

**PART 2A OF FORM ADV -- INVESTMENT ADVISER BROCHURE**

**MERIT CAPITAL PARTNERS IV, L.L.C.**

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**This Investment Adviser Brochure (“Brochure”) provides information about the qualifications and business practices of Merit Capital Partners IV, L.L.C. (“MCP IV”). If you have any questions about the contents of this Brochure, please contact us at (312) 592-6111. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state authority.**

MCP IV is an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”). However, such registration does not imply a certain level of skill or training.

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

## **MATERIAL CHANGES**

This Brochure updates the initial Form ADV Part 2A filed on February 13, 2012. The changes to this Brochure are not material and are solely clarifying changes or updates to existing disclosure.

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## ADVISORY BUSINESS

Merit Capital is a private investment management firm, including several registered investment advisory entities and other organizations affiliated with MCP IV (collectively, “**Merit Capital**”).

MCP IV, a Delaware limited liability company and a registered investment adviser, provides investment advisory services to private investment funds. MCP IV commenced operations in December 2003.

The following are the affiliated advisers of MCP IV (collectively with MCP IV, the “**Advisers**”):

- William Blair Mezzanine Capital Partners II, L.L.C. (“**Blair CP II**”);
- William Blair Mezzanine Capital Partners III, L.L.C. (“**Blair CP III**,” and together with Blair CP II, the “**Blair General Partners**”);
- Merit Capital Partners IV, L.P. (“**Merit IV**”); and
- Merit Capital Partners V, L.P. (“**Merit V**,” and together with Blair CP II, Blair CP III and Merit IV, the “**General Partners**”).

The Advisers’ clients include the following (collectively the “**Partnerships**,” and together with any future private investment fund to which Merit Capital or its affiliates provide investment advisory services, “**Funds**”):

- William Blair Mezzanine Capital Fund II, L.P. (“**Fund II**”);
- William Blair Mezzanine Capital Fund III, L.P. (“**Fund III**”);
- Merit Mezzanine Fund IV, L.P. (“**Fund IV Main**”);
- Merit Mezzanine Parallel Fund IV, L.P. (“**Fund IV Parallel**,” and together with Fund IV Main, “**Fund IV**”);
- Merit Mezzanine Fund V, L.P. (“**Fund V Main**”); and
- Merit Mezzanine Parallel Fund V, L.P. (“**Fund V Parallel**,” and together with Fund V Main, “**Fund V**”).

The General Partners each serve as general partner to one or more Partnerships and have the authority to make the investment decisions for the Partnerships to which they provide advisory services. MCP IV provides the day to day advisory services for the Partnerships. Each General Partner is deemed registered under the Advisers Act pursuant to MCP IV’s registration in accordance with SEC guidance. This Brochure describes the business practices of the Advisers which operate as a single advisory business and are under common control. References contained in this Brochure to the strategy and operations of a General Partner should be read to

include the activities of the MCP IV and other Merit Capital affiliates that collectively engage in the investment process and ongoing management of the Partnerships' portfolio companies.

The Partnerships and any other Funds that may be formed by a General Partner (or its affiliates) at a later date or that may otherwise become clients of a General Partner are expected to invest primarily in fixed rate subordinated debt instruments of private operating companies and related equity interests of such companies. The Advisers' investment advisory services to the Partnerships consist of identifying and evaluating investment opportunities, negotiating investments, managing and monitoring investments and achieving dispositions for such investments. Investments are made predominantly in non-public companies, although investments in public companies are permitted, subject to certain limitations in the limited partnership agreement of each Partnership (the "**Partnership Agreement**"). From time to time, the senior principals or other personnel of the Advisers or their affiliates may serve on a portfolio company's board of directors or otherwise act to influence the management of portfolio companies.

The Advisers' advisory services for Funds are further described in the applicable private placement memoranda and limited partnership agreements, as well as below under "Methods of Analysis, Investment Strategies and Risk of Loss" and "Investment Discretion." Investors in Funds participate in the overall investment program for the applicable Partnership, but may be excused from a particular investment due to legal, regulatory or other applicable constraints, pursuant to the terms of the applicable Partnership Agreement. The Funds or the Advisers may enter into side letters or similar agreements with certain investors that have the effect of establishing rights under, or altering or supplementing a Fund's Partnership Agreement.

