

MERCED CAPITAL, L.P.

Suite 200

601 Carlson Parkway

Minnetonka, Minnesota 55305

(952) 476-7200

Investor.Relations@mercedcapital.com

www.mercedcapital.com

This brochure provides information about the qualifications and business practices of Merced Capital, L.P. If you have any questions about the contents of this brochure, please contact us at (952) 476-7200 or by email to Investor.Relations@mercedcapital.com. 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.

Additional information about Merced Capital, L.P. also is available on the SEC's website at www.adviserinfo.sec.gov.

Merced Capital, L.P. is a registered investment advisor. Registration with the United States Securities and Exchange Commission does not imply a certain level of skill or training.

March 29, 2021

Item 2 **Material Changes.**

Material Changes since March 27, 2020 Annual Update.

This Item discusses only specific material changes to this brochure since the last annual update, dated March 27, 2020.

Effective December 31, 2020, Hendrik Vroege, a partner in Merced Capital, L.P. and several fund general partners, retired from the firm. Mr. Vroege will retain an economic interest in Merced Capital but he will not have voting rights or the ability to control the business of the firm.

Item 3 **Table of Contents**

Item 1: Cover Page	1
Item 2: Material Changes	2
Item 3: Table of Contents	2
Item 4: Advisory Business	4
Merced Capital Background and Ownership	4
Key Personnel	5
Investment Philosophy and Strategy	7
Conflicts of Interest	8
Allocation, Aggregation and Brokerage	10
Assets Under Management	11
Item 5: Fees and Compensation	11
Item 6: Performance-Based Fees and Side-by-Side Management	13
Item 7: Types of Clients	13
Item 8: Methods of Analysis, Investment Strategies and Risk of Loss	13
Methods of Analysis and Investment Strategies	13
Risk Factors	14
Item 9: Disciplinary Information	37
Item 10: Other Financial Industry Activities and Affiliations	37
Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	37

Item 12: Brokerage Practices	37
Item 13: Review of Accounts	38
Item 14: Client Referrals and Other Compensation	38
Item 15: Custody	38
Item 16: Investment Discretion	38
Item 17: Voting Client Securities	39
Item 18: Financial Information	39
Item 19: Requirements for State-Registered Advisers	39

Item 4 **Advisory Business**

Merced Capital Background and Ownership

Merced Capital was formed in 1988 by three executives from the Cargill Inc. financial trading business. The three founders retired in 1998, 2005 and 2013. Merced Capital is owned by the senior members of management of Merced Capital. The general partners of the various Merced Capital-managed funds described below are also owned by members of Merced Capital's senior management. A description of the education and qualifications of these principals of the business is provided below.

Merced Capital provides investment advisory services to eight pooled investment vehicles, seven of which are Delaware limited partnerships and one of which is a Delaware limited liability company (each, a "Fund" and together, the "Funds"):

Fund	Type
Merced Partners Limited Partnership ("Merced") <i>General Partner: Merced Capital</i>	Annual Liquidity
Merced Partners III, L.P. ("Merced III") <i>General Partner: Lydiard Partners III, LLC ("Lydiard III")</i>	Lock-up
Merced Partners IV, L.P. ("Merced IV") <i>General Partner: Series M4 of Merced Capital Partners, LLC ("Series M4")</i>	Lock-up
Merced Partners V, L.P. ("Merced V") <i>General Partner: Series M5 of Merced Capital Partners, LLC ("Series M5")</i>	Lock-up
AGH Acquisition Partners, LLC ("AGHAP") <i>Managing Member: Series A of MC AGH Partners, LLC ("MC AGH Series A")</i>	Lock-up
Merced Real Estate Partners I, L.P. ("MREP") <i>General Partner: Series MRE1 of Merced Capital Partners, LLC ("Series MRE1")</i>	Lock-up

References in this brochure to "general partners" of the Funds include MC AGH Series A, the managing member of AGHAP. References in this brochure to "limited partners" of the Funds include the non-managing members of AGHAP, as well as "Feeder Investors" in AGHAP as set forth in AGHAP's limited liability company agreement. Finally, references to the Funds' "partnership agreements" include the limited liability company agreement for AGHAP.

All of the Fund general partners are owned and controlled by senior management of Merced Capital, and all have entered into written management agreements with Merced Capital pursuant to which Merced Capital provides investment advisory services to the Funds of which they are general partner. Other than Merced Capital, none of the Fund general partners has any employees.

None of the lock-up Funds is open to new investors and none is accepting capital commitments in addition to existing commitments from existing investors. Interests in Merced are not being offered to the public generally and Merced is not engaged in a general solicitation. Merced may accept a limited amount of new investments from investors meeting the suitability standards set forth in its private placement memorandum.

The “lock-up” Funds do not permit their limited partners to withdraw invested capital except at the end of the life of the Funds; rather, with the exception of AGHAP, capital is expected to be distributed by the general partner once the Fund’s respective commitment period has ended and the Fund enters its “harvest period”, when its investments will be liquidated over a period of several years. The lock-up Funds’ respective limited partnership agreements set forth the commitment period and harvest period for the Funds. The commitment periods of the lock-up Funds range from one year to five years and, except for Merced V, have ended. Only Merced, Merced V and AGHAP actively seek to make new investments at this time. MREP entered its harvest period on December 31, 2020 and will not make additional investments except in limited circumstances as set forth in its limited partnership agreement. Merced IV and Merced III are also in their harvest periods and are in the process of liquidating their investments. The harvest periods of the lock-up Funds (other than AGHAP) range from nearly three years to five years, which in some cases may be extended by the general partner under the terms of the limited partnership agreement. During 2020, two additional lock-up funds were formed to take advantage of short-lived market dislocations in the wake of COVID-19's economic impact. Both of these funds completed the final liquidation of their respective non-cash assets and have no assets under management of as of December 31, 2020.

With respect to AGHAP, there is no commitment period or harvest period; rather, the managing member has the discretion to retain and reinvest capital throughout the life of the company. Under the terms of AGHAP’s limited liability company agreement, the company’s term will expire no later than June 30, 2047, unless sooner dissolved under certain circumstances set forth in the limited liability company agreement, including (a) upon the vote of 66 2/3% of the company’s membership interests, following the occurrence of any act or omission by MC AGH Series A or its members that results in either a criminal indictment of such person of a crime that is related to AGHAP’s business or a judicial determination that such act or omission constitutes fraud, willful misconduct or gross negligence that is related to AGHAP’s business, if 66-2/3% in Interest (as defined in AGHAP’s limited liability company agreement) determines in writing to effect a dissolution and notify the Managing Member; or (b) following October 11, 2018, upon the vote of 85% of the company’s membership interests.

From time to time Merced Capital expects to form additional investment partnerships to pursue investment strategies it finds attractive. These strategies may be similar to strategies currently employed by Merced Capital and are likely to include new strategies as well.

Merced Capital does not currently provide investment advisory services directly to any investors in the Funds (other than to Merced, which is an investor in AGHAP), or to any separately managed accounts, but it may do so in the future.

Key Personnel

Merced Capital relies on the following senior members of its management to advise the Funds and operate and manage its investment advisory business:

David Ericson

Mr. Ericson is a partner in Merced Capital and a co-founder of Lydiard II, Lydiard III, Series M4, Series M5, Series MSP and MC AGH Series A. Private asset and distressed debt investing have been the focus of his professional career. Prior to joining Merced Capital in 2001, Mr. Ericson managed capital at Morgens-Waterfall-Vintiadis, Touchstone Capital and Cargill Inc. Mr. Ericson received a B.A. in International Relations from the University of Minnesota in 1983 and a MBA from the University of Chicago in 1987. Mr. Ericson was born in 1959.

Vincent Vertin

Mr. Vertin is a partner in Merced Capital, Lydiard II, Lydiard III, Series M4, Series M5, Series MSP and MC AGH Series A. A wide range of finance and investing activity has been the focus of his professional career. Prior to joining Merced Capital in 2004, Mr. Vertin was an analyst at Providence Capital, an investment banker at JP Morgan and Dain Rauscher Wessels, a math instructor at the U.S. Naval Academy and a Captain in the U.S. Marine Corps. Mr. Vertin received a B.S. in Mathematics from the U.S. Naval Academy in 1992 as well as an M.S. in Applied Mathematics & Business from George Washington University in 1993. Mr. Vertin was born in 1969.

