

# **MERRITT CAPITAL INVESTMENT ADVISORS LLC**

## **Combined ADV Part 2A: Firm Brochure**

**March 1, 2020 - DRAFT**

### **Cover Page**

This brochure provides information about the qualifications and business practices of Merritt Capital Investment Advisors LLC. The business address is 23 Old Kings Highway South, Darien, CT 06820. If you have any questions about the contents of this brochure, please contact Ramona A. Adams, Chief Compliance Officer at 203-656-2677 or at [radams@merrittcaplp.com](mailto:radams@merrittcaplp.com).

Merritt Capital Investment Advisors LLC is a registered Investment Adviser. Registration of an Investment Adviser does not imply any level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. This document should be reviewed in its entirety.

Additional information about Merritt Capital Investment Advisors LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 2 Material Changes**

There are no material changes herein from the March 15, 2019 update of our brochure.

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

Merritt Capital Investment Advisors LLC (the "General Partner") is an investment advisor with its principal place of business in Darien, Connecticut. The General Partner, a Delaware limited liability company commenced operations in late 2004, and became registered with the SEC as an investment advisor in 2005. The General Partner serves as advisor to Merritt Capital Partners LP ("MCP" or the "Partnership"); a Delaware limited partnership which operates as a diversified multi-strategy "fund of funds". As of March 1, 2020, Merritt Capital had approximately \$123,000,000 in assets under management, as defined by the SEC for purposes of filing Form ADV Part 1. Merritt Capital Offshore Advisors, LLC ("Offshore Advisors"), a Delaware limited liability company was organized in 2005 to manage the affairs of Merritt Capital Offshore Ltd ("MCOL"), an offshore feeder fund of the Partnership organized under the laws of the Cayman Islands. MCP and MCOL are sometimes referred to individually as a "Fund" and collectively as the "Funds" and the General Partner and Offshore Advisors are sometimes referred to individually as a "Manager" and collectively as the "Managers". In addition, Merritt Capital Investment Advisors advises institutional clients such as family offices and fund of funds with respect to prospective investment partnership investments and allocations. Merritt has no investment authority relative to these institutional clients who make all investment decisions. Merritt charges these institutional clients a quarterly fee, negotiated on a case by case basis.

E. Robert Cotter and Louis S. Wolfe are the founding Principals (the "Principals") of Merritt Capital Investment Advisors LLC. Thomas Kirkpatrick joined Merritt Capital in 2014, and in 2015 purchased Mr. Wolfe's limited liability interest in both Merritt Capital Investment Advisors LLC and Merritt Capital Offshore Advisors LLC.

Since 2015, Mr. Cotter and Mr. Kirkpatrick have served as Principals and Managing Partners of the General Partner, as further described below. The Funds depend upon their expertise in and knowledge of the financial services sector to achieve their objectives. Mr. Wolfe continues to act as a trusted advisor to the firm.

The two Principals, together with Louis S. Wolfe, Co-Founder and Senior Advisor, Mary Johanna Dyer, Managing Director and Ramona Adams, Managing Director serve as voting members of the Investment Committee, as further described herein.

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

The General Partner is paid an asset fee (the "Asset Fee") on the first day of each Fiscal Quarter equal to three hundred seventy-five thousandths of one percent (0.375%) of each Limited Partner's closing capital account as of the last day of the preceding Fiscal Quarter. Similarly, Offshore Advisors is paid an Asset Fee on the first day of each Fiscal Quarter equal to three hundred seventy-five thousandths of one percent (0.375%) of each MCOL shareholder's net asset value as of the last day of the preceding quarter. The Funds bear normal operating expenses, including legal and accounting fees. The Funds also bear their pro rata share of the expenses of the underlying funds in which they invest, including brokerage and custody costs. Fees are deducted from client asset accounts; clients are not billed for fees incurred.

The Managers, in their sole discretion, may waive, or charge a lesser Asset Fee.

Merritt Capital Investment Advisors also advises institutional clients such as family offices and fund of funds with respect to prospective investment partnership investments and allocations. Merritt charges these institutional clients a quarterly fee, negotiated on a case by case basis.

