Company can give no assurance that its investment strategies will achieve each Fund's investment objectives.

### Risk of Loss

The following summary identifies the material risks related to the Company's investment strategies and should be carefully evaluated before making an investment with the Company. The following does not intend to identify all possible risks of an investment with the Company or provide a full description of the identified risks:

*Lending Activities.* Making or purchasing commercial loans and providing other financing alternatives is an essential element of each Fund's business, and there is a risk that such loans or other Fund intends to invest. In addition, the Company expects to structure each investment with protective financial covenants designed to proactively address changes in the financial performance of a company in which a Fund invests. These covenants are negotiated before an investment is completed and are based on the projected financial performance of such company. However, there is no assurance that these underwriting policies and portfolio management processes will provide a Fund with an accurate assessment of the ability of a company in which such Fund invests to repay its debt at maturity or otherwise to mitigate each Fund's credit risks.

The Company has implemented underwriting policies that are followed for each Fund investment. These policies include an extensive review and credit analysis of a Fund's portfolio companies, historical and projected financial performance, as well as an assessment of such company's business model and forecasts that are designed to assess investment prospects via a thorough analysis of the financial performance, creditworthiness, management team and growth potential of such companies. In addition, the Company structures each Fund investment with protective financial covenants designed to proactively address changes in a portfolio company's financial performance. These covenants are negotiated before an investment is completed and are based on the projected financial performance of such company. However, there is no assurance that these underwriting policies and portfolio management processes will provide any Fund with an accurate assessment of the ability of a portfolio company to repay its debt at maturity or otherwise to mitigate such Fund's credit risks.

*Availability of Puerto Rico Investments.* Each Fund's ability to achieve its investment objectives and to comply with certain legal and regulatory investment requirements is dependent, in part, upon the availability of investments in Puerto Rico. Pursuant to the Puerto Rico Incentives Code, as amended (the "Incentives Code"), in the case of PCO, PSGF, PCS I, PCS II and Sunrise, and the Puerto Rico Private Equity Funds Act, as amended, in the case of PHYF, each Fund is required to invest (no later than four years from its organization date and at the end of each subsequent fiscal year) at least 60% of its paid-in capital in promissory notes, bonds, shares, notes or any other securities of similar nature issued by entities that are engaged directly or indirectly in an active trade or business that at the time of the acquisition are not publicly traded in the United States or in any other country and that are (i) organized under Puerto Rico law, (ii) organized

outside Puerto Rico but that derive at least 80% of their gross income for the prior three years from sources in Puerto Rico or from income effectively connected or treated as effectively connected with a trade or business in Puerto Rico under the Puerto Rico Internal Revenue Code of 2011, as amended, or (iii) organized outside Puerto Rico but that relocate their operations to Puerto Rico within six months after the Fund's investment therein and in each 12-month period after such relocation derive at least 80% of their gross income from sources within Puerto Rico or from income effectively connected or treated as effectively connected with a trade or business in Puerto Rico. Therefore, each Fund is generally more susceptible to factors adversely affecting Puerto Rico issuers or borrowers than a fund that is not subject to such investment requirement.

*Series LLCs.* PCS I, PCS II and Sunrise are organized as series limited liability companies (a “Series LLC”), with each series thereof being a separate series. A Series LLC is a type of limited liability company that was adopted in Puerto Rico pursuant to the Puerto Rico General Corporations Act, as amended (the “General Corporations Act”), based on similar provisions of the Delaware Limited Liability Company Act. It is essentially a single umbrella entity that has the ability to divide its assets and liabilities among several series. Each series may have different economic structures, members and/or managers. The profits, losses and liabilities of each series are legally separate from the other series, thereby creating a statutory “firewall” between each series.