As of December 31, 2012, the Advisers managed approximately \$928.8 million in client assets on a discretionary basis. There are no 25% or more equity owners of MCP IV. The following individuals comprise the board of managers of MCP IV, which controls MCP IV's operations: Thomas F. Campion, David M. Jones, Timothy J. MacKenzie, Terrance M. Shipp and Marc J. Walfish.

## **FEES AND COMPENSATION**

In general, the General Partners receive a Management Fee (as defined below) and a carried interest in connection with advisory services. The General Partners or other Merit Capital entities or affiliates receive additional compensation in connection with management and other services performed for portfolio companies (*e.g.*, monitoring and other fees) of Partnerships and 100% of such additional compensation will offset the management fees otherwise payable to the applicable General Partner. Investors in the Partnerships also bear certain fund expenses.

### **Management Fee**

#### *Fund II, Fund III and Fund IV*

Each of Fund II, Fund III and Fund IV pays the applicable General Partner, quarterly in arrears (in advance with respect to Fund IV), a management fee (the "**Management Fee**") equal to a maximum of 1.75% (1.5% with respect to Fund II) on an annual basis of each such

Partnership's aggregate investor capital commitments ("**Commitments**"). Beginning the earlier of (i) six years after the commencement of such Partnership, or (ii) the formation of a mezzanine fund with substantially similar objectives to the applicable Partnership, the Management Fee rate will be gradually reduced in increments of 0.175% (0.15% with respect to Fund II) to a minimum of 1.05% (0.90% with respect to Fund II), and such rate will be applied to invested capital (*i.e.*, original cost basis of the aggregate investments in portfolio companies remaining in the applicable Partnership as of the beginning of the period, without reduction for write downs or dispositions of securities or principal repayments as more fully described in the applicable Partnership Agreement), rather than Commitments.

Each of Fund II and Fund III has ceased paying a Management Fee to the applicable General Partner.

#### *Fund V*

Fund V pays Merit V, quarterly in advance, an annual Management Fee equal to 1.75% of aggregate Commitments. Beginning the earlier of (i) five years after the commencement of Fund V, or (ii) the formation of a mezzanine fund with substantially similar objectives to Fund V (each, a "**Triggering Event**"), the Management Fee will be reduced to 1.25% of invested capital (determined as of the first day of such quarter) following such Triggering Event.

#### *Reduction, Payment Terms and Management Fee Offsets*

Any Commitment of a limited partner (which may be aggregated with such limited partner's affiliates at the applicable General Partner's discretion) in excess of a specified threshold, will be subject to a reduced Management Fee schedule as more fully described in the applicable Partnership Agreement. Any such arrangement will be disclosed to all limited partners of the applicable Partnership.

The Management Fee generally will be payable until all portfolio investments are distributed unless the applicable General Partner elects to cease charging the Management Fee prior to such time. Installments of the Management Fee payable for any period other than a full three-month period are generally adjusted on *pro rata* basis according to the actual number of days in such period.

The Management Fee is reduced by 100% of any directors' fees, monitoring fees, retainer fees, consulting fees and certain other fees paid by portfolio companies to a General Partner, MCP IV or their affiliates, partners, members, officers or employees (such fees, "**Supplemental Fees**"). To the extent that such an offset credit would reduce the Management Fee for a given three-month period below zero, the credit will be carried forward for future application against payable Management Fees. To the extent any such excess remains unapplied upon dissolution of a Partnership, each partner of such Partnership will receive its share of such unapplied excess, unless such partner elects not to receive its share. To the extent that any other Fund or any other entity or individual co-invests alongside the Partnership in any portfolio company investment, any Supplemental Fees will be allocated *pro rata* among the Partnership and the co-investors in proportion to the cost of the investment in the portfolio company borne by each of them.

## **Carried Interest**

The General Partner of each Partnership is entitled to receive a carried interest with respect to such Partnership equal to 20% of all profits in excess of an 8% (9% with respect to Fund II and Fund III) preferred return (compounded monthly), subject to a General Partner catch-up provision, as more fully described in the Partnership Agreement of the applicable Partnership. The carried interest distributed to the General Partner is subject to a potential giveback at the end of the life of the Partnership if the General Partner has received excess cumulative distributions.

