

## **ITEM 1. COVER PAGE**

### **MICHAELSON CAPITAL SFF II, LLC**

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March 26, 2020

**This brochure provides information about the qualifications and business practices of Michaelson Capital SFF II, LLC (“MCSFF II”). If you have any questions about the content of this brochure, please contact us at 212-433-1360 or [vcapone@michaelsoncapital.com](mailto:vcapone@michaelsoncapital.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

**Additional information about MCSFF II also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Registration as an investment adviser with the SEC does not imply a certain level of skill or training.**

## **ITEM 2. MATERIAL CHANGES**

On June 1, 2019, Imperium Master Fund, Ltd. transferred all of its assets and liabilities to Imperium Master Fund Holdings, LLC pursuant to a Bill of Sale and Assignment and Assumption Agreement. As of June 1, 2019, Imperium Master Fund Holdings, LLC acts as master fund to Imperium Overseas Speciality Finance Fund, Ltd. and Imperium Speciality Finance Fund, LP. Michaelson Capital SFF II, LLC is the manager of Imperium Master Fund Holdings, LLC.

### ITEM 3. TABLE OF CONTENTS

Section/Topic	Page
ITEM 1. COVER PAGE .....	i
ITEM 2. MATERIAL CHANGES .....	ii
ITEM 3. TABLE OF CONTENTS .....	iii
ITEM 4. ADVISORY BUSINESS .....	1
A.    Ownership Structure.....	1
B.    Advisory Services .....	1
C.    Assets Under Management.....	2
ITEM 5. FEES AND COMPENSATION.....	2
A.    Collecting Our Advisory Fees.....	2
B.    Other Third Party Non-Advisory Fees and Expenses You May Incur .....	4
ITEM 6 PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT .....	5
ITEM 7. TYPES OF CLIENTS .....	6
ITEM 8. METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS .....	7
ITEM 9. DISCIPLINARY INFORMATION .....	11
ITEM 10. OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS.....	11
ITEM 11. CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING.....	12
ITEM 12. BROKERAGE PRACTICES .....	13
A.    Best Execution .....	13
B.    Research and Other Soft Dollar Benefits .....	13
C.    Brokerage for Client Referrals and Directed Brokerage .....	13
D.    Trade Aggregation or Allocation Policy .....	13
ITEM 13. REVIEW OF ACCOUNTS .....	14
A.    Account Reviews .....	14
B.    Reports to Clients .....	14
ITEM 14. CLIENT REFERRALS AND OTHER COMPENSATION .....	15
ITEM 15. CUSTODY .....	15
ITEM 16. INVESTMENT DISCRETION.....	15
ITEM 17. VOTING CLIENT SECURITIES.....	15
ITEM 18. FINANCIAL INFORMATION .....	16

Michaelson Capital SFF II, LLC (the “Registrant” or “MCSFF II”) is an investment adviser that is registered with the SEC under the Investment Advisers Act of 1940 (the “Advisers Act”). This brochure explains the investment advisory services we provide to our clients (collectively, the “advisory business”), and provides important information about us.

#### **ITEM 4. ADVISORY BUSINESS**

Registrant was established on March 24, 2017 and serves as an investment adviser to the private funds Michaelson Capital Special Finance Fund II, L.P., a Delaware limited partnership (the “U.S. Fund”) and Michaelson Capital Overseas Special Finance Fund II, L.P., a Cayman Islands exempted limited partnership (the “Offshore Fund”, and together with the U.S. Fund, the “MCSFF II Funds”). MCSFF II also serves as investment adviser to Michaelson Capital Special Finance Fund, L.P., a Delaware limited partnership (the “MCSF U.S. Fund”); Michaelson Capital Overseas Special Finance Fund, Ltd., a Cayman Islands corporation (the “MCSF Offshore Fund”, and together with the MCSF U.S. Fund, the “MCSF Funds”); Imperium Master Fund Holdings, LLC, a Delaware limited liability company (the “Master Fund”); Imperium Overseas Specialty Finance Fund, Ltd., a Cayman Islands corporation (the “Imperium Offshore Fund”); and Imperium Specialty Finance Fund, LP (the “Imperium U.S. Fund”, and together with the Master Fund and the Imperium Offshore Fund, the “Imperium Funds”; and each of the MCSFF II Funds, the MCSF Funds and the Imperium Funds, a “Fund”, and collectively, the “Funds”). Effective December 31, 2017, affiliated entities of the Registrant, Michaelson Capital Special Finance, LLC (“MCSF”) and Imperium Advisers, LLC (“Imperium”) assigned all of their rights and delegated all of their duties as investment advisers to the MCSF Funds and the Imperium Funds, respectively, to MCSFF II. MCSF and Imperium are no longer registered with the SEC as investment advisers and are no longer actively engaged in investment management activities. Our principal business involves providing asset management services to the Funds. We have investment discretion with respect to the Funds, and we select and monitor investments for each pursuant to the terms of an investment management agreement (the “Management Services Agreement”) with each Fund. In the future we may provide asset management services to additional clients, including private funds and/or managed accounts.

This section of the brochure describes our advisory business, including:

- Our ownership structure;
- The types of advisory services we provide; and
- The amount of assets that we manage.

##### **A. Ownership Structure**

Registrant is a Delaware limited liability company majority-owned by John Michaelson (70.00%), with minority ownership by Vincent S. Capone (12.50%), Laurence Jones (12.50%) and the remaining ownership allocated among members of the Board of Directors of the Registrant and employees of the Registrant.

##### **B. Advisory Services**

MCSFF II’s advisory business consists of providing discretionary advisory services to the Funds. We provide investment advice only with respect to a limited type of investments.

##### **MCSFF II Funds**

The MCSFF II Funds seek capital preservation while generating current cash-yield returns and significant equity appreciation. The MCSFF II Funds aim to achieve these results primarily by providing senior secured term debt with a substantial equity component to entrepreneur-led growth companies (each, a “Portfolio Company”) with a well-defined need for capital. The Offshore Fund is a feeder fund to the U.S. Fund. The MCSFF II Funds are a “mini-master” structure in which the Offshore Fund invests as a single limited partner in the U.S. Fund, and as such the investment strategies of the MCSFF II Funds are

identical. The private offering memoranda of the MCSFF II Funds describes their particular investment objective, strategy, and restrictions. An affiliate of the Registrant, Michaelson Capital SF Management II, LLC (the “General Partner”), serves as General Partner to the U.S. Fund and the Offshore Fund.

The MCSFF II Funds seek to generate returns for investors primarily from two sources:

- Interest on the loans they originate; and
- Appreciation of equity, in the form of either common or preferred equity, or, less frequently, equity-equivalents, issued by the Portfolio Company.