As provided by the General Corporations Act, the assets of a particular series are protected from enforcement against the other assets of a Series LLC if (i) the limited liability company agreement provides for the establishment of one or more series; (ii) separate and distinct records are maintained for each series and its assets are accounted for separately from the other assets of the Series LLC or any other series (and the limited liability company agreement so provides); and (iii) notice of such limitation of liability is set forth in the Series LLC's certificate of formation filed with the Puerto Rico State Department.

This form of business organization has not been widely tested in federal or state courts. To the Company's knowledge, no court has considered or established what constitutes “separate and distinct records” in the context of a Series LLC, nor has a court determined what asset or other restrictions, if any, are necessary to comply with such requirement. Further, there is little specific guidance regarding whether for U.S. federal tax purposes a series is treated as an entity separate from the Series LLC or the other series, or whether the company and all of its series should be treated as a single entity. Although the U.S. Internal Revenue Service proposed regulations in 2010 regarding the classification of a Series LLC for U.S. federal tax purposes, such regulations have not been approved and, if such proposed regulations were approved in their current form, they would not apply to a Puerto Rico Series LLC such as PCS I, PCS II and Sunrise.

It is uncertain whether a federal bankruptcy court would treat each series as a separate bankruptcy estate or whether it would disregard each series and pool all the assets and liabilities of the Series LLC as a whole. Also, most U.S. jurisdictions have not enacted state laws providing for the formation of a Series LLC, which may affect the ability of a Series LLC to conduct business in such jurisdictions.

Even if the formalities, record-keeping and other requirements for a Series LLC are followed under Puerto Rico law, there can be no assurances that any jurisdiction or governmental

authority would treat each series as a separate entity for legal purposes, including asset or liability protection. For Puerto Rico income tax purposes, a series of PCS I, PCS II and Sunrise currently is not treated as a separate entity from PCS I, PCS II and Sunrise, as applicable, or its other series. Further, there can be no assurances that a court of law or a federal bankruptcy court would not pierce the “corporate veil” of a series to impose liability on any other series or on PCS I, PCS II and Sunrise, as applicable, or otherwise consolidate all its assets and liabilities.

*Incentives Code.* The Incentives Code and the tax decrees issued thereunder to PCO, PCS I, PCS II, Sunrise and PSGF impose several eligibility and other compliance requirements for such Funds, which may hinder their ability to take advantage of attractive investment opportunities and to achieve their respective investment objectives. The Incentives Code has not yet been interpreted by the courts. Given the uncertainty associated with the manner in which the provisions of such law may be interpreted by the courts, the full extent of the impact such requirements have on each Fund’s operations is unclear. Further, the tax benefits of the Incentives Code for each Fund are subject to the tax decree by the Department of Economic Development and Commerce of Puerto Rico (known by its Spanish acronym as “DDEC”) to such Fund.

Any changes to the Incentives Code may impact the profitability of each Fund’s business activities, require changes to certain of its business practices, impose more stringent requirements, or otherwise adversely affect its business. The Company cannot predict what effect any presently contemplated or any additional future changes in such law or any regulations or interpretations issued thereunder could have on the Funds, any of these changes could be materially adverse to the members of the Funds.

*Change of Control Approval and Notice Requirements.* As a tax grantee under the Incentives Code, PCO, PCS I, PCS II, PSGF and Sunrise are subject to certain approval and notice requirements. In this respect, the DDEC’s approval will be required for any direct or indirect change of control of any of the Funds if it involves 50% or more of the membership voting power in that Fund, which is generally held by the Company. Further, the DDEC must be notified of any transfer or issuance of membership interests of each Fund (each, a “Reportable Transfer”). If the Reportable Transfer entails Fund membership interests representing 10% or more of the aggregate amount outstanding, the DDEC must be notified prior to the closing of such transfer, and if it entails less than 10% of the aggregate amount outstanding, the DDEC must be notified within 30 days thereafter. Each transfer notice to the DDEC must be filed by the applicable Fund and include the transferee’s name, its social security or tax identification number, and its address, date and place of birth or formation, as applicable, and its ownership interest in that Fund. The DDEC could request additional information or object to any transferee before or after a Reportable Transfer. Also, there can be no assurance that any change of control of a Fund would be approved by the DDEC even if it is approved by its members.

