



## **Firm Brochure**

(Part 2A of Form ADV)

### **MERGANSER CAPITAL MANAGEMENT, LLC**

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This brochure provides information about the qualifications and business practices of Merganser Capital Management, LLC (“Merganser” or the “Adviser”). If you have any questions about the contents of this brochure, please contact us at: 617-494-1000, or by e-mail at [jca@merganser.com](mailto:jca@merganser.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”), or by any state securities authority.

Additional information about Merganser is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). An investment adviser’s registration with the SEC does not imply a certain level of skill or training.

July 10, 2014

## Material Changes

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### **Annual Update**

The Material Changes section of this brochure will be updated annually when material changes occur since the previous release of the Firm Brochure.

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### **Material Changes since the Last Update**

This brochure replaces the previous version dated March 27, 2014. There are limited changes to this version.

In the past we have offered or delivered information about our qualifications and business practices to clients on at least an annual basis. Pursuant to SEC Rules, we will ensure that you receive a summary of any materials changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

We will further provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

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### **Full Brochure Available**

Whenever you would like to receive a complete copy of our Firm Brochure, please contact us by telephone at: 617-494-1000 or by e-mail at: [jca@merganser.com](mailto:jca@merganser.com).

# Table of Contents

Material Changes .....	ii
Advisory Business .....	1
Fees and Compensation .....	2
Performance-Based Fees and Side-by-Side Management .....	4
Types of Clients .....	4
Methods of Analysis, Investment Strategies and Risk of Loss .....	5
Disciplinary Information .....	9
Other Financial Industry Activities and Affiliations .....	9
Code of Ethics, Participation or Interest in Client Transactions and Personal Trading .....	10
Brokerage Practices .....	14
Review of Accounts .....	16
Client Referrals and Other Compensation .....	17
Custody .....	17
Investment Discretion .....	18
Voting Client Securities .....	18
Financial Information .....	18
Requirements for State-Registered Advisers .....	19

# Advisory Business

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## Firm Description

Merganser is the successor to the business of Merganser Capital Management, Inc., which was founded in 1985. Merganser focuses on serving the fixed income investment needs of institutional and high-net worth individual clients. Merganser serves a diverse group of clients in a variety of disciplines nationwide including public and private pension plans, operating companies, Taft-Hartley plans and endowment funds as well as defined contribution plans. Merganser's advisory clients include institutions and high net worth individuals with separately managed accounts, private funds intended for sophisticated investors and institutional investors (the "Funds") and investment companies registered under the Investment Company Act of 1940 (collectively, the "clients").

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## Principal Owners

The principal owners of Merganser are Thomas J. Gahan and Jonathan M. Nelson indirectly through Providence Equity Capital Markets Merganser LLC, an affiliate of Providence Equity Partners L.L.C. Providence Equity Partners L.L.C. is registered with the SEC as an investment adviser. Please see "Other Financial Industry Activities and Affiliations" below for more information.

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## Types of Advisory Services

Typically clients choose Merganser to manage fixed income assets. Merganser provides its clients with discretionary account management services, which include management of accounts for which the firm has the authority to direct investments without obtaining the consent of the client. Merganser's advisory services consist of investigating, identifying and evaluating investment opportunities, structuring, negotiating and making investments on behalf of clients, managing and monitoring the performance of such investments and disposing of such investments. From time to time, Merganser may provide account management services where client consent is required prior to effecting transactions in securities for such client's account. Merganser assists clients in determining risk and return objectives and, in relation to a client's existing holdings, defining the asset configurations most likely to achieve these objectives, including identification of appropriate market sectors for investment.

As of June 30, 2014, Merganser managed approximately \$8,039 million in assets for approximately 75 clients, all of which is managed on a discretionary basis.

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## Investment Management Agreement ("IMA")

Services are provided to clients in accordance with an IMA and/or the organizational documents of the applicable client. Each client's investment

guidelines, including its investment restrictions, and fee are documented in the IMA. The IMA is provided to the client in writing and signed by both parties prior to the start of the relationship.

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**Tailored Relationships**

The investment guidelines for each client are documented in each client's IMA and/or organizational documents. Separately managed account clients may impose restrictions on investing in certain securities or types of securities after discussion with the Adviser.

Agreements may not be assigned without client consent.