## **6. PERFORMANCE BASED FEES**

The Managers do not charge a performance fee, and consequently, do not have a hurdle rate or a high water mark.

## **7. TYPES OF CLIENTS**

The Managers' clients consist of the Funds, and institutional clients such as fund of funds. The Funds are not registered as investment companies under the Investment Company Act of 1940, as amended (the "1940 Act"). The Funds are open to investors who are "qualified purchasers" as defined under Section 2(a)(51) of the 1940 Act and rely on the exemption from registration provided in Section 3(c)(7) of the 1940 Act. Investors in the Funds must also be "accredited investors" as defined in Regulation D under the Securities Act of 1933, as amended (the "Securities Act"), and a "qualified purchaser" as defined in Section 2(a)(51) of the 1940 Act.

Investors in the Partnership include accredited individual investors, family offices, and partnerships, among others. Investors in MCOL include tax exempt entities such as employee benefit plans, foundations and endowments, other charitable organizations, as well as non-US investors. The Managers, in their sole discretion, may decline to admit a prospective investor for any reason or for no reason, even if the prospective investor satisfies the Funds' suitability criteria.

The minimum investment in the Funds is \$1,000,000, though the Managers, in their sole discretion, may waive this requirement.

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

The Managers seek to achieve compelling risk adjusted returns by investing the Fund in fundamentally driven managers. Investments in the Funds are speculative and involve a substantial degree of risk, including the risk that an investor could lose some or all of its investment in the Funds. An investment in the Funds should only be made after consulting with independent, qualified sources of investment, legal, tax, accounting and other advice.

***Please see the Partnership's Confidential Private Placement Memorandum and MCOL's Explanatory Memorandum for a discussion of the risks inherent in investing in the Funds.***

### Strategy and Philosophy

The Funds' investment mandate is defined by certain principles: (1) seek best in class managers having skill, experience, sufficient infrastructure and high personal integrity, (2) preserve capital, (3) focus on employing a fundamental, research-driven, repeatable investment strategy to achieve a superior, risk-adjusted return compared to appropriate long only benchmarks over a market cycle,

and (4) dampen volatility by diversifying across sectors, geography and investment styles, while avoiding highly leveraged strategies.

*MCP will characteristically target a portfolio of approximately 10-15 managers or more depending on diversification and portfolio needs. Our top 5 managers (based on allocation) will usually consist of 50-60% of fund assets and the top 10 managers will typically consist of approximately 70-85% of assets on average. The partnership will typically hold at least 50% of assets in long/short equity funds and, depending on the opportunity set, the balance may include, but are not limited to, event driven, distressed credit, macro, and multi-strategy funds. Typically, single fund or single fund family exposure is limited to approximately 15% of assets.*

The partnership will utilize a combination of well-established fund managers having multi-year track records along with select “emerging” managers with shorter track records who typically operate with smaller asset bases, allowing for a more flexible and nimble investment approach. An emerging manager is typically defined as a fund with AUM of less than \$1b or less than a two year performance record as an independent manager.

Managers must exhibit exceptional investment skill and the experience needed to generate an acceptable level of risk adjusted performance. Although the strategy and track record of a prospective manager is very important when considering an investment, the character and integrity of the manager are paramount to MCP’s philosophy. Additionally, the manager should demonstrate the ability to manage an investment team in a professional manner and utilize a well-defined, investment strategy including portfolio construction and risk management processes.

Further to these principles, the Funds’ investment strategy is guided by the following: (a) *construct a portfolio that is broadly diversified; (b) maintain reasonable liquidity at the manager and portfolio level; (c) monitor leverage at the portfolio and manager level; (d) invest in strategies we can analyze and understand; and (e) invest with managers that share our philosophy.*

#### Manager Selection and Due Diligence

Managers are typically sourced through professional contacts including business colleagues, existing and prospective investors, hedge fund conferences and current managers. Databases are used only for performance comparisons. Prime brokers and capital introduction groups are a secondary source.