## **Other Information**

The Partnerships and other Funds generally invest on a long-term basis. Accordingly, investment advisory and other fees are expected to be paid, except as otherwise described in the Partnership Agreement, over the term of the applicable Partnership, and investors generally are not permitted to withdraw or redeem interests in the Partnership.

Principals or other employees of Merit Capital may receive a portion of the Management Fee, carried interest or other compensation received by the General Partners or their affiliates.

In addition to the Management Fee and carried interest payable to the applicable General Partner, each Partnership bears certain expenses. As set forth in the Partnership Agreement for the applicable Partnership, each Partnership bears all Partnership expenses to the extent not paid by portfolio companies, including: (i) all costs and expenses attributable to acquiring, holding and disposing of the Partnership's investments (including, without limitation, interest on money borrowed by the Partnership or the General Partner on behalf of such Partnership, registration expenses and brokerage, finders', custodial and other fees); (ii) legal, accounting, auditing, insurance, consulting, financing, filing and other fees and expenses (including, without limitation, expenses associated with the preparation of Partnership financial statements, tax returns and Schedules K-1); (iii) expenses of any advisory committee of limited partners of the Partnership (a "**Advisory Committee**"); (iv) extraordinary expenses, costs, liabilities and obligations of the Partnership (including, without limitation, litigation and indemnification costs and expenses, judgments and settlements); (v) all out-of-pocket fees and expenses incurred by the Partnership, the General Partner, MCP IV or their affiliates relating to transactions consummated but not reimbursed by the portfolio company, and (vi) all out-of-pocket fees and expenses incurred by the Partnership, the General Partner, MCP IV or their affiliates relating to investment or disposition opportunities for the Partnership not consummated. Each General Partner will bear the normal expenses incurred by it or its affiliates in administering the relevant Partnership, including salaries, rent, travel and other administrative expenses. Brokerage fees may be incurred in accordance with the practices set forth in "Brokerage Practices."

## **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

As described under "Fees and Compensation," the General Partners may receive a carried interest allocation on certain profits in the Partnerships. The Advisers or their affiliates do not currently advise any private investment vehicles that are not subject to a Management Fee or carried interest.

## TYPES OF CLIENTS

The Advisers provide investment advice to Funds, including the Partnerships. Funds are investment partnerships or other investment entities formed under domestic or foreign laws and operated as exempt investment pools under the Investment Company Act of 1940, as amended (the “**Investment Company Act**”). The investors participating in Funds may include banks or thrift institutions, other investment entities, pension and profit-sharing plans, trusts, estates or charitable organizations or other corporations, business entities or individuals, and may include, directly or indirectly, principals or other employees of the Advisers and their affiliates.

Each Partnership has a minimum investment of \$5 million for third-party investors, which may be waived by the applicable General Partner. Interests in Fund V are generally offered and sold to investors that are (i) “accredited investors” as defined under Regulation D of the Securities Act of 1933, as amended and (ii) either “qualified purchasers” or “knowledgeable employees” as defined under the Investment Company Act. Interests in Fund II, Fund III and Fund IV are offered and sold solely to certain qualified investors who are also accredited investors.

## METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

### General

The principal investment strategy of Merit Capital is to achieve long-term capital appreciation, primarily by making direct privately-negotiated mezzanine investments. The primary investment instrument of the Partnerships is fixed rate subordinated debt. The Partnerships may also invest directly in preferred stock and common stock. Investments are predominantly of non-public companies although investments in public companies are permitted, subject to certain restrictions in the Partnership Agreement.

The following is a summary of the investment strategies and methods of analysis generally employed by the Advisers on behalf of the Partnerships. More detailed descriptions of the Partnerships’ investment strategies and methods of analysis are included in the applicable private placement memorandum and Partnership Agreement for each Fund. *There can be no assurance that the Advisers will achieve the investment objectives of the Partnerships, and a loss of investment may be possible.*

### Investment and Operating Strategy

The Advisers’ investment strategy incorporates the following elements: (i) multi-faceted origination capabilities; (ii) disciplined investing; (iii) diversification; (iv) transaction control; and (v) active portfolio management.