## **Fees and Compensation**

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**Description**

Merganser charges advisory fees to its clients for its investment management services at rates agreed upon by Merganser and its clients based upon a percentage of assets under management. The general account annual fee schedule for Merganser's primary strategies is as follows:

Floating Rate Bond – 15 basis points  
Cash Enhanced – 20 basis points  
Short Term Bond - 25 basis points  
Intermediate Term Bond - 30 basis points  
Core Bond - 30 basis points  
Core Plus Bond – 35 basis points

The minimum annual fees for our primary strategies are as follows:

Floating Rate Bond - \$30,000  
Cash Enhanced - \$40,000  
Short Term Bond - \$50,000  
Intermediate Term Bond - \$60,000  
Core Bond - \$60,000  
Core Plus Bond - \$70,000

Merganser, in its sole discretion, may waive its minimum fee and/or charge a reduced advisory fee based upon certain criteria (e.g., historical relationship, type of assets, anticipated future earning capacity, anticipated future additional assets, dollar amounts of assets to be managed, related persons, account composition, negotiations with clients, etc.).

For accounts with assets greater than \$100 million as well as customized services that do not fall within the product categories above, fees are negotiable.

Advisory fees for separately managed accounts are billed quarterly, typically in arrears. Merganser does not deduct advisory fees from separately managed client accounts. Rather, Merganser bills such clients or, in the alternative, the client authorizes the custodian of the account to pay the

applicable fee to Merganser. In certain instances separately managed account clients pay advisory fees in advance. If an IMA with such a client is terminated before the end of a billing period, Merganser will refund to the client any pre-paid but unearned fees based on the number of days remaining in the billing period.

Merganser also sponsors certain Funds, which are pooled vehicles formed as an alternative method of managing client's assets. The Funds are intended to provide a means of investment for accredited investors with assets insufficient to justify separate account management, or for those desiring the additional diversification offered by the larger pool of investments. Merganser charges fees for its account management services for the Funds at an annual rate of (a) 0.20% of assets under management for the Merganser Short-Term Bond Fund LLC, (b) 0.15% for the Merganser Floating Rate Bond Fund LLC, (c) 0.30% for the Merganser Core Bond Fund LLC, and (d) 0.35% for the Merganser Core Plus Bond Fund LLC. Such fees are generally paid by the Funds monthly in arrears. Except as may be provided in a Fund's organizational documents or IMA, management fees paid by the Funds are indirectly borne by Fund investors. Investors in the Funds may incur certain additional fees described in the Fund organizational documents if they require non-scheduled withdrawals.

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**Other Fees and Expenses**

Fees and expenses borne by separate account clients are set forth in the IMA with the individual client. Separately managed account clients' custodians may charge transaction fees on purchases or sales of certain securities. Fees charged by the custodian are not included in the investment management fee.

A Fund, generally, and except as set forth in its organizational documents, bears its own portfolio brokerage expenses, including commissions and dealer spreads, as well as settlement costs, all of its extraordinary expenses, including, but not limited to, the costs associated with perfecting an interest in a security held by the Fund or the assertion of creditors' rights, the costs of disputes with dealers and the costs of litigation (or defending threats of litigation) involving the Fund, indemnification and other extraordinary expenses not incurred in the ordinary course of the Fund's business. The determination of whether an expense of a client is extraordinary is made by Merganser in its sole discretion.

Except as provided above, Merganser pays for a Fund's advisory and administrative services as well as the clients' marketing and distribution expenses, custody expenses, account maintenance expenses, annual accounting and audit expenses, tax preparation expenses, ordinary valuation and pricing expenses, ongoing legal expenses and organizational expenses.

The Adviser may utilize the services of broker-dealers in connection with investments made by a client, and any brokerage or other transaction costs are borne by such client except as provided above or in the applicable client

IMA or organizational documents. For additional information, please see “Brokerage Practices” below.

## **Performance-Based Fees and Side-by-Side Management**

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In limited situations, Merganser and its client may agree on a fee that is based on a share of the capital gains or capital appreciation of managed securities.

As of June 30, 2014, Merganser did not charge any performance-based fees.

## **Types of Clients**

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### **Description**

Merganser focuses on serving the fixed income investment needs of institutional and high net worth individual clients. Merganser’s clients and Fund investors include, among others, high net worth individuals, banks, thrift institutions, pension and profit sharing plans, trusts, estates, charitable organizations, university endowments, corporations, sovereign wealth funds, limited partnerships and limited liability companies in a variety of industries. Merganser also provides investment advice as a sub-adviser to investment companies registered under the Investment Company Act of 1940.