Stuart Brown

Mr. Brown is a partner in Merced Capital, Lydiard II, Lydiard III, Series M4, Series M5, Series MSP and MC AGH Series A. Distressed investing has been the focus of his entire professional career. Prior to joining Merced Capital in 2003, Mr. Brown worked at Avenue Capital, Morgens-Waterfall-Vintiadis, Touchstone Capital and Cargill Inc. Mr. Brown received a B.A. in Economics from Northwestern University in 1986 and a MBA from Northwestern University in 1988. Mr. Brown was born in 1964.

Thomas Rock

Mr. Rock is the General Counsel and Chief Compliance Officer of Merced Capital and a partner in Merced Capital, Lydiard II, Lydiard III, Series M4, Series M5, Series MSP and MC AGH Series A. Transactional and other legal work have been the focus of his professional career. Prior to joining Merced Capital in 2005, Mr. Rock was Associate General Counsel at GE Capital, General Counsel at Smarte Carte, and was a partner at Oppenheimer Wolff & Donnelly and Rider Bennett. Mr. Rock received a B.A. in English from Carleton College in 1984 and a J.D. from Boston College Law School in 1987. Mr. Rock was born in 1962.

Joel W. Anderson

Mr. Anderson is the Chief Financial Officer of Merced Capital and a partner in Merced Capital, Series M4, Series M5, Series MSP and MC AGH Series A. He has worked in the investment advisory industry for his entire professional career. He joined Merced Capital in 1998 and became CFO in 2008. Prior to joining Merced Capital in 1998, Mr. Anderson worked for another investment advisor in Minneapolis. Mr. Anderson received his Bachelor of Arts degree from the University of Minnesota – Morris in 1997, where he double-majored in Management and Economics and minored in Mathematics. He earned a Masters of Business Administration from the University of Minnesota in 2003. Mr. Anderson was born in 1975.

Michael M. Sullivan

Mr. Sullivan is a partner in Series M5 and MC AGH Series A. A wide range of investment and legal work has been the focus of his professional career. Prior to joining Merced Capital in 2007, Mr. Sullivan was in management at Solonis/Intrascapes Data and held partner and associate positions at Rider Bennett. Mr. Sullivan received a B.S. in Business Administration from Colorado College in 1982 and a J.D. from the University of Minnesota in 1990. Mr. Sullivan was born in 1959.

Joseph McElroy

Mr. McElroy is a partner in Series M5. His professional career is comprised of a wide range of analytical and investing experience at investment banking, private equity, and hedge fund firms. Prior to joining Merced Capital in 2015, Mr. McElroy held analytical and investment positions at Merrill Lynch, Norwest Equity Partners, and CarVal

Investors. Mr. McElroy earned a B.A. in Finance, Investment, and Banking from the University of Wisconsin-Madison in 2006 and an M.B.A. from Harvard in 2011. Mr. McElroy was born in 1984.

Investment Philosophy and Strategy

Merced Capital focuses on trading in debt and equity securities and other obligations of financially distressed entities, high yield, below investment-grade or unrated debt securities, special and control situation transactions, and other trades deemed appropriate by Merced Capital. In addition, Merced Capital-managed funds invest in real estate, aircraft and aircraft leases, equipment, renewable energy, insurance-linked securities, natural resources, and other types of assets. The partnership agreements governing the Funds give Merced Capital wide discretion to determine the investment strategy for the Funds, except in cases where the Fund was established to pursue a very specific strategy (as in the case of MREP, which was organized to invest in residential homebuilding projects in the United States). The investment strategy and objective of each Fund is set forth in the Fund's offering document. Merced Capital may expand its areas of expertise in response to market conditions or other external factors. A brief explanation of the primary strategies employed by Merced Capital follows:

- *Financially distressed entities* are those financially troubled entities on the verge or in the process of a major financial restructuring and involve deteriorating as well as defaulted securities. Restructuring of distressed entities is the process of re-balancing assets and liabilities in a more financially prudent fashion. This process can take place either through a formal bankruptcy proceeding or restructuring outside of a court's supervision. This process creates opportunities to trade in different types of securities or obligations with different risk-reward profiles at different times in an entity's restructuring cycle. This cycle can last anywhere from a month to five years or longer.
- *High yield, below investment-grade or unrated securities* involve situations in which there is speculative credit risk and where the debtor is unlikely to obtain credit from traditional sources, such as banks.
- *"Special situation" transactions* are those assets that may be acquired at a discount to their inherent value. Typically, these situations arise because the assets lack transparency or liquidity. Some of these trades may arise as a result of Merced Capital's role as advisor to other entities. Trades in this area include equipment and real estate, where Merced Capital has historically concentrated a great deal of its investments, and more recently in non-operator interests in oil and natural gas wells.

Historically, Merced has traded primarily in below investment-grade or unrated securities and other obligations and acquired interests in financially distressed entities. Merced expects to continue to trade and invest with a similar risk profile. Merced has also allocated a material portion of its assets to "special situation" transactions. Typically these types of investments have been more difficult to exit, primarily because they consist of assets that are not traded on an exchange. Merced has acquired these special situation positions primarily through privately negotiated purchases.

Merced V and AGHAP will likely continue following the same philosophies and strategies employed by predecessor lock-up funds managed by Merced Capital. To date, Merced V and AGHAP have invested under each of the primary strategies employed by Merced Capital, and intend to continue seeking investments under these primary strategies and, potentially, in other assets and asset classes.

In the past the Funds have not used borrowed money (leverage) at the Fund level, and have used leverage at the asset-level on a highly selective basis in limited circumstances (for example, in leveraged aircraft sale-leaseback transactions or commercial property acquisitions). However, this policy is continuously reviewed, and the Funds may employ leverage of Fund capital in the future. In addition, to the extent the Funds own and control private operating companies, those companies may use debt as a part of their capital structure. The Funds are permitted to engage in short selling of securities, which involves borrowing securities and then selling them.

Merced Capital-managed funds' activities may include purchasing, short selling or spread trading any or all of the securities within different companies' capital structure. These securities may be publicly or privately traded.

Merced Capital has traditionally limited the number of trades made outside the United States and, accordingly, the Funds have incurred limited foreign exchange risk. While Merced, Merced IV, Merced V and AGHAP are not precluded from trading in foreign assets or from incurring foreign exchange risk – and do currently invest in foreign real estate and financial assets – it is not anticipated that foreign transactions will be a major focus of these funds within the foreseeable future but they are not precluded from trading in foreign assets or from incurring foreign exchange risk. Merced Capital employs various strategies to hedge foreign exchange risk, including entering into forward purchase contracts with respect to currencies in which investments are denominated.

Conflicts of Interest

While Merced Capital believes that its interests, and the interests of the other Fund general partners, with respect to the success of the Funds are aligned with the interests of the Fund investors, it is possible that conflicts of interest between the Fund and its general partner will arise.

Merced Capital, the other Fund general partners, and their respective members, managers, directors, officers, partners, shareholders, employees and agents may exercise investment responsibility, or otherwise engage, directly or indirectly, in any other business, irrespective of whether any such business is similar to, or identical with, the business of the Funds, which may include purchasing, selling, holding or otherwise dealing with investments that would be suitable for the Funds. Merced Capital, the other Fund general partners, and their respective members, general partners, managers, directors, officers, partners, shareholders, employees and agents may manage funds and accounts other than those of their respective Fund ("Other Accounts") that invest in assets eligible for purchase by the Fund. In addition, an Other Account may take a position that is adverse to the interests of the Fund.

Merced Capital and its principals and personnel are in no way prohibited from spending, and intend to spend, substantial business time in connection with other businesses and activities, including, but not limited to, managing investments, advising or managing vehicles or accounts whose investment objectives are the same as or overlap with those of the Funds, participating in actual or potential investments of the Funds, providing consulting, M&A, structuring or financial advisory services, including with respect to actual, contemplated or potential investments of the Funds or acting as a director, officer or creditors' committee member of, adviser to or participant in, any corporation, partnership, trust or other business entity. Merced Capital and its principals and personnel may, and expect to, receive fees or other compensation from third parties for any of these businesses or activities, and such fees and compensation shall be for the benefit of their own account and not the Funds. Such fees and compensation may relate to actual, contemplated or

potential investments of the Funds and may be payable by any person or entity in which a Fund, directly or indirectly, has invested or contemplates investing.