The MCSFF II Funds are structured to pay out to investors interest and principal payments on debt (as well as any other sums received in respect of the loans the MCSFF II Funds originate and the equity positions they acquire) on a quarterly basis (net of applicable fees and any amounts reserved to satisfy other Fund obligations), providing investors with current income in advance of most private equity funds and allowing the MCSFF II Funds’ equity in the Portfolio Companies to appreciate, capturing upside potential with no additional capital at risk. The MCSFF II Funds are targeting a current yield of 7% of initial capital on the debt component of the portfolio, and a total net percentage return to investors (from debt and equity) in the mid-teens.

#### Imperium Funds and MCSF Funds

The Imperium Funds and the MCSF Funds are not open to new investors and are no longer actively making investments. The investment strategies of these funds are similar to that of the MCSFF II Funds, albeit in a “hedge fund structure” as opposed to a “private equity fund structure”. The private offering memorandua of the relevant Fund describes its particular investment objective, strategy, and restrictions.

Michaelson Capital Special Finance Management, LLC (the “MCSF General Partner”) and Imperium GP, LLC (the “Imperium General Partner”), affiliated entities of MCSFF II, serve as general partners to the MCSF U.S. Fund and the Imperium U.S. Fund, respectively.

See Item 8 of this brochure for information regarding methods of analysis, investment strategies and risks of loss of the Funds.

### **C. Assets Under Management**

As of December 31, 2019, the Registrant had \$57,962,099 in assets under management, all of which is managed on a discretionary basis through the Funds.

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

### **A. Collecting Our Advisory Fees**

The Registrant, the General Partner, the MCSF General Partner and the Imperium General Partner receive compensation for providing advisory services to the Funds. The Registrant receives an asset-based fee and the general partners or MCSFF II receives a performance-based fee or allocation, if applicable, as described in each of the Funds’ offering documents.

#### MCSFF II Funds

From the First Closing Date (see table below) until two years following the Final Closing Date (the “Investment Period”), the fee schedule for an investment in the MCSFF II Funds includes an annual management fee between 1.75% and 2.25% of a limited partner’s capital commitment (calculated separately for each limited partner), payable quarterly in advance. Different investors in the Funds pay different management fees based on amount and timing of their investment in the Funds as set forth below:

<u>Type of Limited Partner in the Fund or the Offshore Fund</u>	<u>Management Fee Rate (p/a)</u>	<u>Carried Interest Percentage</u>	<u>Minimum Commitment</u>	<u>Anticipated Final Closing Date</u>
Limited Partner Participating in First Closing:	1.75%	15%	\$1,000,000	June 15, 2017
Limited Partner Participating in Subsequent Closing:	1.75%	20%	\$5,000,000	October 31, 2017
Limited Partner Participating in Subsequent Closing:	2.25%	20%	\$1,000,000	March 31, 2018

Following the Investment Period, the management fee will be calculated based on the of the portion of the net asset value (computed as of the first day of each calendar quarter) attributable to a limited partner's interest in the MCSFF II Funds.

The management fee will commence with respect to each limited partner's capital commitment as of the date of the First Closing Date (as set forth in the schedule above), regardless of when such limited partner is actually admitted to a MCSFF II Fund. Therefore, limited partners participating in a Subsequent Closing will be assessed management fees retroactive to the First Closing Date, together with interest, at a rate per annum equal to the management fee rate applicable to that limited partner. All amounts so assessed will be paid to MCSFF II as the investment manager.

Installments (including the first installment) of the Management Fee payable for any period other than a full quarterly period shall be prorated based on the number of days in the period.

In the General Partner's discretion, the management fee may be paid either out of amounts otherwise available for distribution to the limited partners or by drawdowns of the limited partners' unfunded capital commitments. Any amount drawn down from the unfunded capital commitments to pay the management fee may, to the extent the limited partners receive subsequent distributions, be restored to the unfunded capital commitments and subject to future drawdowns.

As noted in the schedule above, a carried interest allocation of up to 20% may also be payable to the General Partner. The carried interest allocation is based upon a percentage of the net profits of the Funds in excess of the return of the capital commitments of the limited partners and in excess of the Preferred Return (as defined in the MCSFF II Funds' offering documents). Notwithstanding the above, depending on the net proceeds from disposition of portfolio investments, as well as distributions of Portfolio Company securities in kind, together with any dividends, interest or other similar income (other than certain short-term investment income) received with respect to a portfolio investment, the carried interest percentage may be higher or lower than the stated range. The carried interest may also be subject to a "clawback" in certain circumstances as more fully described in the Funds' offering documents

#### Imperium Funds and MCSF Funds

MCSFF II receives an up to 2% management fee and MCSFF II, the MCSF General Partner or the Imperium General Partner, as applicable, receives an up to 20% performance-based fee or allocation for advisory services with respect to the MCSF Funds and the Imperium Funds, as more fully described in the offering memorandum of the relevant Fund.

#### General

Except for the management fee and carried interest/performance-based fee or allocation, none of MCSFF II, the General Partner or their respective affiliates will receive any monitoring fees, advisory fees, directors' fees, transaction fees or other similar fees or incentive consideration from the Funds or any Portfolio Companies. In the event that MCSFF II, the General Partner, or their respective affiliates receives any such fees or consideration from the Funds or a Portfolio Company, such items will be rebated to the relevant Fund.

The fees and allocations described above do not include brokerage commissions, transaction fees, service provider fees, and other related costs and expenses which will also be incurred by the Funds. See below under the heading "Other Non-Advisory Fees and Expenses You May Incur" for a more complete description of these fees and expenses.

## **B. Other Non-Advisory Fees and Expenses You May Incur**

To the extent not prohibited by the Management Services Agreement, each of the Funds will incur costs and expenses, other than our management fee and carried interest percentage/performance-based fee or allocation, which are generally borne pro rata by Fund investors, unless otherwise provided under the Funds' offering documents.

### MCSFF II Funds

The MCSFF II Funds will bear all legal and other organizational expenses, including the out-of-pocket expenses of MCSFF II and the General Partner, incurred regarding the formation of the MCSFF II Funds and the offering of interests in the MCSFF II Funds, up to an amount (exclusive of placement fees) equal to \$750,000. To the extent that such organizational expenses exceed \$750,000 or the MCSFF II Funds incur any placement fees, such excess organizational expenses and all such placement fees will be paid by the MCSFF II Funds but borne by MCSFF II through a 100% offset against the management fee.