The Adviser provides investment advisory services to the Funds and such investment companies. Investment advice is provided directly to the Funds and such investment companies and not individually to the investors in the Funds or investment companies. Investors in the Funds must be “accredited investors” as defined in Regulation D under the Securities Act of 1933.

Client relationships vary in scope and length of service.

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### **Account Minimums**

The minimum separately managed account size is \$20,000,000.

Merganser has discretion to waive account minimums.

In addition, investors wishing to invest less than \$20,000,000 may invest in one or more of the Funds. The Funds do not have a minimum size, but minimum subscription amounts may be established for Fund investors as provided in the relevant offering documents, which may be subject to waiver in Merganser’s sole discretion.

# Methods of Analysis, Investment Strategies and Risk of Loss

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## Methods of Analysis

The Merganser investment process is designed in such a way that allows the investment team to be flexible and responsive to changes in the markets. All purchases are made with a willingness to hold securities to maturity based on intrinsic value. A decision to sell generally begins with a recommendation from the sector team. A discussion among team members would typically take place with the goal of reaching consensus.

Making yield curve bets versus the benchmark is not a significant part of the Merganser strategy. Based upon Merganser's market outlook, the duration of a client's portfolio is typically within +/-10% of the duration of the benchmark.

The Merganser sector teams monitor holdings on a daily basis, and for example, may consider recommending a sale under any of the following circumstances:

### Change in credit opinion

- ☐ Merger/acquisition
- ☐ Operating results/financial condition
- ☐ Future management business expectations
- ☐ Change in senior management
- ☐ Change in business strategy
- ☐ Change in funding ability
- ☐ Change in collateral performance
- ☐ Change in credit quality ratings by rating agencies

### Change in market valuation

- ☐ Shift in market supply/demand balance
- ☐ Trading rich versus similar available investment opportunities
- ☐ Trading rich versus different maturity opportunities in same credit
- ☐ Declining in price for no known reason - (difficult subjective call)
- ☐ Change in capital markets
- ☐ Unexplained significant behavior of common stock
- ☐ Credit difficulties in similar companies
- ☐ Credit difficulties in industry
- ☐ Unrelated credit difficulties, need to short

### Change in client's need

- ☐ Due to a change in risk tolerance
- ☐ Due to fund a client withdrawal

Based on the work of the sector team, Merganser's product teams, which are comprised of our portfolio managers, construct each client's portfolio from the bottom up. A typical portfolio has approximately 75 to 125 securities. Before negotiating the purchase of the security, Merganser first does a portfolio



needs assessment. Merganser reviews each portfolio's exposure to the market sector and the specific security in question. Merganser determines whether the duration impact of adding the security would be acceptable within the context of the firm's overall portfolio strategy and the accounts' investment guidelines. Final portfolio characteristics are guided by each client's objectives and benchmarks.

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## **Research Process**

The Merganser research process has two broad facets: bottom-up and top-down.

The bottom-up process focuses heavily on issuer and issue analysis. For structured products, the issuer analysis includes a review and assessment of loan underwriting and documentation procedures, servicing capability, back-up servicer capability, reputation in the industry, parent support (if any), financial strength and performance of prior deals in the market. The issue-level analysis is highly quantitative, and includes a review of the nature and amount of credit enhancement, a thorough review of the cash-flow waterfall and collateral performance triggers, a review of historical collateral performance versus previous issues from the same issuer and other peer-group issuers and extensive stress-testing under a wide range of potential economic and interest rate conditions and loss scenarios. This initial review is supported by a rigorous, proprietary surveillance process to identify upgrade/downgrade candidates, identify trends in the underlying collateral and focus relative value discussions between sectors.

For corporate bonds, Merganser focuses on fundamental credit, relative and absolute value (spread levels) and issue specific analysis for all of the firm's holdings. The fundamental credit analysis is based on a thorough review of a company's business, management, legal structure and equity holders. Merganser then conducts a detailed analysis of the company's historical financial performance, which is evaluated against the financial performance of peer companies. Merganser focuses on projected free cash-flow generation, interest coverage, leverage, collateral coverage and enterprise valuation. The relative and absolute value analysis is based on a series of tools and techniques aimed at uncovering value along the maturity spectrum and capital structure of a particular issuer. Lastly, issue specific analysis allows us to determine the appropriate spread over treasuries or like issuers that we require to assume the risk of the issuer's debt.

The top-down facet of Merganser's investment process involves ongoing asset allocation discussions. These discussions are iterative and include input from the entire investment team. Merganser reviews relative value opportunities, valuation metrics and technical market factors in all sectors - corporates, governments, asset backed and mortgages.