*Multi-Faceted Origination Strategy.* The Advisers focus their origination efforts almost exclusively on non-traditional channels where there is less competition. In particular, the Advisers have concentrated on (i) direct origination of transactions with management (*e.g.* transactions in which there is no agent or advisor earning a fee) and (ii) “fundless sponsors” (*i.e.* small investor group that typically pursues leveraged buyout transactions without committed capital from a traditional organized private equity fund).



*Disciplined Investing.* The Advisers focus their activities on the private middle-market because the Advisers believe that it is a relatively inefficient market, yielding opportunities to earn attractive risk-adjusted returns. The Advisers seek to focus on established, well-managed, profitable businesses that have relatively stable, growing earnings and strong operating cash flows. The Advisers aim to invest in businesses with management continuity and low capital expenditure and working capital requirements while seeking to avoid companies in which changing technologies or consumer fashions are important factors. In particular, the Advisers focus on companies that manufacture high value-added products in niche markets. Once a potential investment is identified, the Advisers conduct extensive due diligence. For target companies with unusual products or services, the Advisers will often hire consultants to assist in the diligence process. As the Advisers' investment strategy focuses on leveraged transactions, the past financial performance of a potential investment is a critical factor in the evaluation process. In an effort to mitigate risk, the Advisers analyze sales, gross profits, operating profits, cash flow, capital expenditures, working capital requirements and tax issues for a minimum of the past five years. The vast majority of potential investments have audited financial statements for the past five years, and the Advisers often hires another auditing firm to review the work of the previous auditor.

*Diversification.* The Advisers seek to assemble a balanced, well-diversified portfolio for the Partnerships by investing each Partnership in approximately 15-20 separate companies. The Advisers also seek to diversify the portfolio of each Partnership by financing various types of transactions such as finance management buyouts, recapitalizations and situations in which growth capital is needed.

*Transaction Control.* The objective of each Partnership is to be the lead mezzanine investor in substantially all of its investments. Control of the transaction provides the Advisers with additional flexibility to develop the capital structure, set transaction terms and obtain favorable pricing. Generally, the Advisers assist in arranging the senior debt facilities, influence the selection of the lender or lenders and limit the senior debt utilized to close their transactions. The Advisers also seek to ensure that no Partnership will be a captive mezzanine source for a single equity investor. The Advisers believe this independence is beneficial as it allows the Partnerships to have a much broader array of potential investments to consider and allows each separate transaction to be structured and priced on an arms-length basis.

*Active Portfolio Management.* The Advisers' strategy is based on the belief that active and thorough portfolio monitoring is essential. To accomplish this, the Advisers endeavor to hold frequent informal discussions with management, conduct formal company board meetings at least quarterly and receive detailed financial information monthly and, in some instances, weekly. The Advisers also typically have at least one principal serve on the board of directors of their portfolio companies. In the event that no member of an Adviser serves on a portfolio company board, principals of the Adviser will attend board meetings and play an active role in decision making. The Advisers aim to assist management in such areas as the refinancing of senior debt, the evaluation of potential mergers and acquisitions and the review of compensation plans, budgets and long-term strategic plans. The Advisers believe that one of the most important disciplines required of the mezzanine investor is the determination of when and how to exit a transaction. To that end, the Advisers seek to be integrally involved in the investment exit

process, including decisions on timing and the means of exit as well as negotiating with prospective purchasers and investment bankers.

## **Risks of Investment**

A Partnership and its investors bear the risk of loss that the applicable Advisers' investment strategy entails. The risks involved with the Advisers' investment strategy and an investment in a Partnership are detailed in the Partnership's private placement memorandum. In general, these risks include, but are not limited to:

*Investment in Highly-Levered Companies.* A substantial portion of the Partnership's assets will be lent to or invested in companies that have above average leverage. Adverse factors such as rising interest rates, severe downturns in the economy or deteriorations in the condition of a portfolio company or its industry could jeopardize the company's ability to meet its debt service obligations (including subordinated debt investments of the Partnership).

*Timing of Investments.* There can be no assurance that the General Partner will be able to locate and complete attractive mezzanine investments. However, during the investment period of the Partnership, limited partners will be required to pay annual management fees based on the entire amount of their Commitments.