Other than with respect to certain in-house services as described below, MCSFF II and the General Partner will be responsible for all routine day-to-day expenses associated with their own operations, including salaries, office space and equipment, as well as expenses of compliance with legal and regulatory requirements arising from their own activities.

The MCSFF II Funds will be responsible for all other costs and expenses of operating, including all organizational fees, management fees, ongoing accounting, auditing, legal, custodial, administrative, reporting, regulatory compliance, and tax return preparation fees and expenses; costs of insurance; expenses associated with the evaluation, due diligence, structuring, holding, monitoring and disposition of actual or prospective portfolio investments (including broken deal costs); and all extraordinary expenses of the Funds (such as any insurance, indemnity or litigation expense).

As part of the above-described operating expenses, the MCSFF II Funds will be charged expenses related to certain in-house services provided by MCSFF II or its affiliates, so long as (i) the fees, costs and other expenses of such services would be Fund expenses if the services were provided by third-party service providers, (ii) the General Partner reasonably believes that it is in the MCSFF II Funds' best interest to have such services performed in-house and (iii) the cost of providing such services in-house is less than it would be if such services were provided by third-parties on arm's-length terms. The aggregate annual amount of Fund expenses arising from services provided by MCSFF II or its affiliates will be included in the MCSFF II Funds' annual reports to its investors.

In the General Partner's discretion, the management fee, organizational expenses or operating expenses may be paid either out of amounts otherwise available for distribution to the limited partners or by drawdowns of the limited partners' unfunded capital commitments. Any amount drawn down from the unfunded capital commitments to pay the management fee, organizational expenses or operating

expenses may, to the extent the limited partners receive subsequent distributions, be restored to the unfunded capital commitments and subject to future drawdowns.

#### Imperium Funds and MCSF Funds

The MCSF General Partner, the Imperium General Partner, MCSFF II and the administrator will each bear the costs of providing its respective services to the Imperium Funds and the MCSF Funds, including general overhead, salaries, and office expenses.

The Imperium Funds and the MCSF Funds shall bear all costs and expenses incurred by each Fund, through any offsets from fund income or otherwise, and shall promptly reimburse the MCSF General Partner, the Imperium General Partner, MCSFF II or its affiliates, as the case may be, to the extent that any of such costs and expenses are paid by such entities on the relevant Fund's behalf (the "Fund Expenses") and are not either reimbursed by borrowers, or otherwise reimbursed.

Fund Expenses include, but are not limited to, all costs of: (a) organizing the relevant Fund; (b) acquisition, disposition, improvement, rehabilitation, construction, development, refinancing, management and other similar fees, costs and expenses with respect to portfolio investments; (c) industry research and industry conference costs; (d) fees and expenses for attorneys, accountants and other professional consultants engaged to provide services to or for the relevant Fund; (e) third parties engaged in originating, developing, negotiating, structuring, monitoring and collecting portfolio investments; (f) brokerage commissions, custodial expenses and other investment costs incurred in connection with portfolio investments and other Fund assets; (g) interest on and fees and expenses arising out of all borrowings made by the relevant Fund including, but not limited to, the arranging thereof; (h) the costs of any litigation, directors' and officers' liability or other insurance and indemnification or extraordinary expense or liability relating to the affairs of the relevant Fund; (i) expenses of liquidating the relevant Fund; (j) except as otherwise provided herein or in the governing document of the relevant Fund, any taxes, fees or other governmental charges levied against the relevant Fund and all expenses incurred in connection with any tax audit, investigation, settlement or review of the relevant Fund; (k) expenses associated with the preparation of the relevant Fund's financial statements, tax returns and each investor's K-1 or other equivalent report; and (l) such other fees, expenses, and costs, including administrative and other Fund related costs, as set forth in the governing documents of the relevant Fund. To the extent a portfolio investment pays origination, closing, collateral monitoring, acquisition fees, transaction fees, advisory fees, consulting fees, management fees, investment banking fees, topping fees, break-up fees, directors fees and other similar fees, these fees may be used to reduce the Fund Expenses.

Please refer to the "Brokerage Practices" section below for a more detailed discussion of brokerage and other transaction costs.

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

A performance fee or performance allocation is a fee representing an investment adviser's compensation for managing an account (such as the Funds), which is based upon a percentage of the net positive performance of the account being managed. With respect to the MCSFF II Funds, the General Partner may earn a carried interest based on the MCSFF II Funds' performance. The General Partner will only receive a carried interest after the limited partners in the MCSFF II Funds receive a return of 100% of their invested capital commitment as well as the Preferred Return (as defined in the MCSFF II Funds' offering documents). With respect to the MCSF Funds and the Imperium Funds, MCSFF II, the MCSF General Partner or the Imperium General Partner, as applicable, receives an up to 20% performance-based fee or allocation for advisory services with respect to the MCSF Funds and the Imperium Funds.

The carried interest/performance-based fee or allocation creates inherent conflicts of interest with respect to the management of assets. Specifically, our entitlement to a carried interest/performance-based fee or allocation in managing the Funds may create an incentive for us to take risks in managing the Funds that we would not otherwise take in the absence of such an arrangement. Additionally, since



the carried interest/performance-based fee or allocation rewards us for performance in the Funds, we may have an incentive to favor the Funds over other potential accounts or funds in the future which may not be subject to a performance fee/allocation or carried interest. Also, the MCSF Funds and the Imperium Funds have similar investment strategies to the MCSFF II Funds. As performance fees are different with respect to the MCSFF II Funds, the Imperium Funds and the MCSF Funds, there is an inherent conflict between allocations of potential investments between the MCSFF II Funds, the Imperium Funds and the MCSF Funds, and we may have an incentive to favor the MCSFF II Funds over the Imperium Funds and the MCSF Funds (or the Imperium Funds and the MCSF Funds over the MCSFF II Funds) in allocating transactions to earn performance fee income.

As an investment adviser and fiduciary, the Registrant will exercise due care to ensure that investment opportunities are allocated equitably among the Funds, regardless of the fee structure. In general, the allocation of investment opportunities between the Funds will be determined by the following criteria (i) tenure of the particular loan investment and (ii) AUM by and among each of the investment vehicles. For example, in determining an allocation of loan investments between the MCSFF II Funds and the MCSF Funds, the Registrant will generally allocate loans with a term of less than 3 years to the MCSF Funds and longer term loans to the MCSFF II Funds. If there is a loan that would be an acceptable investment in all of the Funds, the Investment Committee of the Registrant will review the transaction and using its business judgment will make a determination on the proper allocation of the new loan opportunity to some/all of the Funds. If the Investment Committee determines that it is an appropriate loan for all of the Funds, the Investment Committee may allocate the total loan among the Funds based on a number of factors including, but not limited to, AUM of the Funds, existing loan exposure in each vehicle to a particular industry, and other considerations for a reasonable determination by the Investment Committee of an allocation among the Funds.