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## Investment Strategies

Merganser believes that in an inefficient over the counter market, the firm's active fixed income management process should seek to provide consistent excess returns for its clients. As fundamental investors, Merganser is dedicated to understanding intricate fixed income vehicles. The firm is committed to seeking to provide superior returns through identification of securities and sectors that have compelling risk/reward characteristics. In particular:

- Our investment process is based on relative value.
- Security selection and sector allocation is our focus.
- We seek to add value through diligent research, execution and risk management.

Merganser employs a disciplined value-oriented approach, aiming to be fully invested at all times in the most attractive sectors. Portfolio optimization techniques are employed to produce high risk-adjusted returns.

Merganser's primary strategies are as follows:

Strategy	Target Duration*	Benchmark
Floating Rate Bond	Less than 3 months	3 Month LIBOR
Cash Enhanced	Less than 1 year	Merrill Lynch 1 Year T-Bill Index
Short Term Bond	1.25 to 2 years	Barclay's 1-3 Year Government/Corporate Index
Intermediate Bond	2 to 4 years	Barclay's Intermediate Government/Credit Index
Core Bond	Greater than 4 years	Barclay's Aggregate Index

\* Duration measures the percentage change in price for a 1 percentage point or 100 basis-point change in interest rates. The longer the duration, the more sensitive the strategy is to interest rate changes.

Merganser provides customized portfolio management tailored to the unique guidelines of institutional clients. Examples include (a) an all asset-backed securities portfolio for a corporate client's stable value plan, and (b) a very high quality short term portfolio for a health care client's operating fund.

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## Risk of Loss

***Investing in securities involves a substantial degree of risk. A client may lose all or a substantial portion of its investment and investors must be prepared to bear the risk of a complete loss of their investments.***

In addition, material risks relating to the investment strategies and methods of analysis described above, and to the types of securities typically purchased by or for the firm's clients in connection with those strategies and methods, include the following:

- **Interest-rate Risk:** Fluctuations in interest rates may cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds rise, causing their market values to decline.
- **Market Risk:** The price of a security or bond may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions such as the European debt crisis may trigger market events.
- **Inflation Risk:** When any type of inflation is present, a dollar today will not buy as much as a dollar next year, because purchasing power is eroding at the rate of inflation.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e., interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it, a lengthy process, before they can generate a profit. They generally carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity no matter what the economic environment is like.
- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Credit Risk:** Excessive borrowing to finance a business' operations increases the risk of financial stress, because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.
- **Extension & Prepayment Risk:** During periods of rising interest rates, the average life of certain types of securities is extended because of slower than expected principal payments. This may lock in a below market interest rate, increase the security's duration and reduce the value of the security. During periods of declining interest rates, the issuer of a security exercises its option to prepay principal earlier than scheduled, forcing a client to reinvest in lower yielding securities. To

the extent an account invests significantly in asset-backed and mortgage-related securities, its exposure to prepayment and extension risks may be greater than other investments in fixed income securities.

- **Counterparty Risk:** The institutions, including brokerage firms and banks, with which the firm (directly or indirectly) does business, or to which securities have been entrusted for custodial purposes, may encounter financial difficulties that impair the operational capabilities to trade security positions.
- **Regulatory Risk:** In the past several years, there has been increased governmental, as well as self-regulatory, scrutiny of the securities industry in general. It is impossible to predict what, if any, changes in regulations will result from these developments, but any regulations which restrict the ability of the manager to employ, or broker and other counterparties to extend, credit in their trading (as well as other regulatory changes which result) could have a material adverse impact on the profit potential.

## **Disciplinary Information**

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This item is not applicable to Merganser.

## **Other Financial Industry Activities and Affiliations**

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### **Affiliated Investment Advisers**

Merganser is affiliated with the investment advisers listed below.

- **Providence Equity LLP:** organized in the United Kingdom and authorized to perform certain activities by the UK Financial Services Authority.
- **Providence Equity Asia Limited:** organized in Hong Kong and regulated by the Securities and Futures Commission of Hong Kong.
- **Providence Equity Investment Consulting (Beijing) Co. Ltd.:** organized in Beijing, China and registered with the Beijing Administration of Industry and Commerce.
- **Providence Equity Advisors India Private Limited:** organized in India.
- **Providence Equity Partners L.L.C.:** a U.S. registered investment adviser with the SEC.
- **Providence Equity Capital Markets L.L.C.:** a U.S. registered investment adviser with the SEC, a registered CPO with the CFTC and a member of the NFA.