*Puerto Rico Economic and Fiscal Crisis.* Puerto Rico has experienced a long-term economic recession starting in 2006. Its government has generally defaulted in its debt-service obligations and is in the midst of an unprecedented fiscal and liquidity crisis due in part to the prolonged economic recession and the government’s structural budget deficits and sizable debt-service obligations. In addition, the Puerto Rico government and all its agencies or departments, including certain public corporations or instrumentalities, are in a court-supervised debt-restructuring process under Title III of the Puerto Rico Oversight, Management & Economic

Stability Act (“PROMESA”).

The PROMESA was enacted on June 30, 2016. It created an independent fiscal oversight and management board (the “Oversight Board”) with broad powers to create and audit fiscal plans and budgetary measures for Puerto Rico and restructure Puerto Rico government debts under certain circumstances. There can be no assurance that any actions or decisions of the Oversight Board will not have an adverse material effect on any tax benefits under Puerto Rico law, including, without limitation, the tax benefits of the Puerto Rico Incentives Code, as amended.

The Oversight Board has designated the Puerto Rico government and all its public instrumentalities, municipalities and government retirement systems as “covered territorial instrumentalities” under PROMESA. This means that all such entities must (i) obtain the prior approval of the Oversight Board to issue or modify their debts and (ii) submit their annual budgets for the approval of the Oversight Board. It also means that such entities may be part of Puerto Rico’s fiscal plan or may have to submit their own fiscal plans to the Oversight Board for approval. In addition, such entities must obtain the Oversight Board’s approval for any transaction that is outside the ordinary course of business or that may have a material financial effect

*Investments in Privately-Held Companies.* Investing in privately-held companies involves a number of significant risks, including the following: (i) they may have limited financial resources and may be unable to meet their obligations under their debt securities or instruments held by any of the Funds, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of such Fund’s realizing any guarantees it may have obtained in connection with such investments; (ii) they typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors’ actions and market conditions, as well as general economic downturns; (iii) they are more likely to depend on the management talents and efforts of a small group of persons and, therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on such companies and, in turn, on any of the Funds; (iv) they generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position; (v) they may have difficulty accessing lending institutions to meet future capital needs, which may limit their ability to grow or to repay their outstanding indebtedness upon maturity; and (vi) a portion of each Fund’s income may be non-cash income, which represents interest added to the loan balance and due at the end of the loan term. These loans typically carry higher interest rates as a result of their payment deferral and increased credit risk, and therefore, there is a risk that such income may become uncollectable if the borrower defaults.

Those companies may be distressed or have operating losses or significant variations in operating results and may be engaged in a rapidly changing business with products subject to a substantial risk of obsolescence. In addition, such companies may require substantial additional capital to support their operations, finance their expansion or maintain their competitive position, or may have a weak financial condition. The Funds may also invest in companies that are experiencing, or are expected to experience, financial difficulties that may never be overcome.

Some companies may require significant additional financing after an investment therein, including investments by any of the Funds. Such companies may seek to finance such investments from other investment funds, which could present a conflict of interest. Moreover, they may participate in additional financing transactions, or management teams of other funds may invest in the same companies, utilizing implicit valuations that are lower than the valuations given in preceding financing transactions. Legal disputes may arise from such financing transactions and could have a significant adverse effect on the Funds.

*Illiquid Investments.* Prospective investors should be aware of the long-term nature of an investment in the Funds. There is no public market for each Fund's membership interests and none is expected to develop in the future. Each Fund's membership interests may not be assigned, transferred or encumbered without the consent of the Company. In addition, the Company, in its absolute discretion, may require as a condition to granting its written consent for the transfer of any Fund membership interest, that the transferee be an existing member or a client of, or member in, another investment vehicle managed by the Company or any of its affiliates. Accordingly, a member of any of the Funds may not be able to liquidate its investment if or when desired, and such investment may not be readily acceptable as collateral for other obligations incurred by such member.