Although we have a duty to treat all portfolios within an investment strategy fairly and equitably over time, portfolios with the same or similar investment strategies will not necessarily be managed the same at all times. Specifically, there is no requirement that we use the same investment practices consistently across the Funds. In general, investment decisions for each Fund will be made independently from those of other Funds. Investments will be made with specific reference to the individual needs and objectives of each of the Funds. Different/specific return parameters and particular investment strategies may lead to the use of different investment practices for the Funds.

Side-by-side management of various types of portfolios raises the possibility of favorable or preferential treatment of one fund or account over another, arising from differences in fee arrangements or otherwise. As described above, we maintain and implement procedures in furtherance of our efforts to treat all portfolios fairly and we believe that portfolios subject to side-by-side management will receive fair and equitable treatment over time.

In addition, the Funds may invest alongside strategic, financial or other third party co-investors. The Funds' ability to achieve their investment objectives in a co-investment situation assumes that the Funds will be able to negotiate and execute mutually acceptable terms and conditions. Such investments will involve additional risks which may not be present in investments which do not involve a co-investor, including the possibility that a co-investor may at any time have economic or business interests or goals that are not consistent with those of the Funds, may be in a position to take action contrary to the Funds' investment objectives or may default on its obligations. While the Funds intend to mitigate these risks contractually through co-investment agreements, there can be no assurance that the Funds will be successful in doing so. Also, such co-investment may or may not be on substantially the same terms and conditions as the Funds, and such co-investments may or may not be disposed of at the same time or on the same terms as dispositions by the Funds. In addition, under certain circumstances the Funds may be liable for actions of its co-investors. To reduce the possibility of liability, the Funds will seek to hold their assets through limited liability entities and, where appropriate, obtain indemnities from their co-investors.

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

Currently the Registrants' clients only include the Funds. The Registrant may become investment adviser to other funds or accounts in the future. The requirements for investing in the Funds are described in the Funds' offering documents. The minimum dollar amount of an investment in the Funds is set at \$1,000,000, which may be reduced upon the written consent and approval of the relevant general partner, the relevant Fund directors, or MCSFF II.

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

As described above, the Imperium Funds and the MCSF Funds are not open to new investors and are no longer actively making investments. As such, the discussion in this section will focus on the MCSFF II Funds. However, given that the strategy of the Imperium Funds and the MCSF Funds is similar to that of the MCSFF II Funds, the discussion of analysis, strategy and risk below is mainly relevant to these Funds as well.

As described above, the MCSFF II Funds will typically provide capital in the form of senior secured term loans with significant equity participation (though there may be exceptions). These loans address well-defined needs for growth capital for Portfolio Companies – for example, new product launches, product development, working capital to support rapid growth, small “bolt-on” strategic acquisitions, and, occasionally, bridges to an IPO or strategic sale, or restructuring efforts.

The MCSFF II Funds' senior secured term loans will typically require the Portfolio Company to make monthly or quarterly interest payments generally ranging between 8% to 10% per annum from inception of the loan, producing meaningful current income. The terms of the loans also generally include amortization over the life of the loan, typically beginning upon the first or second anniversary of the loan's origination.

The MCSFF II Funds will also typically require substantial overcollateralization for their senior secured term loans in the form of cash, current accounts receivables, and easily liquidated inventory. While focused on senior secured term debt, the MCSFF II Funds may invest in other types of senior secured loans, convertible debt and unsecured senior debt. The MCSFF II Funds may also from time to time make equity investments in existing Portfolio Companies and in certain new situations to gain entrance.

The MCSFF II Funds will generally only make debt investments in companies in which they also acquire a substantial equity position. The MCSFF II Funds seek to invest in high quality technology and healthcare growth companies where they believe the equity price is attractive and the portfolio management team and/or their directors and advisors have the ability to assist the company in its growth trajectory.

In accessing potential Portfolio Company investments, the MCSFF II Funds will be very sensitive to equity valuations. Investing in overvalued equity, even that of good companies, is unlikely to routinely generate attractive returns. The MCSFF II Funds will spend significant time in valuing the attendant equity to their loans rather than accepting an unrealistic valuation on its equity.

There can be no assurances that the MCSFF II Funds will achieve their investment objectives. Investing in securities involves a risk of loss.

### **Material Risks**

Risks of our investment programs generally include liquidity risks, investment risks and operational risks. In some cases risks may fall into one or more of these categories; thus, the classification of a risk into any one category should not be ascribed any independent significance. Fund risks are described in greater detail in each Fund's offering document and potential investors should read the offering document carefully to determine if an investment in a particular Fund is suitable for the investor.

**Long-term Nature of Investment; Illiquidity of the MCSFF II Fund's Investments.** An investment in the MCSFF II Funds requires a long-term commitment of capital. While the MCSFF II's goal is to deploy 50% of the total capital commitments within 12 months after the Final Closing, and 90% of the total capital

commitments within 24 months after the Final Closing, there can be no guarantee that MCSFF II will achieve this goal, and there may be a significant period of time before the MCSFF II Funds have completed their investment program. The process of searching for, selecting, managing and disposing of investments is likely to take several years from the date of the First Closing. There can be no assurance that the MCSFF II Funds' return targets will be met. Accordingly, the return of capital and the realization of gains, if any, from portfolio investments may not occur until a number of years after such investments are made, if at all. In addition, investments made by the MCSFF II Funds are likely to be illiquid. Illiquidity may result from the absence of an established market for such investments, as well as from legal, contractual or other restrictions on their resale by the MCSFF II Funds. This illiquidity may interfere with the MCSFF II Funds' ability to dispose of its portfolio investments in a timely manner or adversely affect the terms of such dispositions. Moreover, distributions to the limited partners may be made in kind, including (following the dissolution of the MCSFF II Funds) in illiquid securities, and losses on unsuccessful investments may be realized before any gains on successful investments are realized.

**Interest Rates.** The MCSFF II Funds' portfolio investments may generally include a fixed interest rate component for the loan repayment. As such, movements in the level of interest rates may affect the returns from the MCSFF II Funds' portfolio investments more significantly than investments in other types of assets. In addition, a material increase in interest rates and/or risk margins during the term of the MCSFF II Funds could materially and adversely affect the MCSFF II Funds' ability to dispose of their portfolio investments on favorable terms.