*Deferred Interest Payments.* Even though the Partnership will be entitled to receive contractual interest payments on its loans to portfolio companies, it is possible that the interest payments may be deferred due to company performance. These deferrals may continue indefinitely unless and until the portfolio company returns to satisfactory financial performance.

*Uncertain Profits from Equity Participation.* A substantial portion of the success of the Partnership will depend on gains generated from the equity participation. It is uncertain as to when such profits, if any, will be realized.

*Valuations.* Most of the Partnership's investments will be difficult to value. Generally, there will be no readily available market for a substantial number of the Partnership's investments.

*Projections.* The General Partner generally will base the capital structure of companies in which the Partnership invests on financial projections for those companies. Projected operating results of a company will be based primarily on management judgments. It should be recognized that, in all cases, projections are only estimates of future results which are based upon assumptions made at the time the projections are developed. There can be no assurance that the results set forth in the projections will be obtained, and actual results may be significantly different from the projections. Also, general economic factors, which are not predicable, can have a material impact on the reliability of projections.

*Non-Controlling Positions.* The Partnership may, in select instances, solely hold debt obligations and other non-controlling interests in portfolio companies. In such cases, the Partnership will have a more limited ability to protect its position relative to a controlling equity position. However, the General Partner expects it will seek appropriate creditor and shareholder rights from such portfolio companies to help protect the Partnership's interests.

*Uncertain Economic and Political Environment.* The current global economic and political climate is one of uncertainty. Prior acts of terrorism in the United States, the threat of additional terrorist strikes and the fear of a prolonged global conflict have exacerbated volatility in the financial markets and can cause consumer, corporate and financial confidence to weaken, increasing the risk of a “self-reinforcing” economic downturn. The availability of credit for consumers, homeowners and businesses, including credit used to acquire businesses, continues to be restricted. This may have an adverse effect on the economy generally and on the ability of the Partnership and its portfolio companies to execute their respective strategies and to receive an attractive multiple of earnings on the disposition of their businesses. A climate of uncertainty may reduce the availability of potential investment opportunities and increase the difficulty of modeling market conditions, potentially reducing the accuracy of financial projections.

### **Conflicts of Interest**

During the investment period of a given Partnership, all appropriate investment opportunities will be pursued by the Advisers through such Partnership, subject to certain limited exceptions. At any given time, the Advisers will typically manage several other Funds in addition to a given Partnership, which may include investments similar to those in which it will be investing or have investments in portfolio companies in the form of securities or other investments that are not the principal focus of such Partnership, and may direct certain relevant investment opportunities to those Funds and with respect to such investments. The Advisers’ principals and investment staff will continue to manage and monitor the investments of such Funds until their realization. The portfolio company investments of such other Funds may potentially compete with companies invested in by a given Partnership. Following the investment period of a given Partnership, the Advisers’ principals may focus their investment activities on other opportunities and areas unrelated to such Partnership’s investments while continuing to monitor such Partnership’s investments with an eye towards increasing value and seeking realization.

From time to time, an Adviser will be presented with investment opportunities that would be suitable not only for a given Partnership, but also for other Funds and other investment vehicles operated by advisory affiliates of such Adviser. In determining which investment vehicles should participate in such investment opportunities, the Advisers are subject to conflicts of interest among the investors in such investment vehicles. The Advisers attempt to resolve such conflicts of interest in light of their obligations to investors in their Funds and the obligations owed by their advisory affiliates to investors in investment vehicles managed by them, and attempt to allocate investment opportunities among a Partnership, other Funds and such investment vehicles in a fair and equitable manner. Where necessary, the Advisers consult and receive consent to conflicts from the Advisory Committee.

Because the General Partners’ carried interest is based on a percentage of net realized profits, it may create an incentive for the Advisers to cause the Partnerships to make riskier or more speculative investments than would otherwise be the case.