Each Fund's membership interests are not registered under the Securities Act, the Puerto Rico Uniform Securities Act, as amended, or the securities law of any other jurisdiction of the United States in reliance upon an exemption contained in Section 4(a)(2) of the Securities Act and Regulation D thereunder and will be subject to certain transfer restrictions. In light of the foregoing, an investment in any of the Funds should be viewed as highly illiquid.

A limited market exists for the sale of any portfolio investments of each Fund, and the transferability of such investments is generally restricted. There are no assurances that any of the Funds will be able to liquidate a particular portfolio investment at the time and upon the terms and conditions it desires.

*Interest Rate Changes.* General interest rate fluctuations and changes in credit spreads on floating rate loans may have a substantial negative impact on portfolio investments and each Fund's investment opportunities and, accordingly, may have a material adverse effect on each Fund's rate of return on invested capital and each Fund's net investment income and net asset value. A portion of each Fund's debt investments may have variable interest rates that reset periodically based on benchmarks such as the prime rate, so an increase in interest rates from their historically low present levels may make it more difficult for the portfolio companies to service their obligations to such Fund. To the extent that interest rates increase, this may negatively impact the operating performance of the portfolio companies due to increasing debt service obligations and, therefore, may affect such Fund's results of operations. In addition, to the extent that an increase in interest rates makes it difficult or impossible to make payments on outstanding indebtedness to such Fund or other financial sponsors or refinance debt that is maturing in the near term, some of the portfolio companies may be unable to repay such debt at maturity and may be forced to sell assets, undergo a recapitalization or seek bankruptcy protection. Decreases in credit spreads on debt that pays a floating rate of return would have an impact on the income generation of such Fund's floating rate assets.

*Fund Leverage.* Utilization of leverage involves certain risks for the members of a Fund. For example, the use of leverage may result in higher volatility of the net asset values of such Fund, and if the current interest paid as a result of leveraging were to exceed the net return on its portfolio investments, such Fund's leveraged capital structure would result in a lower rate of return to its members than if such Fund were not leveraged. Also, a Fund's carried interest structure may encourage its manager to borrow money to finance additional investments. Under certain circumstances, the use of borrowed money may increase the likelihood of default by such Fund with its respective obligations, which would adversely affect its members.

*Leveraged Portfolio Companies.* Some of the entities in which the Funds invest are likely to be highly leveraged. Debt-service requirements may deplete cash flow and inhibit the ability of such companies to expand. In addition, the leveraged capital structure of such investments will increase the exposure of such companies to adverse economic factors such as rising interest rates and downturns in the economy. The securities held by the Funds may be among the most junior or subordinated in a leveraged scenario and thus may be subject to the greatest risk of loss. In the event that any such leveraged entity is unable to meet its debt service obligations, there could be a material adverse effect upon the performance of the investment related to such company.

Leveraged companies may experience bankruptcy or similar financial distress. The bankruptcy process has a number of significant inherent risks. Many events in a bankruptcy proceeding are the product of contested matters and adversary proceedings and are beyond the control of the creditors. A bankruptcy filing by a portfolio company may adversely and permanently affect that entity. If the proceeding is converted to a liquidation, the value of the portfolio company may not equal the liquidation value that was believed to exist at the time of the investment. The duration of a bankruptcy proceeding is also difficult to predict, and a creditor's return on investment can be adversely affected by delays until the plan of reorganization or liquidation ultimately becomes effective. The administrative costs in connection with a bankruptcy proceeding are frequently high and would be paid out of the debtor's estate prior to any return to creditors. Because the standards for classification of claims under bankruptcy law are vague, each Fund's influence with respect to the class of securities or other obligations that it owns may be lost by increases in the number and amount of claims in the same class or by different classification and treatment. In the early stages of the bankruptcy process, it is often difficult to estimate the extent of, or even to identify, any contingent claims that might be made. In addition, certain claims that have priority by law (for example, claims for taxes) may be substantial.