**Price Levels.** Inflation may adversely affect the MCSFF II Funds' portfolio investments. The value of the MCSFF II Funds' debt investments may decline in periods of rising inflation given a fixed interest rate component. Conversely, during periods of deflation, the market value of the MCSFF II Fund's Portfolio Companies may decline, reducing the MCSFF II Funds' ability to achieve targeted returns upon realization of the equity components of their portfolio investments.

**Bridge Financings.** From time to time, the MCSFF II Funds may lend to Portfolio Companies on a short-term, unsecured basis in anticipation of a future issuance of equity or long-term debt securities or other refinancing (each such loan, a "Bridge Financing"). However, for reasons not always in the MCSFF II Funds' control, such an issuance of long-term securities or other refinancing may not occur, and such Bridge Financing may remain outstanding. In that event, the interest rate and other terms of such Bridge Financing may not adequately reflect the risk associated with the short-term position taken by the MCSFF II Funds.

**Certain Effects of Default and Bankruptcy.** Each of the MCSFF II Funds' Portfolio Companies or its assets may be foreclosed upon or acquired by third parties under certain circumstances, including an incipient and/or unremedied default. In the event of the bankruptcy of a Portfolio Company, prior distributions to the MCSFF II Funds may be reclaimed if such prior payments are determined to have been "preference" payments under applicable bankruptcy and related laws and regulations.

**Investments in Troubled Entities.** The MCSFF II Funds may invest in assets or entities that are experiencing operational, managerial, financial or other difficulties which may never be resolved. Investments in these assets or entities will require more extensive time and effort on the part of the MCSFF II Funds and are likely to involve a heightened risk of bankruptcy or liquidation. In such an event, the MCSFF II Funds may be exposed to the risk of legal proceedings of uncertain duration and legal costs of an uncertain magnitude, as well as the possibility of little or no return on its investment.

**Borrowings and Cost of Leverage.** Subject to the restrictions on borrowings described herein, the MCSFF II Funds may from time to time enter into loan agreements with third parties to provide working capital for the MCSFF II Funds. The MCSFF II Funds may borrow or use other forms of leverage on a secured or an unsecured basis for any purpose, including increasing investment capacity, covering operating expenses, making redemption or dividend payments or for clearance of transactions.

The use of leverage creates increased risk of loss and is considered a speculative investment technique. The use of leverage magnifies the potential gains and losses from an investment and increases the risk of

loss of capital. Borrowing money to purchase securities may provide an opportunity for greater capital appreciation, but, at the same time, increases the MCSFF II Funds' exposure to capital risk and higher current expenses through interest charges, fees imposed by lenders and transaction costs. To the extent that income derived by the MCSFF II Funds from investments purchased with borrowed funds is greater than the cost of borrowing, the MCSFF II Funds' income will be greater than if borrowing had not been used. Conversely, if the income from investments purchased from these sources is not sufficient to cover the cost of the leverage, the MCSFF II Funds' investment income will be less than if leverage had not been used, and the amount available for ultimate distribution to the MCSFF II Funds' limited partners will be reduced. The extent to which the gains and losses associated with leveraged investing are magnified will generally depend on the degree of leverage employed. The MCSFF II Funds may, under some circumstances, be required to dispose of investments under unfavorable market conditions in order to repay its creditors, thus causing the MCSFF II Funds to recognize a loss that might not otherwise have occurred. In the event of a sale of investments upon default under the MCSFF II Funds' borrowing arrangements, secured creditors may be contractually entitled to direct such sales and may be expected to do so in their interest, rather than in the interests of the MCSFF II Funds' limited partners.

There is no limitation on the percentage of portfolio investments that can be pledged to secure borrowings. If loans are collateralized with portfolio investments that decrease in value, the MCSFF II Funds may be obliged to provide additional collateral to the lender or sell positions at a loss to avoid liquidation of the pledged investments. Any such liquidation could result in substantial losses. The amount of leverage that the MCSFF II Funds employs at any particular time will depend MCSFF II's assessments of market and other factors at the time of any proposed borrowing.

**General Credit Risks of Debt Obligations.** Debt portfolios are subject to credit and interest rate risks. "Credit risk" refers to the likelihood that an issuer will default in the payment of principal and/or interest on an instrument. Financial strength and solvency of an issuer are the primary factors influencing credit risk. In addition, lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Credit risk may change over the life of an instrument, and debt obligations which are rated by rating agencies are often reviewed by such agencies and may be subject to downgrade.

"Interest rate risk" refers to the risks associated with market changes in interest rates. Interest rate changes may affect the value of a debt instrument indirectly (especially in the case of fixed rate securities) and directly (especially in the case of instruments whose rates are adjustable). General interest rate fluctuations may have a substantial negative impact on the MCSFF II Funds' investments, the value of the MCSFF II Funds' interests and the MCSFF II Funds' rate of return on invested capital. An increase in interest rates could decrease the value of any investments held by the MCSFF II Funds that earn fixed interest rates, including subordinated loans, senior and junior secured and unsecured debt securities and loans and high yield bonds, and also could increase the MCSFF II Funds' interest expense, thereby decreasing its net income. In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Adjustable rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including the index chosen, frequency of reset and reset caps or floors, among other factors). This risk will be greater for long-term securities than for short-term securities. Interest rate sensitivity is generally more pronounced and less predictable in instruments with uncertain payment or prepayment schedules. The MCSFF II Funds may attempt to minimize the exposure of its portfolio to interest rate changes through the use of interest rate swaps, interest rate futures, interest rate options and/or other hedging strategies. However, there can be no guarantee that MCSFF II will be successful in mitigating the impact of interest rate changes on the portfolios.

**Early Stage Investment Risk.** The MCSFF II Funds may invest in Portfolio Companies whose leadership or management may have individuals who have a strong understanding of the needs of clients and their markets but have limited financial, entrepreneurial or business backgrounds. Similarly, certain potential Portfolio Companies, as a result of their early stage of development, may lack experienced senior and second-tier management as well as a strong board of directors. In addition, such Portfolio Companies' operations and strategic direction may be highly dependent on their respective founders. In

the face of an unexpected event that leaves such a company without its leader, the sustainability of the company may be jeopardized, which may negatively impact the MCSFF II Funds' investment in such Portfolio Company.

**Growth Stage Investment Risk.** Investments in more mature companies in the growth or profitable stage involve substantial risks. Such companies typically have obtained capital in the form of debt and/or equity to expand rapidly, reorganize operations, acquire other businesses, or develop new products and markets. These activities by definition involve a significant amount of change in a company and could give rise to significant problems in sales, manufacturing, and general management of these activities. There is no assurance that such investments by the MCSFF II Funds will be successful.