Merced Capital and its principals and personnel may, in their sole and absolute discretion, engage in any other business and furnish asset management and advisory services to Other Accounts, some of which may have investment objectives or policies similar to, or the same as, those followed by Merced Capital with respect to the Funds and which may own securities or other investments of the same class, or which are the same type, as the Funds' portfolio investments. Merced Capital and its principals and personnel shall be free, in their sole discretion, to make recommendations to others, or effect transactions on behalf of themselves or for others, which may be the same as or different from those recommended or effected with respect to the Funds, or offer certain investments to clients or accounts that it or they manage or advise concurrently with or in addition to offering those investments to the Funds.

No Fund investor has any right to participate in any of these activities or to the income or profits derived from these activities. The records of any personal accounts will not be made available to Fund Investors.

Merced Capital, its affiliates, and their respective members, managers, directors, officers, partners, shareholders, employees and agents may directly or indirectly purchase, sell, hold or otherwise deal with investments for their own accounts, for their family members or for other clients, irrespective of whether such investments are purchased, sold, held or otherwise dealt with for the account of the Funds. A Fund investor will not, solely by reason of being a partner in a Fund, have any right to participate in any manner in any profits or income earned or derived by or accruing to the Fund's general partner, its members, Merced Capital, their affiliates, and their respective members, managers, directors, officers, partners, shareholders, employees and agents from the conduct of any business other than the business of the Funds or from any transaction or other investment effected by any such person for any account other than that of the Fund.

Under circumstances where a Fund's general partner in its judgment deems it appropriate, that Fund may enter into any transactions with its general partner, Merced Capital, or their respective affiliates or the Fund may make investments in entities in which one or more affiliates of its general partner hold an existing interest prior to the Fund's first investment in such entities; provided, that any transaction between the Fund's general partner, Merced Capital, or their respective affiliates, on the one hand, and the Fund, on the other, will be (i) fair and reasonable, (ii) on an arm's-length basis and (iii) on terms substantially similar as would be negotiated with an unrelated party.

A Fund may, in Merced Capital's sole and absolute discretion, require the services of a prime broker for certain investments. The firm may select prime brokers (the "Prime Brokers") for the Fund. If Merced Capital selects a Prime Broker and custodians, the firm will use its reasonable efforts to obtain best price and best execution and will take into account such relevant factors as (i) price, (ii) the Prime Broker's and custodian's facilities, reputation, reliability, creditworthiness and financial responsibility, (iii) research and other services provided by such Prime Broker and custodian to the firm and (iv) ancillary services such as capital introduction. Accordingly, Merced Capital may, in its sole and absolute discretion, cause the Fund to pay a Prime Broker and custodian that provides brokerage or research services (either directly or through third-party relationships) an amount of commission or transaction cost in excess of that which another Prime Broker and custodian would have charged, if the firm determines in good faith that such commission or transaction cost is reasonable in relation to the value of brokerage, research or other services provided.

The Funds will not be required to allocate either a stated dollar or stated percentage of its transactions to any Prime Broker and custodian for any minimum time period, and will review such relationships from time to time.

The existence of incentive compensation may create an incentive for Merced Capital and other Fund general partners to approve and cause the Funds to make riskier or more speculative investments than it would otherwise make in the absence of such performance-based compensation. In addition, the terms of the incentive compensation could give Merced Capital and other Fund general partners an incentive to make determinations regarding the timing and structure of realization transactions that are not applicable to the interests of the Fund investors. However, the commitment by the Fund general partners to their respective Funds and the fact that losses will reduce the Fund's performance and thus the general partner's allocation should tend to reduce these incentives.

Allocation, Aggregation and Brokerage

Because Merced Capital manages multiple investment partnerships, Merced Capital and its affiliates, and their respective members, managers, directors, officers, partners, shareholders, employees and agents may advise one or more of the Funds to invest in the same assets or asset class. To the extent a particular investment is suitable for more than one Fund, Merced Capital uses good faith efforts to allocate such investments among the Funds in a fair and reasonable manner, and in accordance with its allocation policy. A copy of Merced Capital's allocation policy is available to investors in its Funds upon request. As a general rule, if two or more Funds have substantially similar or overlapping investment objectives and strategies and other factors being equal, allocation of a particular position will be based upon the relative size of the Funds. However, Merced Capital may also take into account any one or more of the following factors in allocating investments among Funds:

- Fund's investment objective and strategies (determined by reference to the investment objectives and strategies outlined in the Fund's partnership agreement and private placement memorandum or other offering materials related to that Fund);
- Fund's tax status, and tax status of investors in that Fund;
- any restrictions placed on a Fund's portfolio by the Fund or by virtue of federal or state law (such as the Employee Retirement Income Security Act of 1974, as amended);
- total portfolio invested position;
- available capital and available cash in the Fund, taking into account any anticipated subscriptions and redemptions and any other reasonably foreseeable cash requirements of the Fund;
- existing exposure in the Fund to issuer or to issuer's industry;
- nature of the security or asset to be allocated, including the liquidity of the asset and the availability of reliable price information;
- size of available position;

- supply or demand for a security at a given price level;
- the expected holding period of an investment in relation to a Fund's investment and harvest period;
- current market conditions; and
- any other information determined by Merced Capital to be relevant to the fair allocation of investments.

From time to time Merced Capital may aggregate Fund orders for the purchase or sale of securities. Merced Capital will generally follow the guidelines set forth below in aggregating orders for securities:

- no Fund will be favored over any other Fund;
- each Fund that participates in an aggregated order will participate at the average share price for all Merced Capital's transactions in that security on a given business day and transaction costs will be shared pro rata based on each Fund's participation in the transaction;
- if the aggregated order is filled in its entirety, it will be allocated among Funds in accordance with Merced Capital's allocation policy described above;
- if the aggregated order is partially filled, it will be allocated among Funds pro rata (*i.e.*, taking into account the relative size of each Fund account to which it is to be allocated) and in accordance with Merced Capital's allocation policy described above;

In connection with the purchase and sale of investments for the Fund, the General Partner may elect to pay higher commissions to brokerage firms that provide it with investment and research information than to firms that do not provide such services if the General Partner determines that such commissions are reasonable in relation to the overall services provided. The information received may be used by the General Partner in managing the assets of Funds other than the Fund that paid the higher commission.

Assets Under Management

As of December 31, 2020, Merced Capital managed \$1,056,022,134 in assets across six funds.

Item 5 Fees and Compensation

Merced pays its general partner a management fee of 1.5% per annum of assets under management and incentive compensation of 20% of investment gains. The Lock-up Funds (other than AGHAP and MREP) pay their respective general partners a management fee between 0.75% and 1.5% per annum of committed capital during the commitment period of the Lock-up Funds and on the amount of capital invested during the harvest period of the Lock-up Funds. MREP does not charge a management fee. In addition, the general partners are entitled to receive incentive compensation of between 5% and 20% of investment gains. In certain cases, the Funds must earn a minimum amount, or a "hurdle" or "preferred return", before the general partner of the Fund is entitled to receive its incentive compensation, and in the case of MREP the incentive compensation is tiered. AGHAP pays its managing member a management fee of 1.5% per

annum of AGHAP's equity book value (excluding unrealized gains and losses accrued after October 11, 2017), but no less than \$600,000 per annum. AGHAP's managing member is not entitled to incentive compensation. The fees paid by the Funds are outlined in further detail in their respective partnership agreements and private placement memoranda.

Upon the creation of new investment funds, Merced Capital reviews its fee structure and in certain cases seeks input from prospective investors prior to establishing management and incentive fee levels. In certain cases, the general partner of a Fund may choose to reduce the fees paid by one or more limited partners; in determining whether to grant a reduced fee the general partner will consider numerous factors such as the amount of capital to be committed by the limited partner, the amount of capital committed to other partnerships managed by Merced Capital, and the date on which the limited partner makes its capital commitment. Management fees are paid by the Funds either monthly (in the case of Merced) or quarterly (in the case of the other Funds) in advance. In the case of Merced, incentive fees are earned and paid annually on the value of investments in the fund as of the last business day of the year. In the case of the other Funds, incentive fees are paid after all invested capital has been returned to the partners in the Fund and, if the partnership agreement requires that a minimum hurdle or preferred return be met and paid, after such minimum has been paid. In the case of all Funds other than Merced, incentive fees are paid only on realized gains.