- Benefit Street Partners L.L.C.: a U.S. registered investment adviser with the SEC, a registered CPO with the CFTC and a member of the NFA.
- Providence Equity Advisors Mauritius Limited: organized in Mauritius and regulated by the Mauritius Financial Services Commission.
- Providence Equity L.L.C.: organized in New York and has filed a single Form ADV with Providence Equity Partners L.L.C. as a relying advisor.

Clients of Merganser may from time to time participate in transactions alongside other clients of Merganser or clients of an affiliated adviser.

Certain members of the board of directors of Merganser and indirect equity owners of Merganser are also employees and/or owners of certain of the above entities. For a description of material conflicts of interest created by the relationship among Merganser and the affiliated advisers, as well as a description of how such conflicts are addressed, please see “Code of Ethics, Participation or Interest in Client Transactions and Personal Trading” below.

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

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### **Code of Ethics**

The employees of Merganser have committed to a Code of Ethics which includes three main sections: (1) Conflicts of Interest, (2) Insider Trading and (3) Employee Securities Reporting. The Code of Ethics requires each of Merganser’s employees to deal honestly and fairly with all persons with whom he or she has contact. Employees at all times must place the interests of Merganser’s clients first.

Employees must file transaction reports if they have a direct or indirect beneficial interest in securities. This beneficial interest extends to immediate family members sharing the same household, including spouse, child, stepchild, grandchild, parent, stepparent, grandparent, siblings and in-laws. It also includes serving as a trustee or in any other fiduciary capacity, when the employee has trading authority over another person’s account, and when the employee is a beneficiary of a trust and has input on security transactions. All reports are reviewed by the Chief Compliance Officer.

Merganser will provide a copy of the Code of Ethics to any client or prospective client upon request.

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### **Participation or Interest in Client Transactions**

Merganser and its employees may not buy or sell securities that are also held by clients. Exceptions to this policy are securities issued by the United States Treasury or other related governmental agencies. Employees may not trade their own securities ahead of client trades. Employees are required to comply with the provisions of the Merganser Compliance Manual.

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**Personal Trading**

The Chief Compliance Officer of Merganser is Jeffrey Addis. He or his designee reviews all employee trades each quarter. It is not necessary to report positions in: shares of open-end mutual funds where Merganser is not an advisor or sub-advisor, bank certificates of deposit, and securities of the United States Government and its agencies. His trades are reviewed by the company President. The personal trading reviews seek to ensure that employees personal trading does not affect the markets, or conflict with Merganser's fiduciary duty to its clients.

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**Investor Due Diligence Information**

Due in part to the fact that potential investors in a Fund may ask different questions and request different information, the Adviser may provide certain information to one or more prospective investors that it does not provide to all of the prospective or current investors of the Fund. In addition, certain investors in the Funds may also be strategic investors directly or indirectly into the Adviser, which may result in such investors receiving greater or different information regarding the Adviser.

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**Conflicts of Interest**

The Adviser and its affiliates engage in a broad range of activities, including investment activities for clients, for their own account and for the account of their clients. Certain affiliates of the Adviser provide transaction-related, advisory, management and other services to operating companies. The Adviser has described various conflicts of interest that may arise in respect of its business, as well as a description of how the Adviser addresses such conflicts of interest, below. The discussion below does not describe all conflicts that may arise.

**Potential Conflicts**

The potential material conflicts of interest encountered by a client include those discussed below, although the discussion below does not necessarily describe all of the conflicts that may be faced by a client account. Other conflicts may be disclosed throughout this brochure and the brochure should be read in its entirety for other conflicts.

**Potential Conflicts of Interest Related to Advisory Affiliates**

Merganser is affiliated with other investment advisers, as described in "Other Financial Industry Activities and Affiliations" above. Providence Equity Partners L.L.C., Providence Equity Capital Markets L.L.C. and Benefit Street Partners L.L.C. focus primarily on different investment strategies than those of Merganser, although such investment strategies may overlap from time to time, and are investment advisers that are registered with the SEC. Providence Equity Capital Markets L.L.C. and Benefit Street Partners L.L.C. are also registered with the U.S. Commodity Futures Trading Commission and are members of the National Futures Association. However, clients of Merganser, Providence Equity Partners L.L.C., Providence Equity Capital

Markets L.L.C. and Benefit Street Partners L.L.C. may invest in the same companies, including in the same security or in different securities of such a company. In the ordinary course of conducting its activities, interests of Merganser's clients may therefore conflict with the interests of the clients of Providence Equity Partners L.L.C., Providence Equity Capital Markets L.L.C. and Benefit Street Partners L.L.C. Other than Providence Equity Partners L.L.C., Providence Equity Capital Markets L.L.C. and Benefit Street Partners L.L.C., the investment adviser affiliates of Merganser do not have their own clients. Generally, however, conflicts between the Adviser and its affiliates are mitigated because the Adviser and its affiliates are separately operated and generally do not share trading or investment information.