*Original Issue Discount and Payment-in-Kind Interest.* Portfolio investments may include original issue discount ("OID") instruments and contractual payment-in-kind ("PIK") interest. To the extent OID or PIK interest constitutes a portion of the income of any of the Funds, such Fund will be exposed to typical risks associated with such income being required to be included in taxable and accounting income prior to receipt of cash, including the following: OID instruments may have higher yields, which reflect the payment deferral and credit risk associated with these instruments; since such Fund may be required to distribute amounts attributable to OID accruals, such OID accruals may create uncertainty about the source of other Fund distributions to its members; OID and PIK instruments may have unreliable valuations because their continuing accruals require continuing judgments about the collectability of the deferred payments and the value of the collateral; PIK interest typically has the effect of increasing the outstanding principal amount of a loan, resulting in a borrower owing more at the end of the term of the loan than what

it owed when the loan was originated; and OID and PIK instruments may represent a higher credit risk than coupon loans.

*Lack of Control of Portfolio Companies.* The Funds will not necessarily hold controlling equity positions in their respective portfolio companies. As a result, any of the Funds will be subject to the risk that a portfolio company may make business decisions with which such Fund disagree, and that the management and/or stockholders of such company or borrower may take risks or otherwise act in ways that are adverse to such Fund's interests. Due to the lack of liquidity of the debt and equity investments that the Funds expect to hold, each Fund may not be able to dispose of its respective investments in the event it disagrees with the actions of a portfolio company and may therefore suffer a decrease in the value of its investments.

*Defaults by Portfolio Companies.* The failure of a Fund's portfolio company to satisfy financial or operating covenants imposed by such Fund or other lenders could lead to defaults and, potentially, termination of its loans and foreclosure on its assets. This could trigger cross-defaults under other agreements and jeopardize such entity's ability to meet its obligations under the loans or debt or equity securities that such Fund holds. A Fund may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms, which may include the waiver of certain financial covenants, with a defaulting portfolio company.

*Subordinated or Junior Loans by the Funds.* The Funds may invest a portion of their capital in second lien and subordinated loans issued by portfolio companies. Such portfolio companies usually have, or may be permitted to incur, other debt that ranks equally with, or senior to, the loans in which any of the Funds invest. By their terms, such debt instruments may provide that the holders are entitled to receive payment of interest or principal on or before the dates on which such Fund is entitled to receive payments in respect of the loans in which the Fund invests. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of any such entity, holders of debt instruments ranking senior to a Fund's portfolio investments would typically be entitled to receive payment in full before such Fund receives any distribution in respect of its investments. After repaying senior creditors, any such entity may not have any remaining assets to use for repaying its obligation to such Fund. In the case of debt ranking equally with loans in which a Fund invests, such Fund would have to share any distributions on an equal and ratable basis with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant borrower.

Additionally, certain loans by any of the Funds may be secured on a second priority basis by the same collateral securing senior secured debt of such borrowers. The first-priority liens on the collateral will secure the borrower's obligations under any outstanding senior debt and may secure certain other future debt that may be permitted to be incurred by the borrower under the agreements governing the loans. The holders of obligations secured by first-priority liens on the collateral will generally control the liquidation of, and be entitled to receive proceeds from, any realization of the collateral to repay their obligations in full before the applicable Fund. In addition, the value of the collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from sales of all the collateral would be sufficient to satisfy the loan obligations secured by the second priority liens after payment in full of all obligations secured by the first priority liens on the collateral. If such proceeds were not sufficient to repay amounts outstanding

under the loan obligations secured by the second priority liens, then such Fund, to the extent not repaid from the proceeds of the sale of the collateral, will only have an unsecured claim against the remaining assets, if any, of such borrower.