Merced Capital sets the value of each Fund's portfolio. In the case of Merced, which pays an incentive fee based on the year-over-year increase in value of its investments, and which pays a management fee based on the value of assets under management, there is the risk that Merced Capital could increase its management and annual incentive fees by overstating the increase in value of Merced's assets. To protect against this risk, Merced Capital has established a valuation policy to assure that its investment valuations reflect fair value. In addition, Merced, like all of the Funds, is audited on an annual basis. The audit includes an audit of the value of the investments in each Fund.

Merced Capital's valuation policy is available to investors in its Funds upon request. The policy provides that securities that are widely traded are valued by reference to quoted market prices. Where reliable market quotations are not available, Merced Capital values these securities and other assets in good faith using such methods as it considers appropriate. Valuation methods include, as appropriate, financial models, appraisals, reference to sales of comparable assets, bids or other valuations received from third parties, and other methods that Merced Capital determines are likely to be reliable. Except to the extent required by applicable law, Merced Capital is not required to have valuations independently determined.

In addition to paying management and incentive fees, the Funds reimburse the general partners of the Funds for certain expenses. These expense reimbursement items vary by Fund, but typically include tax advice and preparation expenses, accounting expense, custodial fees, brokerage commissions, legal, and other operational expenses. The Funds do not reimburse their general partners for rent, infrastructure costs and compensation of investment personnel. In addition, Merced V does not reimburse its general partner for customary and routine overhead expenses, including compensation of all personnel. If any reimbursable expenses are incurred for the account of more than one Fund, then Merced Capital charges a Fund only that portion of the expense that Merced Capital in its discretion deems equitable under the circumstances, taking into account such factors as Merced Capital and the Fund's general partner deem appropriate in the circumstances.

The Funds incur brokerage and other transaction costs. See *Item 12 – Brokerage Practices* for information regarding Merced Capital's practices with respect to these costs.

Item 6 Performance-Based Fees and Side-by-Side Management

Merced Capital does not provide investment advisory services to clients other than the Funds. Accordingly, Merced Capital cannot favor accounts which are charged an incentive fee over accounts that do not pay incentive fees. Although the incentive compensation varies among the different Funds, investments are allocated in accordance with Merced Capital's allocation policy and incentive compensation is not taken into account in the allocation decision.

Item 7 Types of Clients

The Funds are all limited partnerships (with the exception of AGHAP, which is a limited liability company), each organized under the laws of the State of Delaware. The Funds' interests are offered to investors pursuant to exemptions from registration available under state and Federal securities laws. The Funds do not offer interests outside the United States. Merced interests are offered on a "rolling" basis to "qualified purchasers" as defined in Section 2(a)(51) of the Investment Company Act of 1940, subject to the limitations of the other limited offering exemptions under the Federal securities laws. None of the other Funds are offering interests to investors.

Investors in the Funds include public and private pension funds, foundations, endowment funds, "funds of funds", high net worth individuals and family offices. The minimum investment in Merced is \$1,000,000, though this minimum can be waived by Merced Capital. Merced Capital typically sets a minimum of \$5,000,000 for investors in lock-up Funds, and has the ability to waive this minimum as well. No minimum investment is required for AGHAP.

Item 8 Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis and Investment Strategies

A portfolio approach to trading is employed, so that risk to the Funds is mitigated by avoiding significant concentrations in a limited number of investments. However, at times individual positions may be material. The strategy used in any individual situation will be affected by the types of financial instruments and assets involved and the desired risk-reward profile. Merced Capital takes a fundamental approach to analyzing an investment, taking into account the fair value of an investment, downside protection, and expected cash flows. Merced Capital investment personnel rigorously review all aspects of a proposed investment, taking into account both factors specific to the investment as well as factors affecting the particular industry and the economy as a whole.

Merced Capital strives to diversify investments in number, industry focus, and geographic region. However, none of the Funds is precluded from investing a substantial amount of its capital in a single holding, industry, or geographic area. Merced, Merced IV, Merced V and AGHAP may invest outside the United States and, therefore, may incur foreign exchange or political risk, and they may enter into hedging arrangements with the intent to protect against foreign exchange risks.

Merced Capital expects to control and be actively involved in the stewardship of many of the companies and assets in which the Funds invest. Merced Capital intends to seek out investments wherein strong management and attentive ownership add meaningful value. However, the Fund may own interests in companies and assets that it does not control and over which it has little, if any, influence.

Merced Capital uses a wide variety of sources to find investments. Investments are evaluated by Merced Capital by thorough in-house analysis and assessment of the multitude of financial, legal, market, operational, industry and other factors that impact credit profile, business prospects, and asset and enterprise value. Merced Capital also retains outside legal, tax, industry-specific and other advisors to help it analyze the potential downside and upside of an investment.

Risk Factors

An investment in Funds managed by Merced Capital involves various risks, including the risk that an investor may lose part or all of its capital.* While Merced Capital attempts to attain a Fund's investment objectives through its research and portfolio management skills, there is no guarantee of successful performance, that the investment objective can be reached, or that a positive return will be achieved. As a general rule, investors should expect that investments with higher return potential will also have higher potential of risk of loss to capital and/or income. In addition, the Funds' investments may fluctuate in market value from day to day and, therefore, the value of an investment in the Funds could decrease as well as increase. The Funds, individually or taken together, do not constitute a balanced investment program for purposes of an investor's portfolio diversification needs and, therefore, investors should consult with their own financial advisers for the appropriateness of an investment in one or more of the Funds for their overall investment program. Investing involves risk of loss that an investor should be prepared to bear.

A prospective Fund investor should consider the following factors and other considerations. The following risk factors do not purport to be a complete examination of all of the risks involved in investments typically considered by Merced Capital. Additional risk factors with respect to the Funds are outlined in further detail in their respective offering documents.

General Risks

General Economic Conditions and Market Risks. All investments risk the loss of capital and are subject to investment-specific price fluctuations as well as to macroeconomic, market and industry-specific conditions, including but not limited to national and international economic conditions, domestic and international financial policies and performance, conditions affecting particular investments such as the financial viability, sales and product lines of corporate issuers, national and international politics and governmental events, and changes in income tax and other laws and regulations. No guarantee or representation is made that investments recommended by Merced Capital will be successful. Investments recommended by Merced Capital to the Funds may involve, without limitation, risks associated with limited diversification and significant concentration, investments in speculative assets and financial instruments and the use of speculative investment strategies and techniques, interest rates, volatility, tracking risks in hedged positions, credit deterioration or default risks, systems risks and other risks inherent in the Funds' activities. Certain investment techniques of Merced Capital can, in certain circumstances, magnify the impact of adverse market moves to which the Funds may be subject. In addition, the Funds' investments may be materially affected by conditions in financial and other markets and

* For purposes of the discussion of the risks of investing in a fund managed by Merced Capital, we have assumed that any fund formed after the date of this brochure will employ most if not all of the same strategies employed by existing funds, and that the risks of investing in any such fund will be similar. A prospective investor in any fund managed by Merced Capital should carefully read and understand the offering memorandum for the fund. Investors should also consult with their professional advisors.

overall economic conditions occurring globally and in particular markets where the Funds may invest their assets.

Merced Capital may not accurately predict future risk exposures relating to the Funds. Risk management techniques are based in part on the observation of historical market behavior, which may not predict market divergences that are larger than historical indicators. Also, information used to manage risks may not be accurate, complete or current, and such information may be misinterpreted.

Broad, Unrestricted Investment Mandate. Merced Capital's approach is to bring numerous and diverse core competencies, combined with a broad investment mandate, together to take advantage of opportunities that present themselves from time to time. This flexibility makes it difficult to describe all of the risks inherent in an investment in the Funds. The information set forth below describes some of the risks associated with investment sectors in which Merced Capital managed funds have historically invested. There may be risks unique to other assets or particular industries in which the Funds might invest. The Funds have very few limits on the types of investments they might make.