The common characteristics of managers we seek include high integrity, energy, intellect, depth of organization and a dedication to deep fundamental bottom up research as the foundation of its investment strategy. Aside from having deep experience, exceptional investment skill and high personal integrity, the manager must demonstrate the ability to generate an acceptable risk adjusted return for our portfolio. Other key manager attributes include a demonstrated ability to manage an investment team in a professional manner and incorporate a well-defined, investment strategy with portfolio construction and risk management processes. The Partnership typically avoids strategies that require excessive leverage or have “black box” characteristics.

We perform extensive bottom-up due diligence with a potential manager in an attempt to understand a manager’s investment skill and identify the drivers of return. These drivers can include the quality of the research process and its sustainability, gross and net market exposure management, position sizing and trading ability, trade expression, exploiting corporate events, macro understanding, shorting and hedging ability and overall judgement.

Funds included in the portfolio should provide sufficient levels of transparency, investment team access and detailed portfolio and performance reporting that allows for effective monitoring to assure that the stated investment strategy and risk management guidelines are being followed. Furthermore, our due diligence process is designed to highlight any additional organizational and operational red flags.

#### Investment Committee

The Investment Committee is comprised of E. Robert Cotter, Managing Partner; N. Thomas Kirkpatrick, Managing Partner, Louis S. Wolfe, Co-Founder and Senior Advisor, Mary Johanna Dyer, Managing Director and Ramona Adams, Managing Director.

Members of the Investment Committee, along with the rest of our investment team, perform in-depth qualitative due diligence on each prospective and current manager, including onsite visits with access to the portfolio manager; reviews of historical performance; audit reviews; reputational checks; SEC website checks; and reference checks with third-party investigative firms, auditors, prime brokers and other Wall Street sources, if necessary. We perform detailed quantitative analysis on all prospective managers when sufficient data is available, and on all current managers, including back testing analysis, correlation analysis, holdings concentration analysis, benchmarking analysis, and attribution and exposure analysis.

Operational due diligence at the manager level focuses on trade processing and the possibility of fraud through collusion. Any investment or redemption decision must be authorized by the Investment Committee.

#### Investment Valuation

As a fund of funds, the Managers rely on the accuracy and completeness of our underlying managers audited Financial Statements, including the fair value of financial instruments calculations. Generally, all of our managers employ an industry standard written pricing and valuation methodology conducted by known third party administrators. These valuation policies are typically reviewed and approved on an annual basis by valuation committees, and are commonly reviewed on a periodic basis in the event of a material change in the composition of investments of a fund, or a material event that affects availability of pricing sources used to value investments.

Other than cash and investments in marketable securities, our investment accounts are in the form of limited partnership interests in hedge fund vehicles. During the year, the values of these investments are based upon monthly estimates received from administrators and hedge fund managers and estimated capital account balances normally received on a monthly basis. We typically receive performance estimates several days following month end and capital account balances within thirty days. In both cases these estimated "valuations" are generated by our fund managers who manage the hedge fund vehicles, and are verified and distributed by their administrators. Occasionally, a fund manager may trade or maintain a small inventory of securities that are illiquid or thinly traded and may be difficult to value, especially during periods when liquidity is constrained. These funds normally have independent third parties review and/or value positions that may have a limited market. They may be valued at the lower of cost or impaired value. Typically, however, most assets are recorded at current market value as determined by various valuation methodologies, in line with accounting standards. These valuations are also independently verified on an annual basis by the fund managers' outside accountants in the preparation of K-1 statements and through the hedge fund

vehicles annual independent audit. Based on our communication with our managers we believe their valuation methodologies to be conservative.

On an ongoing basis, we review individual fund manager monthly statements and returns, and the independent valuation and review of this information by their third party administrators. Finally, the Funds' current administrator, SS&C Technologies, Inc., provides independent third party verification of fund investment positions and monthly returns. SS&C is also responsible for issuing statements to our investors on a monthly basis.