### **Principal Transactions**

Section 206 of the Investment Advisers Act of 1940 regulates principal transactions among an investment adviser and its affiliates, on the one hand, and its clients, on the other hand. Very generally, if an adviser (or an affiliate) purchases a security from or sells a security to a client, the adviser must disclose the terms of the transaction to the client and obtain the consent of the client prior to engaging in the principal transaction. In connection with the Adviser's management of its clients, the Adviser's affiliates may engage in principal transactions. The Adviser's affiliates have established certain policies and procedures to comply with the requirements of the Advisers Act as they relate to principal transactions, including that disclosures required by Section 206 be made to the applicable client regarding any proposed principal transactions and that any required prior consent is received before executing a principal transaction.

### **Cross-Transactions**

A cross-transaction generally refers to a transaction where one client managed by the Adviser or its affiliates seeks to acquire an investment that another client of the Adviser seeks to sell. Cross-transactions may create conflicts of interest because a client is on both sides of the transaction. The Adviser may on occasion purchase a security or securities for one client at the same time as a sale of the same security or securities for another client or may effect cross-transactions between clients. In most instances such transactions will be effected to rebalance the positions held by the client with a view towards achieving uniform results among certain clients in light of differing cash flows due to subscriptions and redemptions. Such transactions in publicly traded securities generally will be effected at the last sale price at the end or the first sales price at the beginning of the trading day through one or more broker-dealers, and in accordance with the clients' IMA and/or organizational documents, if applicable.

### **Conflicts Related to Purchases and Sales**

Certain affiliates of the Adviser may buy or sell securities or other instruments that the Adviser has recommended to clients. In addition, such certain affiliates, officers, principals or employees may buy securities in transactions

offered to, but rejected by, clients. Such transactions are subject to the policies and procedures set forth in the Adviser's Code of Ethics. The investment policies, fee arrangements, and other circumstances of these investments may vary from those of the Adviser's clients. Certain affiliates of the Adviser may invest in and alongside clients. If such affiliates of the Adviser have made large capital investments in or alongside clients they may have conflicting interests with respect to these investments. Generally, however, these conflicts between the Adviser's clients and its affiliates and their clients are mitigated because the Adviser and its affiliates are separately operated and generally do not share trading or investment information.

Conflicts may arise when a client makes investments in conjunction with an investment being made by other client or a client of the Adviser's affiliate, or in a transaction where another client or client of such an affiliate has already made an investment. Investment opportunities may be appropriate for client and/or clients of the Adviser's affiliate at the same time, at different or overlapping levels of a company's capital structure. Conflicts may arise in determining the terms of investments, particularly where these clients may invest in different types of securities in a single company. Questions may arise as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be refinanced. Decisions about what action should be taken in a troubled situation, including whether or not to enforce claims, whether or not to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work out or restructuring may raise conflicts of interest, particularly for clients that have invested in different securities within the same company. Investments by more than one client of the Adviser or its affiliates in a given company may also raise the risk of using assets of a client of the Adviser or its affiliates to support positions taken by other clients of the Adviser or its affiliates. There can be no assurance that the return of a client participating in a transaction would be equal to and not less than another client participating in the same transaction or that it would have been as favorable as it would have been had such conflict not existed.

### **Allocations**

Each client may pursue investment opportunities similar to those pursued by another client. The allocation of investment opportunities among clients will be determined by the Adviser in its good faith judgment and in accordance with the organizational documents and IMAs of the relevant client. Allocation decisions can raise conflicts, for example, if clients have different fee structures. Subject to a client's investment guidelines and IMA, the adviser generally allocates investment opportunities among eligible clients on a pro rata basis based upon account size.

### **Management of the Client Accounts**

It is expected that employees of the Adviser responsible for managing a particular client will have responsibilities with respect to other client accounts,



including client accounts that may be established in the future. Conflicts of interest may arise in allocating time, services or functions of these employees between client accounts.