The Funds may also make unsecured loans to such borrowers, meaning that such loans will not benefit from any interest in collateral of such borrowers. Liens on any such collateral, if any, will secure the borrower's obligations under its outstanding secured debt and may secure certain future debt that is permitted to be incurred by such borrower under its secured loan agreements. The holders of obligations secured by such liens will generally control the liquidation of, and be entitled to receive proceeds from, any realization of such collateral to repay their obligations in full before the Funds. In addition, the value of such collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from sales of such collateral would be sufficient to satisfy each Fund's unsecured loan obligations after payment in full of all secured loan obligations. If such proceeds were not sufficient to repay the outstanding secured loan obligations, then each Fund's unsecured claims would rank equally with the unpaid portion of such secured creditors' claims against the borrower's remaining assets, if any.

The rights that the Funds may have with respect to the collateral securing the loans they make to borrowers with senior debt outstanding may also be limited pursuant to the terms of one or more intercreditor agreements that each Funds executes with the holders of such senior debt. Under a typical intercreditor agreement, at any time that obligations that have the benefit of the first-priority liens are outstanding, any of the following actions that may be taken in respect of the collateral will be at the direction of the holders of the obligations secured by the first-priority liens: the ability to cause the commencement of enforcement proceedings against the collateral; the ability to control the conduct of such proceedings; the approval of amendments to collateral documents; releases of liens on the collateral; and waivers of past defaults under collateral documents. The Funds may not have the ability to control or direct such actions, even if their rights are adversely affected.

*Historical Results Achieved by Others.* A Fund may be unable to replicate the historical results achieved by any other Fund or entity advised, managed or sponsored by the Company, and its investment returns could be substantially lower than the returns achieved by the Company for such other entities in prior periods. In particular, the Company's returns from any of its other investment vehicles may not be comparable because of the economic period in which those investments were made, or the composition of such other portfolios will be different from prospective portfolios. In addition, each Fund may participate in different investments and bear different expenses and fees. Accordingly, members in each of Fund are expected to have different investment results.

*Use of Leverage by the Funds.* A Fund may borrow up to certain amounts from banks or other financial institutions to attempt to enhance its yield or for temporary or emergency purposes, and secure payment of any such borrowings by hypothecation or pledge of such Fund's assets or otherwise. When any of the Funds borrows money or otherwise leverages its portfolio, the value of an investment therein will be more volatile and other investment risks will tend to be compounded because leverage tends to exaggerate the effect of any increase or decrease in the value of such Fund's holdings.



Any such borrowings by a Fund may be subject to certain covenants set forth in the governing credit agreements relating to asset coverage requirements and portfolio composition. While a Fund does not expect that such covenants would materially adversely affect the ability of such Fund to achieve its investment objectives, there is no guarantee of this. However, a breach of any such covenant not cured within the specified cure period may result in acceleration of outstanding indebtedness and require such Fund to dispose its portfolio investments at a time when it may be disadvantageous to do so. It may also be required to maintain minimum average balances in connection with borrowings or to pay a commitment or other fee to maintain a line of credit. Either of these requirements would increase the cost of borrowing over a stated interest rate.

Utilization of leverage also involves certain risks for the members of a Fund. For example, the use of leverage may result in higher volatility of the net asset values of such Fund, and if the current interest paid as a result of leveraging were to exceed the net return on its portfolio investments, the Fund's leveraged capital structure would result in a lower rate of return to its members than if such Fund were not leveraged. Also, a Fund's carried interest structure may encourage the Company to borrow money to finance additional investments. Under certain circumstances, the use of borrowed money may increase the likelihood of default by a Fund with its respective obligations, which would adversely affect its members.