The principals of Merit Capital spun out of William Blair & Company, L.L.C. (“**William Blair**”) in 2003. As a result, William Blair is a principal of each of the Blair CP II and Blair CP III and has the ability (together with its affiliate, Wilblairco Associates) to designate two of the

five members of each entity's board of managers, which is responsible for the management of such entity. William Blair is a full-line investment banking concern which may create a conflict of interest with respect to the activities of Fund II and Fund III. William Blair provides a broad range of financial services, including brokerage, accounting, underwriting and financial advice, which may be utilized by Fund II, Fund III or their portfolio companies. In each case, such services will only be utilized if the applicable General Partner believes such services are at no greater cost than would be the case if an unaffiliated party provided such services and the Advisory Committee of the applicable Partnership approves such an arrangement. William Blair also sponsors private funds that invest in entities seeking to raise mezzanine capital.

Since the General Partners are permitted to retain certain Supplemental Fees (as described under "Fees and Compensation") in connection with Partnership investments, they could have a conflict of interest in connection with approving transactions. The General Partners attempt to resolve such conflict by offsetting the Management Fee by a specified percentage of such Supplemental Fees.

#### **DISCIPLINARY INFORMATION**

MCP IV and its management persons have not been subject to any material legal or disciplinary events required to be discussed in this Brochure. William Blair has certain events that are disclosed under this section of its Brochure.

#### **OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

MCP IV is affiliated with the following Merit Capital investment advisers:

- William Blair Mezzanine Capital Partners II, L.L.C. (general partner of William Blair Mezzanine Capital Fund II, L.P.);
- William Blair Mezzanine Capital Partners III, L.L.C. (general partner of William Blair Mezzanine Capital Fund III);
- Merit Capital Partners IV, L.P. (general partner of Merit Mezzanine Fund IV, L.P. and Merit Mezzanine Parallel Fund IV, L.P.); and
- Merit Capital Partners V, L.P. (general partner of Merit Mezzanine Fund V, L.P. and Merit Mezzanine Parallel Fund V, L.P.).

These General Partners are deemed registered with the SEC under the Advisers Act pursuant to MCP IV's registration in accordance with SEC guidance. MCP IV provides advisory services to the General Partners and other Merit Capital entities. These affiliated investment advisers operate as a single advisory business together with MCP IV and serve as managers or general partners of private investment funds and other pooled vehicles and may share common owners, officers, partners, employees, consultants or persons occupying similar positions.

The principals of Merit Capital were previously affiliated with William Blair prior to spinning out to form Merit Capital in 2003. In connection with the spin-out, the principals of Merit Capital agreed to continue managing Fund II and Fund III. Although Merit Capital is no

longer affiliated with William Blair, William Blair is still a principal of each of the Blair General Partners. In connection with this role, William Blair (together with its affiliate Wilblairco Associates) maintains the right to appoint at least two of the five members of the board of managers of each of the Blair General Partners. The board of managers of each of the Blair General Partners has the authority to manage the affairs of such entity and, in turn, the applicable Partnership. In its capacity as a principal of the Blair General Partners, William Blair received a portion of the Management Fee and is entitled to future carried interest received by such entity.

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

The Advisers have adopted a Code of Ethics and Securities Trading Policy and Procedures (the “**Code**”), which sets forth standards of conduct that are expected of the Advisers’ Principals and employees and addresses conflicts that arise from personal trading. The Code requires the Advisers’ personnel to:

- report their personal securities transactions;
- pre-clear any proposed purchase of any initial public offering or limited offering; and
- comply with the policies and procedures reasonably designed to prevent the misuse of, or trading upon, material non-public information.

A copy of the Code will be provided to any client or prospective client upon request to Merit Capital’s Chief Compliance Officer at (312) 592-6111. Personal securities transactions by employees who manage client accounts are required to be conducted in a manner that prioritizes the client’s interests in client-eligible investments.

The Advisers and their affiliated persons may come into possession from time to time of material nonpublic or other confidential information about public companies which, if disclosed, might affect an investor’s decision to buy, sell or hold a security. Under applicable law, the Advisers and their affiliated persons would be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any person, regardless of whether such person is a client of the Advisers. Accordingly, should the Advisers or any of their affiliated persons come into possession of material nonpublic or other confidential information with respect to any public company, the Advisers would be prohibited from communicating such information to clients, and the Advisers will have no responsibility or liability for failing to disclose such information to clients as a result of following their policies and procedures designed to comply with applicable law. Similar restrictions may be applicable as a result of Merit Capital personnel serving as directors of public companies and may restrict trading on behalf of clients, including the Partnerships.