### **Diverse Membership – Pooled Investment Vehicle Investors**

The investors in the Funds and mutual funds may include U.S. taxable and tax-exempt entities, and institutions from jurisdictions outside of the United States. Such investors may have conflicting investment, tax and other interests with respect to their investments in a pooled investment vehicle. The conflicting interests among the investors may relate to or arise from, among other things, the nature of investments made by a pooled investment vehicle, the structuring of the acquisition of investments and the timing of the disposition of investments. As a consequence, conflicts of interest may arise in connection with decisions made by the Adviser, including with respect to the nature or structuring of investments, that may be more beneficial for one investor than for another investor, especially with respect to investors' individual tax situations. In selecting and structuring investments appropriate for a pooled investment vehicle, the Adviser will consider the investment and tax objectives of the applicable pooled investment vehicle and the investors as a whole, not the investment, tax or other objectives of any investor individually.

## **Brokerage Practices**

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### **Selecting Brokerage Firms**

Selecting qualified brokers is critical to meeting an adviser's fiduciary obligations to its clients. Merganser oversees the selection of brokers, and maintains a list of approved brokers with which it does business. The selection of a broker is based on its financial soundness and its ability to service the firm's clients. The criteria used include, but may not be limited to, the following:

- The financial condition of the broker
- Its trading capabilities
- Its operations
- Its disciplinary history

Merganser monitors the relationships with the brokers to ensure that they maintain the capacity to continue serving the firm's clients.

Merganser does not receive fees or commissions from any of these arrangements.

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### **Best Execution**

Merganser has a fiduciary obligation when executing transactions for a client to seek the most favorable terms available given the circumstances surrounding the transaction. Merganser will usually accept the best price

when executing a trade for a client, but may also consider the full range and quality of a broker's services, along with its financial condition. Merganser maintains relationships with a broad broker network. Merganser will not use client brokerage to pay for client referrals or to achieve any other financial benefit (even at the expense of obtaining lower transaction fees).

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**Soft Dollars**

Merganser does not have any "soft dollar" arrangements, receive payments for order flow, receive any goods or services for using a broker, have any financial interest in market makers, have any affiliated brokers, or act as a principal in trades. Brokers may send research to Merganser on a voluntary basis. There is no obligation for Merganser to reciprocate by directing trades to these brokers.

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**Directed Brokerage**

Merganser will not enter into a client directed brokerage arrangement unless specifically directed to do so in writing by a client, nor will Merganser execute any client directed brokerage transactions unless instructed to do so in writing by a client. A client who directs Merganser to use a particular broker-dealer to effect transactions should consider whether such direction may result in certain costs or disadvantages to the client. Such costs may include higher brokerage commissions (because Merganser may not be able to aggregate orders to reduce transaction costs) and less favorable execution of transactions. By permitting a client to direct Merganser to execute the client's trades through a specified broker-dealer, Merganser will make no attempt to negotiate commissions on behalf of the client and, as a result, in some transactions such clients may pay materially disparate commissions depending on their commission arrangement with the specified broker-dealer and upon other factors such as number of shares, round and odd lots and the market for the security. The commissions charged to clients that direct Merganser to execute the client's trades through a specified broker-dealer may in some transactions be materially different than those of clients who do not direct the execution of their trades. Clients that direct Merganser to execute the client's trades through a specified broker-dealer may also lose the ability to negotiate volume commission discounts on batched transactions that may otherwise be available to other clients of Merganser. Merganser will not be the beneficiary of any directed brokerage.

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**Order Aggregation**

Each of Merganser's portfolios is generally unique with regard to the securities that it holds and in many cases the investment guidelines by which it is managed. When the firm purchases securities, frequently it is looking for a particular type of security to meet the needs of a specific client's portfolio. In other instances, Merganser may purchase a security that represents an attractive value for several portfolios and allocate it among them.

Investment decisions for each client are made independently from those of other clients. Should the same investment decision be made for more than one client, Merganser may aggregate securities to be purchased or sold so as to obtain a more favorable price or a better commission rate for all participating client accounts. Merganser will allocate trades so as to shape each portfolio to meet the client's objectives. When allocating trades, Merganser will not favor portfolios based either on the fees they pay or whether they are proprietary.

If there is an inadequate quantity of the security to allocate it to all eligible accounts (lot size for each allocation will be at a level that in the firm's judgment facilitates trading and minimizes costs), Merganser will allocate the security in a fair and equitable manner, taking into account how the addition of the security will affect the overall portfolio construction.