**Risks Associated with Investments in Small to Medium Capitalization Companies.** The MCSFF II Funds may invest a portion of its assets in the securities of companies with small-to medium-sized market capitalizations. While MCSFF II believes these investments often provide significant potential for appreciation, those securities, particularly securities of smaller-capitalization companies, involve higher risks in some respects than do investments in securities of larger-capitalization companies. For example, prices of such securities are often more volatile than prices of securities of large-capitalization companies. In addition, due to thin trading in some such securities, an investment in these securities may be more illiquid than an investment in the securities of larger-capitalization companies.

**Borrower Bankruptcy.** Even when the MCSFF II Funds makes performing loans to non-distressed Portfolio Companies, it is possible that such Portfolio Companies could face unforeseen difficulties and could default on their debt obligations and/or become bankrupt. There are a number of significant risks inherent in the bankruptcy process. First, many events in a bankruptcy are the product of contested matters and adversary proceedings and are beyond the control of the creditors. While creditors are generally given an opportunity to object to significant actions, there can be no assurance that a bankruptcy court in the exercise of its broad powers would not approve actions that would be contrary to the interests of the MCSFF II Funds. Second, the effect of a bankruptcy filing on a borrower may adversely and permanently affect the borrower. The borrower may lose its market position and key employees and otherwise become incapable of restoring itself as a viable entity. If for this or any other reason the proceeding is converted to a liquidation, the value of the borrower may not equal the liquidation value that was believed to exist at the time of the investment. Third, the duration of a bankruptcy proceeding is difficult to predict. A creditor's return on investment can be adversely affected by delays while the plan of reorganization is being negotiated, approved by the creditors and confirmed by the bankruptcy court and until it ultimately becomes effective. Fourth, the administrative costs in connection with a bankruptcy proceeding are frequently high and would be paid out of the debtor's estate prior to any return to creditors. For example, if a proceeding involves protracted or difficult litigation, or turns into a liquidation, substantial assets may be devoted to administrative costs. Fifth, bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization. Because the standard for classification is vague, there exists the risk that the MCSFF II Funds' influence with respect to the class of securities or other obligations it owns can be lost by increases in the number and amount of claims in that class or by different classification and treatment. Sixth, in the early stages of the bankruptcy process it is often difficult to estimate the extent of, or even to identify, any contingent claims that might be made. Seventh, especially in the case of investments made prior to the commencement of bankruptcy proceedings, creditors can lose their ranking and priority if they exercise "domination and control" over a debtor and other creditors can demonstrate that they have been harmed by such actions. Eighth, certain claims that have priority by law (for example, claims for taxes) may be substantial and reduce the amount available to other creditors, including the MCSFF II Funds. Ninth, the bankruptcy process may increasingly be subject to political risk, especially in industries deemed to be of national importance. Tenth, bankruptcy court is a court of equity and the proceedings are therefore subject to substantial judicial discretion. Finally, inasmuch as each insolvency proceeding is unique, unknown and unforeseen events may affect the process and adversely affect the returns to the MCSFF II Funds.

Investments in companies operating while consummating a plan of reorganization or under Chapter 11 of the U.S. Bankruptcy Code are also, in certain circumstances, subject to certain additional liabilities which

may exceed the value of the MCSFF II Funds' original investment in a Portfolio Company. For example, under certain circumstances, creditors who have inappropriately exercised control over the management and policies of a debtor may have their claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. MCSFF II's active management style may present a greater risk in this area than would a more passive approach. In addition, under certain circumstances, payments to the MCSFF II Funds and distributions by the MCSFF II Funds to the limited partners or payments on the debt may be reclaimed if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

MCSFF II on behalf of the MCSFF II Funds may participate on committees formed by creditors to negotiate with the management of financially troubled companies that may or may not be in bankruptcy or may negotiate directly with debtors with respect to restructuring issues. If MCSFF II does choose to join a committee, it would likely be only one of several participants, all of whom would be interested in obtaining an outcome that is in the best interests of themselves or their clients. There can be no assurance that MCSFF II would be successful in obtaining results most favorable to the MCSFF II Funds in such proceedings, although MCSFF II may incur significant legal and other expenses in attempting to do so. As a result of participation by MCSFF II on such committees, MCSFF II may be deemed to have duties to other creditors represented by the committees, which might thereby expose MCSFF II to liability to such other creditors who disagree with MCSFF II's actions. Participation by MCSFF II on such committees may cause MCSFF II to be subject to certain restrictions on its ability to trade in a particular investment and may also make MCSFF II an "insider" for purposes of the federal securities laws. Either circumstance will restrict MCSFF II's ability to trade in or acquire additional positions in a particular investment when it might otherwise desire to do so.

## **ITEM 9. DISCIPLINARY INFORMATION**

We are required to disclose all material facts regarding any legal or disciplinary events that would be material to a client's or prospective client's evaluation of our business or the integrity of our management. We have not been subject to any legal or disciplinary event that would require disclosure under applicable SEC rules. No management person at the Registrant or its affiliates has been the subject of any legal or disciplinary action or event.

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

This section of our brochure describes the activities and relationships that the Registrant and its management persons engage in or have with other financial industry participants.

John Michaelson, the majority owner of Registrant, the General Partner, the MCSF General Partner and the Imperim Genreal Partner, has a material investment in the MCSF U.S. Fund and the Imperium U.S. Fund. These activities and relationships may create conflicts of interest between the personal interests of Mr. Michaelson and the interests of the Registrant. Vincent S. Capone and Laurence Jones also hold significant minority stakes in the Registrant and the General Partner, and Vincent S. Capone holds a significant minority stake in the MCSF General Partner and the Imperium General Partner. We maintain policies and procedures addressing principal trades and conflicts of interest. The Funds have similar investment strategies, which may give rise to an inherent conflict between the allocation of resources and investments to the Funds. In addition, the Registrant and/or its affiliates may become investment adviser to funds or accounts in the future with the same or a similar investment strategy to the Funds, presenting similar conflicts of allocation of resources and investments. The Registrant maintains an investment committee to approve all investments in the Funds to ensure there are no conflicts of interest with respect to the investments by the Funds and the operations of the Registrant or the investments of affiliated funds. Please see the offering documents of the Funds for additional information.

In addition the Registrant, and our affiliates and associated persons, may have other outside relationships with issuers of securities in which Funds invest or with the Portfolio Companies. The Registrant, as a registered investment adviser, is required to have policies and procedures in place that are reasonably

designed to address conflict of interest situations and conflicts in investment decisions. These policies and procedures include appropriate safeguards.