Principals and employees of the Advisers and their affiliates may directly or indirectly own an interest in Funds. To the extent that co-investment vehicles exist, such vehicles may invest in one or more of the same portfolio companies as a Partnership. The Partnerships and other Funds may invest together with other private investment funds advised by an affiliated adviser of the General Partner in the manner set forth in the applicable Partnership Agreement.

The Advisers will determine allocation of investment opportunities in a manner that they believe is fair and equitable to their clients consistent with the Advisers' fiduciary obligations and consistent with the applicable Funds' underlying documents.

The Advisers and their affiliates, principals and employees may carry on investment activities for their own accounts and for family members, friends or others who do not invest in the Partnerships, and may give advice and recommend securities to other accounts or certain Partnerships or vehicles which may differ from advice given to, or securities recommended or bought for, other Partnerships or vehicles, even though their investment objectives may be the same or similar.

The Advisers or their affiliates may recommend the purchase or sale of securities for Funds in which one or more of their partners, members, officers, directors, employees (and members of their families) or affiliates ("**affiliated persons**"), directly or indirectly, have a position or interest, or which an affiliated person buys or sells for himself or herself. Such transactions also may include trading in securities in a manner that differs from or is inconsistent with the advice given to the Funds. Certain of these transactions may require the consent of the applicable Fund.

#### **BROKERAGE PRACTICES**

The Advisers focus on securities transactions of private companies and generally purchase and sell such companies through privately-negotiated transactions in which the services of a broker-dealer may be retained. However, the Advisers may also distribute securities to investors in a Fund or sell such securities, including through using a broker-dealer, if a public trading market exists. Although the Advisers do not intend to regularly engage in public securities transactions, to the extent an Adviser does so, it will follow the brokerage practices described below.

If the Advisers purchase or sell publicly traded securities for a Fund, they are responsible for directing orders to broker-dealers to effect securities transactions for accounts managed by the Advisers. In such event, the Advisers will seek to select brokers on the basis of best price and execution capability. In selecting a broker to execute client transactions, the Advisers may consider a variety of factors, including: (i) execution capabilities with respect to the relevant type of order; (ii) commissions charged; (iii) the reputation of the firm being considered; and (iv) responsiveness to requests for trade data and other financial information.

The Advisers have no duty or obligation to seek in advance competitive bidding for the most favorable commission rate applicable to any particular client transaction or to select any broker on the basis of its purported or "posted" commission rate, but will endeavor to be aware of the current level of the charges of eligible brokers and to reduce the expenses incurred for effecting client transactions to the extent consistent with the interests of such clients. Although the Advisers generally seek competitive commission rates, it may not necessarily pay the lowest commission or commission equivalent. Transactions may involve specialized services on the part of the broker involved and thereby entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

Consistent with the Advisers seeking to obtain best execution, brokerage commissions on client transactions may be directed to brokers in recognition of research furnished by them, although the Advisers generally do not make use of such services at the current time.

The Advisers do not anticipate engaging in significant public securities transactions; however, to the extent that the Advisers engage in any such transactions, orders for purchase or sale of securities placed first will be executed first, and within a reasonable amount of time of order receipt. To the extent that orders for Funds are completed independently, the Advisers may also purchase or sell the same securities or instruments for several Funds simultaneously. From time to time, the Advisers may, but is not obligated to, purchase or sell securities for several client accounts at approximately the same time. Such orders may be combined or “batched” to facilitate obtaining best execution and/or to reduce brokerage commissions or other costs. Batched transactions are executed in a manner intended to ensure that no participating Fund of the Advisers is favored over any other Fund. When an aggregated order is filled in its entirety, each participating Fund generally will receive the average price obtained on all such purchases or sales made during such trading day.

When an aggregate order is partially filled, the securities purchased or sold will normally be allocated on a *pro rata* basis to each Fund participating in such buy or sell order in accordance with the amount of securities originally requested for such Funds.

Each Fund generally will receive the average price obtained on all such purchases or sales made during such trading day. Exceptions to *pro rata* allocations are permissible provided they are fair and equitable to Funds over time.