## **Review of Accounts**

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### **Periodic Reviews**

Portfolios are reviewed by the portfolio manager or designee on a regular basis to ensure investments remain appropriate. The following tools and methods and reports are utilized (but not limited to):

- Daily portfolio characteristic reports
- Daily cash availability forecast
- Daily compliance reports
- Weekly account review meetings
- Weekly investment strategy meetings
- Periodic client meetings and conference calls
- Monthly client reports
- Periodic performance attribution reports

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### **Review Triggers**

Other conditions that may trigger a review are changes in regulations, new investment information, changes in the economy, current events, and a client's specific situation.

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### **Regular Reports**

Unless otherwise agreed, Merganser will, on a monthly basis, send each separately managed account client an investment report showing the asset positions at the end of the period, transactions during the period, and the investment performance for the period. Separately managed account clients may also request different reports than normally provided, and Merganser will attempt to meet client-reporting needs where practical.

Clients should make arrangements for their custodian to also provide them with a list of transactions and assets priced at the end of the period. Merganser does not choose the custodian for its clients.

A Fund's investors receive reports from the Fund pursuant to the terms of each Fund's offering memoranda. Generally, such investors receive a monthly report showing the Fund's transactions and holdings, the characteristics of the underlying portfolio and the Fund's performance.

## **Client Referrals and Other Compensation**

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### **Referrals**

Merganser may from time to time enter into agreements to compensate non-employees for referrals, provided that, to the extent required, each such solicitor has entered into a written agreement with Merganser pursuant to which the solicitor will provide each prospective client with a copy of Merganser's Form ADV Part 2A and Part 2B, and a disclosure document setting forth the terms of the solicitation arrangement, including the nature of the relationship between the solicitor and Merganser and any fees to be paid to the solicitor. These agreements are governed by, and require that the solicitor meet the disclosure and other requirements of Rule 206(4)-3 under the Advisers Act and related staff interpretations, as well as comply with other applicable laws and regulations including state security laws.

## **Custody**

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### **Account Statements**

The Investment Advisers Act imposes requirements on investment advisers that have custody of client assets. These requirements include the establishment of policies and procedures designed to prevent the misappropriation of assets. The rule requires assets to be held by a qualified custodian, and investment advisers to have a reasonable belief that the custodian provides at least quarterly statements to the client.

Merganser does not have custody of the assets of its separately managed account clients. Merganser does not select custodians for separate account clients, nor does Merganser make arrangements for a custodian to furnish the client with statements containing a list of assets and account activity. Clients are urged to compare their account statements with those received from the custodian.

Merganser is deemed to be the custodian for its pooled fund vehicles. Annually, an independent public accounting firm audits the pooled investment vehicles and audited financial statements are distributed to pooled fund participants within 120 of the fiscal year end (December 31<sup>st</sup>). Assets for the pooled fund vehicles are held by a qualified custodian (BNY Mellon Asset Servicing). Merganser sends monthly statements to the participants utilizing BNY Mellon data accounting data. Fund participants are urged to compare these reports with statements supplied directly from BNY Mellon. Participants

may contact BNY Mellon Asset Servicing if they would like to receive statements directly from the custodian.

## **Investment Discretion**

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Merganser accepts discretionary authority to manage securities accounts on behalf of clients. For such accounts, Merganser has the authority to determine, without obtaining specific client consent, the securities to be bought or sold, and the amount of the securities to be bought or sold. Please see "Advisory Business" above for a description of the limitations a client may place on Merganser's discretionary authority.

Discretionary trading authority facilitates placing trades for client accounts on their behalf so that we may promptly implement the investment policy that they have approved in writing.

## **Voting Client Securities**

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As a fixed income adviser, Merganser does not normally receive proxies to vote for its clients' accounts. In some instances, a client's IMA reserves responsibility for voting proxies to the client. In the rare instance that a proxy is received that requires a vote by Merganser, the following procedures will be followed:

For all money market mutual fund proxies, Merganser will generally vote to approve all auditor, director and legal counsel requests. For all non-money market mutual fund proxies, Merganser will determine its recommendation for voting the proxy, and, unless Merganser has been directed by the client to vote all proxies without further consultation, Merganser will advise the client of the recommendation and the client will make the final decision on how to vote. Information about how Merganser voted client proxies is available to clients upon request.

In addition, Merganser will provide a copy of its proxy voting policies and procedures to any client or prospective client upon request.

## **Financial Information**

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This item is not applicable to Merganser.

## Requirements for State-Registered Advisers

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This item is not applicable to Merganser.