The Registrant or its affiliate has engaged a third party marketing firms to solicit and promote investment in the MCSF Funds and MCSFF II Funds by third party investors (although the MCSF Funds are no longer open to new investors). The Registrant shares a portion of its management fees (and the Registrant or the relevant general partner, as applicable, shares a portion of its carried interest/performance-based fee or allocation) earned from the account of the investors in the MCSF Funds and MCSFF II Funds with the third party marketing firm that introduced and facilitated investments in the MCSF Funds and the MCSFF II Funds.

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

The Registrant has adopted a Compliance Program pursuant to Rule 204A-1 under the Advisers Act, including guidelines regarding ethics, personal trading and client transactions, among other policies and procedures. Our primary duty and responsibility is to our investors in the Funds. We are dedicated to performing our services and fulfilling our obligations to the Funds and other clients with the highest standards of integrity, conduct and professional execution in pursuit of these goals. The Code of Ethics includes various anti-fraud provisions, which makes it unlawful for investment advisers and supervised persons to engage in any activities which may be fraudulent, deceptive or manipulative. It sets ethical standards for compliance with securities laws, safeguarding material nonpublic information about clients' transactions and portfolio holdings, and obtaining initial and annual reports of securities holdings for supervised persons. The Code of Ethics identifies conduct which could compromise these objectives, or that has an appearance of impropriety, and contains policies and procedures designed to detect and prevent such conduct, including such conduct as the mishandling of material non-public information. In principal part, our Compliance Program seeks to promote desirable conduct through policies affecting its personnel and the policies the Registrant is to follow in connection with the investment, monitoring and administration of the Funds. We will provide a copy of our Code of Ethics to any investor or prospective investor in the Funds upon request. In addition, our full Compliance Program manual is available for review on site.

Although the Compliance Program permits supervised persons to trade in securities, it contains significant safeguards designed to protect from abuses in this area. The Registrant and its affiliates may recommend securities in which we or a related party invest or have a material financial interest. Additionally, we may recommend securities to the Funds at or about the same time that we or a related party buy or sell the same securities for ourselves or for another client. These and related conflicts of interests are discussed above in "Other Financial Industry Activities and Affiliations – Other Relationships." The Chief Compliance Officer maintains a list of the Funds' portfolio investments and the Registrants's advisory representatives which is updated periodically. Supervised persons must disclose personal securities accounts (including any accounts for their immediate family and household members), initial/annual securities holdings and report at least quarterly any reportable transactions in their personal accounts and their related personal accounts. In addition, supervised persons must pre-clear the purchase or sale of any securities with the Chief Compliance Officer prior to any trade (excluding any open-end mutual funds, ETFs or other similar non-directed investment vehicle). The Chief Compliance Officer may periodically review supervised persons' securities accounts to ensure there are no improper investments or trades made, among other things.

The Compliance Program of the Registrant also seeks to prevent insider trading as well as provides guidelines, among other guidelines, for the outside business activities of investment personnel, and the receiving/giving of gifts and entertainment.

## **ITEM 12. BROKERAGE PRACTICES**

### **A. Best Execution**

As a fiduciary, the Registrant has an obligation to obtain best execution for client transactions based on the circumstances of each particular transaction. We consider the full range and quality of a broker-dealer's services in placing orders with a brokerage firm including, among other things: execution capability; existing relationships; financial strength; reputation; pricing; reporting capabilities; and responsiveness. The determining factor is not solely the lowest possible commission or cost, but whether the transaction represents the best qualitative execution for the Funds. However, currently the investment portfolios managed by the Registrant are generally not trading portfolios. The assets in the investment portfolios are typically bonds, long-term notes, long-term equity positions, and warrants. Except when liquidating a position, there are few, if any, trades. This may change in the future.

### **B. Research and Other Soft Dollar Benefits**

Soft dollars generally refers to arrangements whereby a discretionary investment adviser is allowed to pay for and receive research, research-related or execution services from a broker-dealer or third-party provider, in addition to the execution of transactions, in exchange for the brokerage commissions from transactions for client accounts.

Section 28(e) of the Securities Exchange Act of 1934 allows and provides a safe harbor for discretionary investment advisers to pay an increased commission, above what another broker-dealer would charge for executing a transaction, for research and brokerage services, provided the adviser has made a good faith determination that the value of the research and brokerage services qualifies as reasonable in relation to the amount of commissions paid. Further, under SEC guidelines, the determination as to whether a product or service is research or other brokerage services, and eligible for the Section 28(e) safe harbor, is whether it provides lawful and appropriate assistance to the investment manager in performance of its investment decision-making responsibilities.

The Registrant, as a matter of policy and practice, does not have any formal or informal arrangements or commitments to utilize research, research-related products and other services obtained from broker-dealers, or third parties, on a soft dollar commission basis. The Chief Compliance Officer periodically monitors the Registrant's business relationships and advisory services to insure no research services or products are being obtained on a soft dollar basis.

### **C. Brokerage for Client Referrals and Directed Brokerage**

The Registrant does not direct securities transactions to any broker-dealer in exchange for client referrals or any other consideration, nor does the Registrant engage in directed brokerage or permit clients to direct the execution of transactions through a specified broker-dealer.

### **D. Trade Aggregation or Allocation Policy**

The Registrant maintains policies and procedures governing the manner in which we aggregate transactions and allocate investment opportunities among the Funds and any other funds or accounts that may in the future be managed by MCSFF II (each, an "Account"). The principal factor driving these trade aggregation and allocation policies and procedures is the fair and equitable treatment of the Funds and any Accounts.

On occasions when we deem the purchase or sale of a security to be in the interest of multiple clients, we may, to the extent permitted by applicable laws and regulations, aggregate the securities to be sold or purchased in order to obtain best execution and lower commission expenses, if any. In the event of any aggregation, allocation of the securities so purchased or sold, as well as the expenses incurred in the transaction, shall be made by us in a manner that we consider to be equitable and consistent with our obligations to all clients participating in the transaction.



Various factors are considered in the allocation of such opportunities, including whether the Funds and Accounts, if any, has sufficient liquidity to invest in the security that is being considered, the size of the position relative to other investments within such vehicle and other factors. Under this procedure, transactions will generally be averaged as to price and allocated among our clients' pro rata, based on original allocation to the purchase and sale orders placed for each client on a given day. In the event that we determine that pro rata allocation is not appropriate under the particular circumstances, the allocation will be made based upon other relevant factors, which may include: (i) when only a small percentage of the order is executed, the investment may be allocated to the account with the smallest order or the smallest position or to an account that is out of line with respect to security or sector weightings relative to other portfolios with similar mandates; (ii) allocations may be given to one account when one account has limitations on its investment guidelines which prohibit it from purchasing other securities which are expected to produce similar investment results and can be purchased by other accounts; (iii) if an account reaches an investment guideline limit and cannot participate in an allocation, the opportunity may be allocated to other accounts (this may be due to unforeseen changes in an account's assets after an order is placed); (iv) with respect to sale allocations, allocations may be given to accounts low in cash; (v) in cases when a pro rata allocation of a potential execution would result in a *de minimis* allocation in one or more accounts, we may exclude the account(s) from the allocation and the transaction may be executed on a pro rata basis among the remaining accounts; or (vi) in cases where a small proportion of an order is executed in all accounts, the opportunity may be allocated to one or more accounts on a random basis.