#### Risk management tools

Diversification by manager and strategy are two of the most important elements of risk management. As previously noted, we also seek to limit the use of leverage in the portfolio which has led us to exclude fixed income arbitrage and statistical arbitrage from the portfolio. On a monthly basis, we use Backstop Solutions and Excel to calculate various volatility, financial, and liquidity risk parameters, risk-adjusted return, and on a quarterly basis, correlation measures and attribution analyses. We also compare MCP against major market, hedge fund, and fund of fund indices. We formally analyze exposure levels across the portfolio and at the geography, strategy, and industry levels. We also perform a quarterly 13-F filing analysis on all current and potential managers to monitor our exposures to individual positions. Finally, we maintain a portfolio-level liquidity analysis to monitor our liquidity profile.

### **9. DISCIPLINARY ACTION**

Neither the Managers nor any of their respective Principals or employees has been the subject of any material legal or disciplinary action.

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

There are no material affiliations or activities that would negatively impact clients or create a material conflict of interest with clients. As noted above, the Managers are affiliated with the Funds, and institutional clients to which advice regarding prospective investment and allocations are made.

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

The General Partner's Code of Ethics (the "Code") is designed to help ensure that we conduct our business consistent with high standards of personal and professional conduct, and that we are in compliance with relevant federal and state securities laws. Offshore Advisors, as an affiliate of the General Partner, abides by the Code as well. A copy of the Code of Ethics is available upon request.

As a registered investment adviser, the General Partner and its employees owe a fiduciary duty to our investors that require each of us to place the interests of our investors ahead of our own interests. A critical component of our fiduciary duty is to avoid potential conflicts of interest. Accordingly, we avoid activities, interests, and relationships that might interfere or appear to interfere with making decisions in the best interests of investors in our Funds and other advisory clients.



The Code is also designed to address and avoid potential conflicts of interest relating to personal trading and related activities and is based on three underlying principles:

- (1) Employees must at all times place the interests of our investors first. In other words, as a fiduciary, each employee must scrupulously avoid serving his or her own personal interests ahead of the interests of our investors.
- (2) Employees must make sure that all personal securities transactions are conducted consistently with the Code and in such a manner as to avoid any actual or potential conflicts of interest or any abuse of an individual's position of trust and responsibility.
- (3) Employees should not take inappropriate advantage of their positions. The receipt of investment opportunities, perquisites, or gifts from persons seeking business with the Funds or the Manager could call into question the exercise of the employee's independent judgment.

Employees must pre-clear equity transactions with the Chief Compliance Officer who may deny permission to execute the transaction. All employees are required to disclose their holdings upon commencement of employment and on an annual basis thereafter. All employees are also required to provide either monthly brokerage statements or duplicate trade confirmations.

## **12. BROKERAGE PRACTICES**

Our underlying fund managers make all of the decisions to buy and sell securities and they direct the brokerage for their funds. The Funds do not have any influence or decision making capability in the selection of broker-dealers. As funds of funds, the Funds do not utilize or maintain relationships with broker-dealers for client transactions.

## **13. REVIEW OF ACCOUNTS**

As soon as possible after the close of each fiscal year, subject to the availability of sufficient data from the fund managers, investors will receive a report prepared and audited by a firm of independent accountants selected by the Managers, setting forth the assets and liabilities of each Fund for the relevant fiscal year and the Profit or Loss for such fiscal year. The General Partner will mail to each investor a Schedule K-1 setting forth the amount of such investor's share in the Partnership's taxable income, deduction, gain, loss and credit for each fiscal year, all in sufficient detail to enable each investor to prepare his or her federal, state and other tax returns.

Within 30 days after the end of each month or as soon as practicable thereafter, investors will receive a statement setting forth the net asset value of the investors' account, all net of fees and expenses and on an unaudited basis. Capital account statements are prepared, reviewed and posted by the current Fund administrator SS&C Technologies, Inc., Canada. Capital account statements are posted on the SS&C investor website, or upon request, are available in paper format.

## **14. CLIENT REFERRALS**

The Managers have entered into marketing agreements with broker dealers. In the event of placement of appropriate investors in the Fund(s), the broker dealers would be compensated by the Managers at an agreed upon rate.

**15. CUSTODY**

The Managers satisfy their regulatory obligations with respect to custody of client assets by providing investors in the Funds with audited financial statements for each Fund.