No Assurance of Investment Return. Each Fund's task of identifying investment opportunities, managing such investments and realizing a significant return for investors is difficult. The Funds are dependent upon the relationships and activities of the investment professionals of Merced Capital, and loss of one or more of those individuals could have a significant adverse impact on the business of the Funds and their financial performance. While the Funds' investments offer the opportunity for significant capital gains, they also involve a high degree of risk that may result in substantial losses. Many organizations operated by persons of competence and integrity have been unable to make, manage and realize such investments successfully. There is no assurance that the Funds will be able to invest their capital on attractive terms, correctly evaluate the nature and magnitude of the various factors that could affect the value of such investments or generate returns for its investors. Prices of the investments may be volatile, and a variety of other factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of the Funds' activities. There is no assurance that the Funds' investments will be profitable and there is a risk that the Funds' losses and expenses will exceed its income and gains. As such, there is no assurance of any distribution to Fund investors prior to, or upon, liquidation of a Fund. A prospective investor should not invest in any Fund unless such investor is able to withstand a total loss of its investment.

Unspecified Investments. The capital commitments received from Fund investors go into a blind pool. The Funds do not prospectively identify the investments they will make. Accordingly, an investor in a Fund must rely upon the ability of the Fund's general partner in making investments consistent with the Fund's investment objectives and policies. An investor will not have the opportunity to individually evaluate the relevant economic, financial and other information that will be utilized by the Fund's general partner in its selection of investments or otherwise approve such investments.

Risks Related to Electronic Communications. Fund general partners provide to investors statements, reports and other communications relating to the Fund and/or the investors' interests in the Fund in electronic form, such as email or via a password-protected website ("Electronic Communications"). Electronic Communications may be modified, corrupted or contain viruses or malicious code and may not be compatible with Fund investor's electronic system. In addition, reliance on Electronic Communications involves the risk of inaccessibility, power outages or

slowdowns for a variety of reasons. These periods of inaccessibility may delay or prevent receipt of reports or other information by the Fund investors.

Handling of Mail. Mail addressed to the Fund and received at its registered office will be forwarded unopened to the forwarding address supplied by the Fund for such purposes. Merced Capital, other Fund general partners, the Funds, and its or their directors, officers, advisors or service providers (including the organization which provides registered office services) will not bear any responsibility for any delay howsoever caused in mail reaching the forwarding address.

Cybersecurity Breaches. Merced Capital and other Fund general partners depend heavily upon computer systems to perform necessary business functions. Although the the firm and the general partners have implemented a variety of security measures, these computer systems could be subject to cyber-attacks and unauthorized access, such as physical and electronic break-ins or unauthorized tampering. Like other companies, Merced Capital and other Fund general partners may experience threats to their respective data and systems, including malware and computer virus attacks, unauthorized access, system failures and disruptions. If one or more of these events occurs, it could potentially jeopardize the confidential, proprietary and other information processed and stored in and transmitted through, such computer systems and networks, or otherwise cause interruptions or malfunctions in Merced Capital's, the Funds' or their portfolio companies' operations, which could result in damage to the firm's, the general partners' of the Funds' reputation, financial losses, litigation, increased costs, regulatory penalties and/or customer dissatisfaction or loss.

No Assurance of Confidentiality. Fund investors provide significant amounts of information about themselves to Merced Capital, the other Fund general partners, and the Funds. Fund investors should not assume that such information will be kept confidential. For example, subject to any specific legal requirements, such information may be made available to other Fund investors, third parties that have dealings with the Funds and governmental authorities.

Compliance with Anti-Money Laundering Requirements. In response to increased regulatory concerns with respect to the sources of funds used in investments and other activities, a Fund general partner may request prospective and existing Fund investors to provide additional documentation verifying, among other things, such investors' identity and source of funds used to purchase an interest in a Fund. The Fund general partner may decline to accept a commitment if this information is not provided or on the basis of such information that is provided. Requests for documentation and additional information may be made at any time during which a Fund investor holds an interest. The Fund general partner may be required to provide this information, or report the failure to comply with such requests, to appropriate governmental authorities, in certain circumstances without notifying the Fund investors that the information has been provided. The Fund general partner will take such steps as it determines may be necessary to comply with applicable law, regulations, orders, directives or special measures.

Regulation of the Private Funds Industry and the Financial Services Industry. The businesses of the Funds, Merced Capital, the other Fund general partners, and their respective affiliates, as well as the financial services industry generally, are subject to extensive regulation, including periodic examinations, by governmental agencies and self-regulatory organizations or exchanges in the U.S. and foreign jurisdictions in which they operate relating to, among other things, antitrust law, anti-money laundering laws, anti-bribery laws, laws relating to foreign officials, privacy laws with respect to client information and the regulatory oversight of the trading and other investment activities of alternative asset management funds and their alternative investment fund managers, including the Funds, Merced Capital, and the other Fund general partners. Each of the regulatory

bodies with jurisdiction over the Funds, Merced Capital, the other Fund general partners, or their respective affiliates has the regulatory powers dealing with many aspects of financial services, including the authority to grant, and in specific circumstances to cancel, permissions to carry on particular activities. Any failure to comply with these rules and regulations could expose the Funds, Merced Capital, or the other Fund general partners to liability or other risks.

The additional legislation, increasing global regulatory oversight of fundraising activities and changes in law relating to the alternative asset management industry has been particularly acute in the aftermath of the recent global financial crisis. This additional scrutiny has included, among other things, increased registration, oversight and regulation of alternative asset management firms and disclosure with respect to these firms and the vehicles they sponsor or advise, which could impact Merced Capital's or the Fund general partners' management of the Funds. Such oversight and regulation may cause the Funds to incur additional expenses, may divert the attention of the Fund general partners and their personnel and may result in fines if a Fund is deemed to have violated any regulations. Regulation generally as well as regulation more specifically addressed to the alternative asset management industry, including tax laws and regulation, could increase the cost of acquiring, holding or divesting portfolio investments, the profitability of enterprises and the cost of operating the Funds. Additional regulation could also increase the risk of third-party litigation. The transactional nature of the business of the Funds exposes the Funds, Merced Capital, the other Fund general partners, and certain related parties generally to the risks of third party litigation. The Funds are generally responsible for indemnifying Merced Capital, the Fund general managers and certain related parties for losses or obligations they may incur with respect to such litigation.

Changes in Regulatory Oversight. The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and other legislative and regulatory actions have led, and will continue to lead, to the implementation of additional regulations and oversight over securities and commodities investments, which may restrict the profitability of the Funds, have an adverse effect on the value of the Funds' investments or otherwise interfere with the Funds' ability to pursue their investment objectives.

The Dodd-Frank Act may impose increased recordkeeping and reporting obligations on Merced Capital or its affiliates with respect to the Funds. While the Dodd-Frank Act imposes certain confidentiality requirements with respect to such records and reports, and an exemption from the Freedom of Information Act may be available with respect of such records and reports, no assurance can be given that the mandated disclosure of such records or reports to the U.S. Securities and Exchange Commission ("SEC") or other governmental entities will not have a significant negative impact on the Funds, Merced Capital, other Fund general partners, or any Fund investor. Additionally, the new recordkeeping and reporting requirements and enhanced scrutiny by the SEC and audit may increase the Funds' compliance, operational and administrative costs.

The Dodd-Frank Act establishes a general framework for systemic regulation, the full scope of which will remain unclear until all implementing regulations are enacted. There can be no assurance that future regulatory actions authorized by the Dodd-Frank Act will not adversely affect the Funds. In addition, it is impossible to predict what, if any, changes in the regulations applicable to the Funds, Merced Capital, other Fund general partners, or the markets in which they trade and invest may be instituted in the future. There can be no assurance that the Funds, Merced Capital, or other Fund general partners will be able, for financial reasons or otherwise, to comply with future laws and regulations.

In addition, the SEC, Commodities Futures Trading Commission (“CFTC”) and state officials have been conducting inquiries into, and bringing enforcement and other proceedings regarding trading and other practices against, advisers, sponsors and distributors of investment companies and private funds. The Funds, Merced Capital, other Fund general partners and/or their affiliates may receive requests for information or subpoenas from the SEC, CFTC and other state, federal and foreign regulators from time to time in the ordinary course of their business. These requests may relate to a broad range of matters, including specific practices of Merced Capital, the securities or commodities in which Merced Capital invests on behalf of its clients or industry-wide practices. Such burdens may divert the firm’s time, attention and resources from investment management and trading activities.