*Co-Investment Opportunities with Others.* A Fund may make portfolio investments in cooperation with others, including affiliated or nonaffiliated parties, through co-investment arrangements. Each Fund's ability to exercise significant influence over management in such cooperative efforts will depend upon the nature of the co-investment arrangement. Such investments may, under certain circumstances, involve risks not otherwise present, including the possibility that any Fund co-investor may not be able to satisfy its financial obligations or that such co-investor might at any time have economic or business interests or goals that are conflicting or inconsistent with those of such Fund or its members. In addition, such arrangements are likely to involve additional restrictions on the resale of such portfolio investments.

## **Item 9 – Disciplinary Information**

The Company has no legal or disciplinary events to disclose, except for the following civil lawsuit. On November 7, 2019, the Economic Development Bank for Puerto Rico ("EDB") filed a civil action in Puerto Rico state court, which was amended on March 3, 2020, against Garnet Capital Advisor LLC ("Garnet"), PR Recovery and Development, LLC ("PR Recovery"), and PCM for declaratory judgment, annulment of contract, and damages (the "EDB Complaint"). The case is in the middle of the discovery process.

In summary, EDB alleged that Garnet, as its advisor, did not perform an adequate valuation of certain loan portfolio that EDB sold to PR Recovery (the "Sale Transaction") and, together with EDB's management group, did not follow the corresponding procedures for a competitive bidding process prior to the consummation of the Sale Transaction. EDB demanded the annulment of the Sale Transaction and is also seeking damages against the defendants. EDB's allegation against the Company is limited to an unfounded claim that the Company allegedly knew that Garnet's valuation of the loan portfolio was inadequate or too low.

Neither the Company, including its management persons, nor the Funds participated in the Sale Transaction. In addition, the Company did not advise EDB nor any other party in connection therewith. Instead, PHYF, which is managed by the Company, extended a \$3.2 million credit facility to one of PR Recovery's minority partners to finance approximately 10% of the Sale Transaction.

#### **Item 10 – Other Financial Industry Activities and Affiliations**

Neither the Company nor its management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer, Futures Commission Merchant (FCM), Commodity Pool Operator (CPO), or Commodity Trading Advisor (CTA).

The Company and/or its management persons do not have a financial industry relationship or arrangement with a related person as set forth in the instructions to this form that is material to its advisory business or to its clients.

The Company does not recommend or select other investment advisers for its clients.

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

Any and all Company personnel, including managers, officers, employees and any independent contractor who performs advisory functions on its behalf, are subject to the Company's Regulatory Compliance Manual (the "Manual") which includes the Company's Code of Ethics (the "Code"). For additional information about the Code or to request a copy, a client or prospective client may contact the Company's Chief Compliance Officer, Wilnerys Alvarez Rivera.

All such personnel must act honestly and fairly in all respects in their dealings with the Company's clients and avoid personal interests outside of the Company which could be placed ahead of their obligations to such clients. The Company recognizes and respects an employee's right of privacy concerning personal affairs but requires full and timely disclosure of any situation which could result in a conflict of interest or even the appearance of a conflict. Whether or not a conflict exists will be determined by the Company's Chief Compliance Officer.

The Manual also includes general company policies and procedures and other provisions to (i) comply with securities laws, (ii) address any conflicts of interest, and (iii) monitor employee's personal trading activities for any potential conflicts of interest or use of nonpublic information.

The Company's Chief Compliance Officer administers the Manual and the Code and periodically reviews the Manual to ensure the Company's policies and procedures adequately address all risks applicable to the Company's business activities.

#### **Item 12 – Brokerage Practices**

As the Funds provide financing or equity to privately-held companies, the Company does not ordinarily deal with any broker-dealers for such transactions. Therefore, brokerage commissions are not ordinarily payable in connection with each Fund's portfolio investments, which are effected independently in accordance with its respective investment objectives and strategies.