**16. INVESTMENT DISCRETION**

The Managers exercise investment discretion over the Funds managed by them pursuant to authority established through the Limited Partnership Agreement of the Partnership and the Articles of Association of MCOL, as well as subscription documents completed and signed by each investor.

**17. VOTING CLIENT SECURITIES**

As funds of funds, the Funds do not directly invest in public securities, and therefore do not receive proxy solicitations and do not vote with respect to any such securities.

**18. FINANCIAL INFORMATION**

Not applicable.

## **MERRITT CAPITAL INVESTMENT ADVISORS LLC**

### **Combined ADV Part 2B: Firm Supplement**

**March 1, 2020**

### **Cover Page**

This supplement provides information about the qualifications and business practices of E. Robert Cotter, N. Thomas Kirkpatrick, Louis S. Wolfe, Mary Johanna Dyer and Ramona Adams. The business address is 23 Old Kings Highway South, Darien, CT 06820. If you have any questions about the contents of this supplement, please contact Ramona A. Adams, Chief Compliance Officer at 203-656-2677 or at [radams@merrittcaplp.com](mailto:radams@merrittcaplp.com).

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Additional information about Merritt Capital Investment Advisors LLC is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## 2. EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE

E. Robert Cotter and Louis S. Wolfe are the founding Principals (the “Principals”) of Merritt Capital Investment Advisors LLC. Thomas Kirkpatrick joined Merritt Capital in 2014, and in 2015, purchased Mr. Wolfe’s limited liability interest in both Merritt Capital Investment Advisors LLC and Merritt Capital Offshore Advisors LLC.

Since 2015, Mr. Cotter and Mr. Kirkpatrick have served as Principals and Managing Partners of the General Partner, as further described below. The Funds depend upon their expertise in and knowledge of the financial services sector to achieve their objectives. Mr. Wolfe continues to act as a trusted advisor to the firm.

The two Principals, together with Louis S. Wolfe, Co-Founder and Senior Advisor, Mary Johanna Dyer, Managing Director and Ramona Adams, Managing Director, serve as voting members of the Investment Committee, as further described herein. Their resumes have been included below.

**E. Robert Cotter**, born in 1951, has been engaged in the financial services sector for over thirty five years. From 1977 to 1994 he worked for The First Boston Corporation and Credit Suisse First Boston where he was appointed a Managing Director in 1986 and Head of the Mergers & Acquisitions Group in 1988. He joined Salomon Brothers Inc and its successor, Citigroup, in 1994 and served as Co-Head of its Global Mergers and Acquisitions Group and was a member of the Investment Banking Management Committee. In 2000 he joined Deutsche Bank as Head of its Global Mergers and Acquisitions Group and was appointed Co-Head of Global Corporate Finance in 2001. While at Deutsche Bank he served as a member of the bank’s Group Executive Committee.

Mr. Cotter graduated from Princeton University receiving an A.B. degree with honors in Economics in 1973. He received his M.B.A. with honors from the Harvard Graduate School of Business in 1977. He is a former member of the Princeton University Bendheim Center for Finance Advisory Council.

**N. Thomas Kirkpatrick**, born in 1955, was most recently a Managing Director and a member of the Investment Committee for UBS Alternative Investment Solutions (AIS) based in Stamford, CT. AIS managed peak assets of \$48 billion in bespoke and co-mingled multimanager hedge fund portfolios. He joined UBS in 2000 as a Senior Investment Officer for the then O’Connor Multimanager investment team, which became AIS in 2004. Mr. Kirkpatrick was responsible for the global equity long short research effort that encompassed manager due diligence, selection and monitoring. Prior to joining UBS, he was Vice President of Lookout Mountain Capital, Inc. where he co-managed a portfolio of hedge funds while overseeing hedge fund manager research. In addition, he was contributing editor to the Lookout Mountain Hedge Fund Review, a hedge fund research publication. Mr. Kirkpatrick holds a BS in Chemistry from the University of Tennessee at Chattanooga.