Although the Funds endeavor to comply with the requirements of all such regulatory regimes, the treatment of entities like the Funds and their investment activities is often uncertain, and may frequently depend on determinations of fact and interpretations of complex provisions of law and regulation for which there may be no clear precedent or authority. Where no clear precedent or authority is available, the Funds may employ standard industry practice or conventions to guide their compliance efforts. There can be no assurance, however, that such practice or conventions ultimately will be considered compliant, and as a result, the Funds, despite their efforts, may be exposed to liability, possibly on a retroactive basis, as practice or conventions change or are challenged, or the procedures for compliance with the regimes to which the Funds are subject become clearer. Moreover, the regimes to which the Funds are subject may be administered on a variable basis and are generally under review by government authorities in the various jurisdictions in which the Funds have investment activities, sometimes resulting in revised interpretations of seemingly established concepts. The present treatment of the Funds or their activities may be modified by administrative, legislative or judicial interpretation at any time, and any such action may affect investments or commitments previously made. In addition, as a result of such changes, the structure and activities of entities such as the Funds may be challenged. Accordingly, the Funds and their investors could be adversely affected by changes in laws, regulations, interpretations or the administration thereof.

Suitability Under ERISA. The Funds should be viewed as long-term investment vehicles. When considering an investment in any Fund, an employee benefit plan subject to ERISA should consider whether the investment satisfies the requirements of ERISA, including whether the investment is prudent given the nature of the Partnership.

ERISA Plan Assets Status. If participation in a Fund by benefit plan investors is “significant” (within the meaning of ERISA), the assets of the Fund will be treated as “plan assets” for purposes of ERISA. If the assets of a Fund are treated as “plan assets,” the Fund may be precluded from making certain investments or constrained from exercising certain rights with respect to investments by reason of an existing relationship between the entity in which the investment is or would be made (or its officers or shareholders) and an investing ERISA Partner or due to its obligations to other ERISA plans. The Fund general partners intend to operate the Funds in a manner such that the Funds are not considered to hold “plan asset” under ERISA. =

Coronavirus Epidemic. In December 2019, a novel strain of coronavirus (“COVID-19”) was reported in Wuhan, China. The World Health Organization has declared COVID-19 to constitute a pandemic and a “Public Health Emergency of International Concern”. The U.S. government, various state and local governments and many non-U.S. governmental authorities have implemented enhanced screenings, quarantine requirements and business and travel restrictions, both domestically and internationally, in connection with the COVID-19 outbreak. Such actions are continuing to create disruption in global demand and supply chains and contributing to

significant volatility in financial markets and are adversely impacting a wide range of different industries. Generally, the COVID-19 outbreak has had, and will continue to have, a negative effect - potentially a severe negative effect - on the economies, financial markets and business activities of the United States and many other countries. COVID-19 has resulted in health or other government authorities requiring the closure of offices or other businesses, including office buildings, retail stores and other commercial venues; potential future outbreaks of COVID-19 or the outbreak of new epidemics could also result in more closures or sustained closures and further general economic decline. A resulting negative impact on economic fundamentals and consumer confidence may increase the risk of default of particular investments, negatively impact market value, increase market volatility, cause credit spreads to widen and reduce liquidity, all of which could have an adverse effect on the Funds' returns and the Funds' ability to source new investments. No assurance can be given as to the effect of these events on the value of the investments or the Funds' ability to source investments. Furthermore, such uncertainty or general economic downturn may have an adverse effect upon the investments.

Risks Related to Fund Investments

Participation on Creditors' Committees and Boards of Directors. The Funds may participate on committees formed by creditors to negotiate with the management and other creditor constituencies of financially troubled companies that may or may not be in bankruptcy. The Funds may also seek to negotiate directly with debtors with respect to restructuring issues. In the situation where a Fund does choose to join a creditors' committee, it would likely be only one of many participants, each of whom would be interested in obtaining an outcome that is in its individual best interests. There can be no assurance that the Fund would be successful in obtaining results most favorable to it in such proceedings, although the Fund may incur significant legal fees and other expenses in attempting to do so. As a result of participation by the Funds on such committees, the Funds may be deemed to have duties to other creditors represented by the committees, which might thereby expose the Funds to liability to such other creditors who disagree with the Funds' actions.

Participation in restructuring activities frequently provides the participant with material non-public information that may restrict the Funds' ability to trade in the company's securities. Determination of whether information is material and non-public and how long knowledge of such information restricts trading is a matter of considerable uncertainty and judgment. While the Funds intends to comply with all applicable securities laws and to make judgments concerning restrictions on trading in good faith, the Funds may trade in a company's securities while engaged in restructuring activities relating to that company. Such trading creates a risk of litigation and liability that may cause the Funds to incur significant legal fees and potential losses.

It is anticipated that the Funds will be represented on the boards or management committees of some of the companies in which it makes an investment. While such representation is critical to the Funds' investment philosophy and should enhance the Funds' ability to manage their investments, it may also have the effect of impairing the ability of the Funds to sell the related securities when, and upon the terms, it might otherwise desire, including as a result of applicable securities laws. Such representation creates a risk of litigation and liability that may cause the Funds to incur significant legal fees and potential losses.

Investments in Financially Distressed Entities and Restructurings. The Funds may acquire debt, other obligations and equity of financially distressed entities. Although such positions may bring high returns to the Funds, they involve varying degrees of risk. The financial difficulties of such entities may never be overcome and may cause such entities to become subject to bankruptcy

proceedings. The timing and outcome of any bankruptcy or restructuring is unpredictable. Any one or all of the entities in which the Funds acquire interests may be unsuccessful in its attempts to restructure and become profitable or the positions may not show any return for a considerable period of time. In any bankruptcy or restructuring, a Fund may lose its entire investment, may be required to accept cash or securities with a value less than the Fund's original investment or may be forced to liquidate its investment at a substantial loss. In addition, under certain circumstances, payments to a Fund and distributions by the Fund to its investors may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, a preferential payment or similar transaction under applicable bankruptcy and insolvency laws. Furthermore, investments in restructurings may be adversely affected by statutes related to, among other things, fraudulent conveyances, voidable preferences, lender liability and the bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims or re-characterize investments made in the form of debt as equity contributions.

The Funds may also invest in securities and other obligations that are secured by receivables from financially distressed consumers. These types of investments expose the Funds to the greater credit risk of the underlying consumers. Defaults by consumers on their payment obligations due to loss of employment, higher interest rates, increased taxes, bankruptcy or other adverse economic developments in the financial, credit or labor markets could result in a significant decrease in the market value of these investments or a total loss of the Funds' investment.

High Yield, Below Investment-Grade or Unrated Securities. The Funds may invest in high-yield or non-investment grade securities. Such securities are generally not exchange-traded and, as a result, these instruments trade in the over-the-counter marketplace, which is less transparent and less liquid than the exchange-traded marketplace. In addition, the Funds may invest in bonds of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments. Non-investment grade securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to make timely interest and principal payments. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities are often highly leveraged and may not have available to them more traditional methods of financing. It is possible that a major economic recession could severely disrupt the market for such securities and may have an adverse impact on the value of such securities. In addition, it is possible that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default of such securities.

Issuer Risk. There are varying sources of statistical default and recovery rate data for commercial loans, and high yield and distressed securities and numerous methods for measuring default and recovery rates. The historical performance of the loan market or high yield market is not necessarily indicative of its future performance.

A Fund's income may be derived largely from repayments of principal and interest received in respect of debt instruments. A wide range of factors may adversely affect an obligor's ability to make repayments, including adverse changes in the financial condition of such obligor or the industries or regions in which it operates; the obligor's exposure to counterparty risk; systemic risk in the financial system and settlement; changes in law or taxation; changes in governmental regulations or other policies; natural disasters; terrorism; social unrest, civil disturbances or general economic conditions. Default rates tend to accelerate during economic downturns.

Any defaults may have a negative impact on the value of a Fund's investments and may reduce the return that the Fund receives from its investments in certain circumstances.

In the case of debt ranking equally with the loans or debt securities in which a Fund invests, the Fund would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant investee company. Each jurisdiction in which a Fund invests has its own insolvency laws. As a result, investments in similarly situated companies in different jurisdictions may confer different rights in the event of insolvency.