## **REVIEW OF ACCOUNTS**

The investments made by the Funds are generally private, illiquid and long-term in nature. Accordingly, the review process is not directed toward a short-term decision to dispose of securities. However, the Advisers closely monitor companies in which the Funds invest, and the Merit Capital Chief Compliance Officer periodically checks to confirm that each Fund is maintained in accordance with its stated objectives.

The Partnerships will provide to their limited partners (i) annual audited financial statements; (ii) an annual statement of each limited partner’s closing capital account balance, an annual statement of aggregate gains and losses for the year and an annual overview of the Partnership portfolio, including valuations (as made by the applicable General Partner) of the Partnership’s investments as of the end of such year; (iii) unaudited quarterly financial reports, including a summary narrative of the status of each portfolio company, including valuations (as determined by the General Partner) of the Partnership’s investments as of the end of such quarter, and a capital account balance for the limited partner; and (iv) annual tax information necessary for completion of income tax returns.

## **CLIENT REFERRALS AND OTHER COMPENSATION**

The Advisers and/or affiliates may provide certain business or consulting services to companies in the Partnerships’ portfolio and may receive compensation from these companies in connection with such services. As described in the applicable Partnership’s Partnership

Agreement, this compensation may, in many cases, offset 100% of the Management Fees paid by the Partnerships.

The Advisers or their affiliates may enter into solicitation arrangements pursuant to which they compensate third parties for referrals that result in a potential investor becoming a limited partner in a Fund. Any fees and expenses payable to any such placement agents will be ultimately borne by the Advisers.

### **CUSTODY**

The Advisers maintain custody of the Partnerships' assets with the following qualified custodians: Merrill Lynch, located in San Francisco, California; The PrivateBank, located in Chicago, Illinois; Bank of America, located in Chicago, Illinois; and First American Bank, located in Chicago, Illinois.

### **INVESTMENT DISCRETION**

The Advisers have discretionary authority to manage investments on behalf of the applicable Partnership. As a general policy, the Advisers do not allow limited partners to place limitations on this authority, provided that the Partnership Agreement of a Partnership may impose certain restrictions on investing in certain types of securities. Pursuant to the terms of the Partnership Agreement, however, an Adviser may enter into "side letter" arrangements with certain limited partners whereby the terms applicable to such limited partner's investment in the Partnership may be altered or varied, including, in some cases, the right to opt-out of certain investments for legal, tax, regulatory or other similar reasons. The Advisers assume this discretionary authority pursuant to the terms of (i) the Partnership Agreement and (ii) powers of attorney executed by the limited partners of each Partnership.

### **VOTING CLIENT SECURITIES**

The Advisers have adopted a Proxy Voting Policies and Procedures (the "**Proxy Policy**") to address how they will vote proxies, as applicable, for the Partnerships' portfolio investments. The majority of "proxies" received by the Advisers will be written shareholder consents (or similar instruments) for private companies, although the Advisers may also receive traditional proxies from public companies from time to time. The Proxy Policy seeks to ensure that the Advisers vote proxies (or similar instruments) in the best interest of the Partnerships, including where there may be material conflicts of interest in voting proxies. The Advisers generally believe their interests are aligned with those of the Partnerships' investors through the principals' beneficial ownership interests in the Partnerships and therefore will not seek investor approval or direction when voting proxies. In the event that there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that the Advisers may address the conflict using several alternatives, including by seeking the approval or concurrence of a Advisory Committee, on the proposed proxy vote, or through other alternatives set forth in the Proxy Policy. The Advisers do not consider service on portfolio company boards by Merit Capital personnel or the Advisers' receipt of management or other fees from portfolio companies to create a material conflict of interest in voting proxies with respect to such companies. In addition, the Proxy Policy sets forth certain specific proxy voting guidelines followed by the Advisers when voting proxies on behalf



of the Partnerships. If you would like a copy of the Merit Capital's complete Proxy Policy or information regarding how the Advisers voted proxies for particular portfolio companies, please contact Merit Capital's Chief Compliance Officer at (312) 592-6111, and it will be provided to you at no charge.

#### **FINANCIAL INFORMATION**

Neither MCP IV nor any of the other Advisers requires prepayment of management fees more than six months in advance or has any other events requiring disclosure under this item of the Brochure.