**Louis S. Wolfe**, born in 1950, has spent over thirty years in the financial services industry, the majority of which was spent with Mellon Bank, Salomon Brothers Inc and Merrill Lynch & Co. He joined Salomon Brothers Inc in 1983 and was appointed a Managing Director in 1992. He joined Merrill Lynch & Co. in 1992 where he was Co-Head of the Financial Institutions Group from 1997 to 2000 and subsequently was Head of Investment Banking in AsiaPacific/Australasia. In both positions he was a member of the Investment Banking Executive Committee. In 2002, he joined Mr. Cotter at Deutsche Bank as Managing Director and Chairman of its global financial institutions practice where

he was also a member of the North American Corporate Finance Management Committee. Mr. Wolfe left Deutsche Bank in early 2005 to found Merritt Capital with Mr. Cotter.

Mr. Wolfe graduated from the University of Pennsylvania in 1972 receiving a B.A. degree. He received his M.B.A. in Business Finance from the Wharton School of the University of Pennsylvania in 1973.

**Mary Johanna Dyer**, born in 1968, has eighteen years of experience working in the financial services industry. She spent eight years with TD Securities (USA) LLC, a division of the Toronto Dominion Bank Financial Group where she began as an Associate in the U.S. Media and Telecom, Structured Finance Group. Ms. Dyer subsequently transferred to the Mergers and Acquisitions Group within U.S. Media & Telecom and was promoted to Vice President. In her last year at TD Securities she served as Vice President and Manager of the U.S. Media and Telecom Group. She joined Merritt Capital in September 2005. Prior to entering the financial services industry, Ms. Dyer was the Chief Information Officer for Clark Security Products in San Diego, CA.

Ms. Dyer graduated from the College of William & Mary with a B.A. in 1991, and earned an M.B.A. at Georgetown University's McDonough School of Business in 1998.

**Ramona Adams** has over twenty years of experience in the financial services and management consulting industries. She began her investment banking career at Ehrlich Bober & Co., working with government entities and multinational corporations. In 1990 she joined Prudential Securities and was promoted to Vice President in the Project Finance group, serving as senior manager for client transactions in excess of \$10 billion. She left Prudential in 1996 to join Sheffield Consulting Associates Ltd, an international management consulting firm, as a Senior Vice President working primarily with financial institutions in the U.S. She was appointed Managing Director in 1997. Her areas of expertise include corporate governance, compliance and regulatory reporting, and financial analysis. Ms. Adams joined Merritt Capital in June 2007.

Ms. Adams graduated from Northeastern University with a B.S.B.A. degree.

### **3. DISCIPLINARY ACTION**

The aforementioned individuals are not the subject of any material legal or disciplinary action.

### **4. OTHER BUSINESS ACTIVITIES**

There are no material business affiliations or activities that would negatively impact clients or create a material conflict of interest with clients.

### **5. ADDITIONAL COMPENSATION**

Merritt Capital Investment Advisor Principals and Investment Committee members may at times advise institutional clients such as family offices and fund of funds with respect to prospective

investment partnership investments and allocations. Merritt Capital charges these institutional clients a quarterly fee, negotiated on a case by case basis.

## **6. SUPERVISION**

Merritt Capital Investment Advisors takes seriously its obligation to supervise all team members. As an investment adviser, Merritt Capital is required to reasonably supervise firm individuals with a view to preventing violations of the Advisers Act and rules thereunder, as well as other applicable federal securities laws. The Merritt Capital Investment Advisors LLC Compliance Manual, and the policies and procedures contained in it, are intended to establish a system for preventing and detecting, insofar as practicable, violations of applicable laws, rules and regulations by our team. The firm expects each team member acting in a supervisory capacity to oversee any other team member under his or her supervision in a manner consistent with the policies and procedures contained in the Compliance Manual. Any questions regarding the scope of this expectation should be brought to the Compliance Officer.

### **Role of the Compliance Officer**

The Compliance Officer administers the firm's overall compliance program, which includes each of the policies and procedures set forth in the Compliance Manual. The Compliance Officer also ensures that he or she and all other employees receive initial training and undertake the continuing education necessary to understand and meet applicable requirements of the Compliance Manual. The Compliance Officer is available on an ongoing basis to discuss compliance matters with all employees.