Aircraft. Merced Capital-managed Funds participate in the business of purchasing and leasing commercial jet aircraft. Investors should consider the risks associated with the aircraft sale and leaseback business, which include, for example, the uncertain business environment for the airline industry, the risk that a lessee's credit profile will deteriorate, the risk of a decline in the value of aircraft or rental rates, risks associated with inaccurate appraised values for aircraft, risks associated with loss of or damage to an aircraft, and the risk that liens on aircraft will have priority over payments to the Funds. These risks are particularly evident, and are continuing to be exacerbated by, the COVID-19 outbreak and the resulting severe disruption in the airline industry.

Non-Operator Interests - Oil and Gas. The Funds currently invest in non-operating interests in oil wells and natural gas wells, in which investing Funds are given an opportunity to participate in well drilling and production by paying pro-rata expenditures and receiving pro-rata revenues from oil and gas sales. The Funds do not control the timing or success of the development, exploitation, production and exploration activities relating to its interests. Well operators make decisions in connection with their operations (subject to their contractual and legal obligations to other owners of working interests), which may not be in the Funds' best interests. In addition, Merced Capital has virtually no ability to exercise influence over the operational decisions of the well operators, including the setting of capital expenditure budgets and drilling locations and schedules. The success and timing of well development activities depend on a number of factors that are largely outside of Merced Capital's control, including the timing and amount of capital expenditures, operator expertise and financial resources, approval of other well participants, production rate, and recent extreme volatility in global production and pricing. In addition, Merced Capital relies on third-party joint venture partners for the sourcing and management of the Funds' non-operator interests, and may employ hedging to mitigate the risk of a decline in the future price of oil and natural gas. The risks associated with third-party providers and hedging transactions are addressed elsewhere in this Item.

Insurance. Funds may make investments in debt and equity instruments that allow life insurance-related, credit-related and natural disaster related risks and returns to be transferred to investors and thus will be subject to the general risks facing the insurance industry. These risks include, among others, the uncertainty associated with (i) projecting mortality rates, interest rates and life insurance policy lapse rates, (ii) projecting future credit profiles, default rates and recoveries and the likelihood and magnitude of natural disasters, (iii) methodologies used to value assets owned by such companies, (iv) the general market and business environment for such insurance industry, (v) counter-party risk and (vi) the risk of regulatory changes, among other factors. Insurance industries are highly regulated by the federal, state and local governments. There is no guarantee that changes will not occur to regulations affecting the insurance and reinsurance businesses, and such changes may adversely affect the value of the Funds and their investments. There may be other risks unique to these and other particular industries in which the Funds invest.

Real Estate. The Funds may invest directly in real estate that Merced Capital believes is undervalued or under circumstances where Merced Capital believes that relevant market values will appreciate, non-recourse mortgages where the mortgagor is not a significant operating company and in the securities or obligations of single purpose companies whose primary asset is real estate. Risks associated with real estate investments include, among other things, (i) lack of demand for commercial or housing space in a locale, (ii) changes in general economic or local conditions, (iii) changes in supply of, or demand for, similar or competing properties in an area, (iv) uncertainty of cash flow to meet loan and other fixed obligations, (v) changes in interest rates, (vi) unavailability of mortgage financing which may render the sale or refinancing of a property difficult and (vii) changes in tax, real estate, environmental, and zoning laws. Additionally, in connection with the ownership (direct or indirect) of real properties, a Fund or an entity in which a Fund invests may face potential costs and liabilities related to environmental laws, such as those related to the removal of hazardous or toxic substances.

With respect to investments in mortgage loans, the Funds will in large part be dependent on the ability of third parties to successfully operate the underlying properties. In addition, certain of the mortgage loans may be structured so that all or a substantial portion of the principal will not be paid until maturity, which increases the risk of default at that time. The possibility of partial or total loss of capital will exist and investors should not subscribe unless they can readily bear the consequences of such loss.

Land Lot Development/Entitlement. The Funds may invest in unentitled land that Merced Capital will seek to process through the land use approval process and, subsequently, seek to dispose of at a profit. In any such projects, the Funds will be subject to risks relating to delays in the land use entitlement process and other regulatory conditions beyond Merced Capital's control. Each of these factors could result in increased costs of a project or loss of the Funds' investment. In addition, the price the Funds agree to pay for the land will be based on projections of expenses and estimates of land use development costs, marketability to homebuilders and growth projections in the area in which land in which the Funds invest is located. If these projections are inaccurate, the Funds may overpay for the land they acquire and, due to the factors discussed above, the Funds may fail to achieve their expected returns. The Funds will also be subject to the risks normally associated with land use development activities. Such risks include, without limitation, risks relating to the availability and timely receipt of zoning and other regulatory approvals and land use entitlement. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have an adverse effect on the Funds and on the amount of funds available for distribution to investors.

Homebuilding. Homebuilding investments involve significant construction risk, which is the risk that the cost of land, development and construction of homes runs over budget and erodes or eliminates profit. Cost overruns can occur during any stage of development, construction or home sales due to, among other factors, unforeseen soil conditions, lawsuits, unanticipated weather, administrative or regulatory delays in the receipt of required approvals and permits for zoning, grading, density, product design, occupancy and similar items of municipal oversight, labor relations problems, unavailability of skilled workers, and delays in obtaining or unavailability of construction materials. In the event such issues delay the realization of a Fund's investment objectives for an investment, the investment may suffer a significant decline in value due to adverse economic and market changes or other conditions affecting such investment.

Periods of high interest rates, tight credit, overdevelopment in an area in which a specific homebuilding project exists, general economic conditions (including the COVID-19 outbreak,

recession or slow job growth), and a drop in home buyer confidence are among the factors that may make the sale of homes difficult. In addition, during a slow market, a Fund may have to bear the cost of carrying lots or standing inventory pending a change to favorable building and/or market conditions, resulting in increased interest costs and reducing the amount of capital available to undertake additional projects.

Hard-Asset Lending. This is a highly competitive market and Merced Capital believes it will continue to be so for the foreseeable future as the financial services industry continues to consolidate, producing larger, better capitalized and more geographically diverse companies with broad product and service offerings. Thus, the Funds' profitability in this subsector depends, in large part, on the Funds' ability to compete effectively. The Funds' competition within this industry includes mortgage REITs, specialty finance companies, savings and loan associations, banks, mortgage banks, insurance companies, mutual funds, private equity funds, hedge funds, institutional investors, investment banking firms, non-bank financial institutions, governmental bodies and other entities as well as family offices and high net worth individuals. The Funds may also compete with companies that partner with and/or receive financing from the U.S. Government. Many of the Funds' competitors are substantially larger and have considerably greater financial, technical, marketing and other resources than the Funds do. In addition, larger and more established competitors may enjoy significant competitive advantages, including enhanced operating efficiencies, more extensive referral networks, greater and more favorable access to investment capital and more desirable lending opportunities. Some competitors may have a lower cost of funds and access to funding sources that may not be available to the Funds, such as funding from the U.S. Government for which the Funds are not eligible. In addition, some of the Funds' competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of possible loan transactions or to offer more favorable financing terms than the Funds would. Merced Capital cannot assure investors that the competitive pressures the Funds face will not have a material adverse effect on the Funds' business, financial condition and results of operations.

Mortgage Backed Securities. The Funds may invest in mortgage loans or asset-backed securities secured by such loans ("MBS"). The mortgage loans that the Funds acquire and the mortgage loans underlying their MBS investments are subject to risks of delinquency and foreclosure. The ability of a mortgage borrower to repay a loan secured by a residential property typically is dependent upon the income and assets of the borrower, which may be uncertain or subject to change due to a variety of factors that are outside the Funds' control. Most mortgage loans underlying MBS are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the underlying collateral. In the event of any default under a mortgage loan held directly by the Funds, the Funds will bear a risk of loss of principal to the extent of any deficiency between the value of the collateral (or its ability to realize such value through foreclosure) and the principal and accrued interest of the mortgage loan, which could have a material adverse effect on the Funds. This risk can be magnified when investing in MBS. In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy (as determined by the bankruptcy court), and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law. Foreclosure of a mortgage loan can be an expensive and lengthy process, which could have a substantial negative effect on the anticipated return on the foreclosed mortgage loan.