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

#### **A. Account Reviews**

On a weekly basis, accounts of the MCSF Funds and the MCSFF II Funds are reviewed internally. The accounts of the Imperium Funds have only two remaining assets and are reviewed monthly. At all-hands staff meetings, accounts of the Funds are reviewed by a majority of the members of the Investment Committee and members of senior management of the Registrant. Any material changes in performance, risk status, liquidity, or other risk metrics are presented by the account manager and appropriate changes, if any, are recommended.

On a monthly basis, the senior management team of the Registrant reviews the monthly valuation report and performs a reconciliation of such valuation report with the valuation guidelines and updated credit reviews of the MCSF Funds and the MCSFF II Funds. In addition, the Investment Committee of the Registrant reviews the performance and valuation of each investment in the MCSF Funds and the MCSFF II Funds. Lastly, an independent accounting firm reviews and confirms the valuation of each portfolio investment in the MCSF Funds and the MCSFF II Funds on a monthly basis based on the materials provided to it through the management team of the Registrant.

The senior management team of the Registrant reviews the valuation report and performs a reconciliation of such valuation report with the valuation guidelines and updated credit reviews of the Imperium Funds when there is a significant event or a liquidation of a position.

On a yearly basis, a written credit assessment or FAS 157 memorandum is prepared for each investment in the MCSF Funds and the MCSFF II Funds by the senior management of the Registrant. In addition, the Investment Committee of the Registrant reviews the performance and valuation of each investment in the MCSF Funds and the MCSFF II Funds. Lastly, an independent accounting firm reviews and confirms the valuation of each portfolio investment in the Funds at year-end (or through a surprise exam in the case of the Imperium Funds) based on the materials provided to it through the management team of the Registrant.

#### **B. Reports to Clients**

The Registrant reports to its Board of Directors on a regular basis, and upon request. In addition, information regarding profits and losses, detailed holdings and performance is generated quarterly and reported to the investors in each Fund. All of the reporting to investors in the Funds is completed by a third party administrator which directly distributes quarterly reports and correspondence to each of the investors in the Funds. Quarterly investor letters are prepared by the senior management team of the Registrant and distributed to the investors in the Funds within 30 days following completion of each calendar quarter during the year.

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

The Registrant seeks client referrals and compensates third party firms for referring clients to invest in the MCSF Funds and the MCSFF II Funds (although the MCSF Funds are no longer open to new investors). The Registrant has engaged a third party marketing firm to solicit and promote investment in the MCSF Funds and MCSFF II Funds. The Registrant shares a portion of its management fees (and MCSFF II or the relevant general partner, as applicable, shares a portion of its carried interest/performance-based fee or allocation) from investors in the MCSF Funds and the MCSFF II Funds with the third party marketing firm that introduced and facilitated a third party investment in the MCSF Funds and MCSFF II Funds.

The Registrant does not currently accept economic benefits from non-clients for providing advisory services to our clients.

Please see "Other Financial Industry Activities and Affiliations" for additional disclosures regarding third party marketing firms.

#### **ITEM 15. CUSTODY**

Clients will receive account statements from brokers dealers, banks, and other third party service providers, and other qualified custodians. Clients should carefully review these statements.

#### **ITEM 16. INVESTMENT DISCRETION**

As described above in "Advisory Business" we have discretionary authority with respect to all client accounts, including the Funds' investments, subject to the authority and supervision of the Registrant's Boards of Directors. Limitations on such discretion, if any, are disclosed in the relevant Management Services Agreement and the offering documents of the Funds.

#### **ITEM 17. VOTING CLIENT SECURITIES**

The Registrant does not expect to significantly invest in equity voting securities. From time to time, the Funds may acquire equity as a result of warrants or other rights granted in connection with the secured loans and other indebtedness investments made by the Funds, which may entitle the Funds to certain voting and/or consent rights.

The Registrant complies with its proxy voting policies and procedures that are designed to ensure that in cases where it votes proxies with respect to Fund securities, such proxies are voted in the best interests of each of the Funds, which may result in different voting results for proxies for the same issuer. The Registrant votes proxies in the interest of maximizing value for the Funds and the investors in the Funds. To that end, the Registrant endeavors to vote proxies in the manner that it determines in good faith will be the most likely to cause the Funds' investments to increase the most or decline the least in value. Consideration is given to both the short and long-term implications of the proposal to be voted on when considering the optimal vote. The Registrant believes that voting proxies in accordance with the following guidelines is in the best interests of the Funds:

- Generally, the Registrant will vote in favor of routine corporate housekeeping proposals, including election of directors (where no corporate governance issues are implicated), selection of auditors, and increases in or reclassification of common stock.

- Generally, the Registrant will vote against proposals that make it more difficult to replace members of the issuer's board of directors, including proposals to stagger the board, cause management to be overrepresented on the board, introduce cumulative voting, introduce unequal voting rights, and create supermajority voting.

For other proposals, the Registrant shall determine whether a proposal is in the best interests of Funds and may take into account the following factors, among others:

- whether the proposal was recommended by management and the Registrant's opinion of management;
- whether the proposal acts to entrench existing management; and
- whether the proposal fairly compensates management for past and future performance.

The Chief Compliance Officer will identify any conflicts that exist between the interests of the Registrant and the Funds. This examination will seek to include a review of the relationship of the Registrant and its affiliates with the issuer of each security and any of the issuer's affiliates to determine if the issuer is a Fund investor or has some other relationship with the Registrant or the Funds.

If a material conflict of interest between the Registrant and a Fund exists, the Registrant will determine whether voting in accordance with the guidelines set forth in the proxy voting policies and procedures is in the best interests of the Fund or take some other appropriate action. Investors may obtain a copy of the Registrant's proxy voting policies and procedures and information about how the Registrant voted a Fund's proxies by contacting the Chief Compliance Officer.

## **ITEM 18. FINANCIAL INFORMATION**

We are required to provide clients with certain financial information or disclosures about our financial condition because we have discretionary authority over our clients' accounts. We have no financial commitment that impairs our ability to meet contractual commitments to clients and have not been the subject of bankruptcy proceedings.