### **Item 13 – Review of Accounts**

Each Fund's portfolio investments generally consist of loans and/or equity investments made by such Fund to or in privately-held companies. The Company, through its management team, generally reviews and monitors the performance and quality of all underlying portfolio investments and collateral on an ongoing basis. Members of each Fund receive, among other information, quarterly and annual financial statements of the relevant Fund, including audited financial statements and other reports, as provided in each Fund's Governing Documents.

### **Item 14 – Client Referrals and Other Compensation**

This Item does not apply, as the Company receives no economic benefit from non-clients in connection with providing investment advice or other advisory services to the Funds, and it does not compensate any person who is not a Company supervised person for client referrals. However, PCO Auto Loans I, LLC, ("PCO Auto") a Puerto Rico limited liability company, which is a related person of the Company, has entered into a Placement Agent Agreement, effective as of March 1, 2024, with First Southern LLC ("First Southern"), a Puerto Rico limited liability company and a registered broker-dealer, on a non-exclusive basis to provide similar placement agent services in connection with the offering of preferred interests in PCO Auto to existing clients of First Southern.<sup>1</sup> For its placement agent services thereunder, First Southern will be entitled to a one-time fee equal to 2% of the capital contributed of investors referred by First Southern. Such fee is borne by PCO Auto.

### **Item 15 – Custody**

A qualified bank custodian acts as the custodian with respect to each Fund's cash accounts. However, the Company or an affiliate is deemed to have custody of certain Funds' assets due to serving as the general partner or managing member of certain Funds and intends to comply with Rule 206(4)-2 under the Investment Advisers Act of 1940, as amended, by meeting the conditions of the privately offered securities and pooled vehicle annual audit provisions thereof.

### **Item 16 – Investment Discretion**

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<sup>1</sup> Most of such preferred interest of PCO Auto offered by First Southern, LLC will be offered through a series of PCS II which will be managed by the Company.

The Company provides investment advisory services on a discretionary basis to the Funds pursuant to separate Investment Management Agreements. Investment advice is provided by the Company directly to the Funds, not individually to the investors in each Fund. Any restrictions on investments are established under each Fund's investment objectives and policies as disclosed in such Fund's Governing Documents.

The Company generally has the authority to determine (i) the assets to be purchased and sold for each Fund, subject to the relevant Fund investment restrictions, and (ii) the amount of such assets to be purchased or sold for each Fund.

The Company may, at its discretion, enter into side letters or similar agreements with certain prospective or existing investors whereby such investors may obtain additional rights or be subject to terms and conditions that are more advantageous than those set forth in the Governing Documents of a Fund. For example, such terms and conditions may provide for special rights to make future investments in a Fund or other investment vehicles; special withdrawal rights; rights to receive reports from a Fund on a more frequent basis or that include information not provided to other investors (including, without limitation, more detailed information regarding portfolio positions); and such other rights as may be negotiated by the Fund and such investor. Any such agreements may, among other things, be based on the size of the investor's investment in the applicable Fund or with an affiliated entity, an agreement by the investor to maintain such investment for a significant time period, or other similar commitment by the investor.

#### **Item 17 – Voting Client Securities**

The Company complies with the proxy voting policies and procedures contained in the Manual, as applicable, that are designed to ensure that in cases where the Company is required to vote proxies (if any) with respect to any Fund's assets, such proxies are voted in accordance with the Company's fiduciary duty to its clients, the Funds. The Company's Chief Compliance Officer coordinates the Company's proxy voting process.

If a material conflict of interest between the Company and a Fund exists, the Company will determine whether voting in accordance with the guidelines in its proxy voting policies and procedures is in the best interests of such Fund or take some other appropriate action.

For additional information about the Company's proxy voting policies and procedures and information about how the Company votes any proxies, please contact the Company's Chief Compliance Officer.

#### **Item 18 – Financial Information**

The Company does not require or solicit the payment of fees six months or more in advance.

The Company does not have any financial condition that is reasonably likely to impair the Company's ability to meet contractual commitments to clients.

The Company has not been the subject of a bankruptcy petition at any time.