Special Situation Transactions. The Funds may invest and trade in situations that they believe offer opportunity due to some identifiable dislocation, such as lack of market transparency or

liquidity. Risks to the Funds in this type of investing and trading include misjudging the nature or magnitude of the factors that have caused this dislocation, the quality of the position's fundamental assets, the scope of the position's liabilities and a Fund's ability to exit the position in a timely and profitable fashion.

Hedging Transactions. Funds may hedge their investments, including by investing in derivatives and other financial instruments. The success of the hedging strategy of a Fund will be subject to Merced Capital's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged. In the event of an imperfect correlation between a position in a hedging instrument and the portfolio position that it is intended to hedge, the desired protection may not be obtained and a Fund may be exposed to additional risk of loss. Since the characteristics of many securities change as markets change or time passes, the success of a Fund's hedging strategy will also be subject to Merced Capital's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. Certain of the Funds' hedging transactions may be undertaken through brokers, banks or other organizations and the Funds will be subject to risk of default or insolvency of such organizations. In such event, there can be no assurance that any money advanced to such organizations would be repaid or that the Funds would have any recourse in the event of default. While the Funds may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Funds than if they had not engaged in any such hedging transactions. For a variety of reasons (e.g., cost and probability of occurrence of risk), Merced Capital may not hedge against particular risks or may not establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. An imperfect correlation may prevent a Fund from achieving the intended hedge, and failure to hedge or an imperfect hedge may expose a Fund to risk of loss.

Interest Rates. Interest rate fluctuations may have a substantial negative impact on the Funds. A reduction in the interest rates on new investments relative to interest rates on current investments could also have an adverse impact on the Funds' net investment income. An increase in interest rates could decrease the value of any investments the Funds hold with interest rate floors above prevailing rates or earning fixed interest rates, and also could increase the Funds' interest expense, thereby decreasing their net income.

Inflation Risk. Inflation risk results from the variation in the value of cash flows from an investment due to inflation, as measured in terms of purchasing power. For example, if a Fund acquires a loan in which it can realize a coupon rate of five percent (5%), but the rate of inflation increases from two percent (2%) to six percent (6%), then the purchasing power of the cash flow has declined. While Merced Capital expects many of the Funds' loans to be adjustable or floating rate loans, the Funds may be exposed to inflation risk because the interest rate the issuer promises to pay on some loans is fixed for the life of the investment. To the extent that interest rates reflect the expected inflation rate, adjustable or floating rate loans have a lower level of inflation risk.

Developments in Leveraged Loan and Credit Markets. In recent years, the global economy has been negatively affected by significant disruptions in the credit markets, including the collateralized debt obligation and leveraged finance markets and a general economic downturn and, in certain countries, recession. Significant risks for the Funds and their investors continue to exist as a result of credit market volatility and uncertain economic conditions. These risks include, among others, (a) the likelihood that the Funds may find it more difficult to sell any of their assets in the secondary market, thus rendering it more difficult to dispose of such assets if and when it desires to sell them, (b) the possibility that the price at which assets can be sold by the Funds will have deteriorated from the cost of such investment to the Funds, (c) the possibility

of accelerated prepayments of attractively priced (i.e., the all-in yield), structured or performing Fund assets as a result of increased liquidity and competition in the lower middle market private debt asset class driven by economic conditions, relative performance, monetary policy or other governmental action or other factors and (d) the impact of adverse economic conditions on the obligors of the Funds' assets. These risks may affect the returns, if any, to the Fund investors or the ability of the Funds to return any or all of their investors' capital contributions.

The market for a number of financial products, including leveraged loans, is volatile. Disruptions in the credit markets may reduce opportunities for the Funds to make investments, and may also heighten refinancing risk in respect of maturing Fund assets. Any events that slow, delay or reverse economic recovery or cause a deterioration in loan performance generally may affect the returns, if any, to the Fund investors or the ability of the Funds to return any or all of their investors' capital contributions.

Negative macroeconomic conditions may adversely affect the credit rating (if any), performance and the realization value of the Funds' assets. It is possible that the Funds' assets will experience higher default rates and lower recovery rates than anticipated and that performance will be materially worse than expected.

The bankruptcy or insolvency of a major financial institution may have a material adverse effect on the Funds, particularly if such financial institution is the administrative agent of a Fund asset or is otherwise the counterparty to a contract with a Fund. In addition, the bankruptcy, insolvency or financial distress of one or more additional financial institutions, or one or more sovereigns, could trigger additional disruptions in the global credit markets or the global economy which could have a material adverse effect on the Funds and their assets.

Lower Credit Quality Loans. There are no restrictions on the credit quality of the Funds' loan investments and no ratings or other standardized metrics exist for the evaluation of relative risk in such loans. Loans arranged by the Funds may be deemed to have substantial vulnerability to default in payment of interest and/or principal. Certain of the loans which the Funds may fund have large uncertainties or major risk exposures to adverse conditions and may be considered to be predominantly speculative. Generally, such loans offer a higher return potential than better quality loans but involve greater volatility of price and greater risk of loss of income and principal. The market values of certain of these loans also tend to be more sensitive to changes in economic conditions than better quality loans.

Custody and Prime Brokerage Risk. There are risks involved in dealing with the custodians or prime brokers who settle Fund trades. Under certain circumstances, the securities and other assets deposited with the custodian or broker may not be clearly identified as being assets of a Fund and hence the Fund could be exposed to a credit risk with regard to such parties. In addition, there may be practical or time problems associated with enforcing a Fund's rights to its assets in the case of an insolvency of any such party. The investment strategy of a Fund may require its general partner to actively trade the Fund's portfolio, and as a result, turnover and brokerage commission expenses of the Fund may significantly exceed those of other investment entities of comparable size. Further, there are certain risks involved with certain of the Funds' assets, such as bank loans, which are not held by a custodian.

Counterparty, Settlement and Local Intermediary Risk. From time to time, certain securities markets have experienced operational clearance and settlement problems that have resulted in failed trades. These problems could cause the Funds to miss attractive investment opportunities or result in a Fund's liability to third parties by virtue of an inability to perform that Fund's

contractual obligation to deliver securities. In addition, delays and inefficiencies of the local postal, transport and banking systems could result in the loss of investment opportunities, the loss of funds (including dividends) and exposure to currency fluctuations. To the extent the Funds invest in securities, swaps, “synthetic” or derivatives instruments, repurchase agreements, certain types of options or other customized financial instruments or other over-the-counter transactions, in certain circumstances, the Funds may take a credit risk with regard to parties with whom they trade and may also bear the risk of transfer, clearance or settlement default. Transactions entered into directly between two counterparties may expose the parties to the risk of counterparty defaults. Such risks may be exacerbated with respect to foreign securities or transactions with foreign counterparties. Certain of a Fund’s transactions may be undertaken through local brokers, banks or other organizations in the countries in which the Fund makes investments, and the Fund will be subject to the risk of default, insolvency or fraud of such organizations. Finally, the Funds will be dependent upon the general soundness of the banking systems of countries in which investments will be made.

Portfolio Investment Ratings. The Funds’ investments include commercial loans and high yield corporate or other obligations and equity of both U.S. and non-U.S. obligors rated below investment grade, which have greater credit and liquidity risk than more highly rated obligations. Downgrades and negative rating actions may occur with respect to these investments and in such case, there is no requirement to sell any such investment. Investments with lower ratings will have greater credit, insolvency and liquidity risk than more highly rated obligations and, therefore, a greater risk of loss. In addition to credit and liquidity risk, lower rated obligations have greater volatility than more highly rated obligations. Future periods of uncertainty in the United States economy and the possibility of increased volatility and default rates may further adversely affect the price and liquidity of the Funds’ investments. Consequently, the Funds will bear a higher risk of losing all or part of their investment if investments are downgraded or put on a watch list for downgrade. In addition, any reductions in ratings of or similar rating action with respect to investments may adversely affect the value of such investments.

Commodity Futures Contracts. Trading in commodity interests may involve substantial risks. The low margin or premiums normally required in such trading may provide a large amount of leverage, and a relatively small change in the price of a security or contract can produce a disproportionately larger profit or loss. There is no assurance that a liquid secondary market will exist for commodity futures contracts or options purchased or sold and the Funds may be required to maintain a position until exercise or expiration, which could result in losses.

Futures positions may be illiquid because, for example, most U.S. commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as “daily price fluctuation limits” or “daily limits.” Once the price of a contract for a particular future has increased or decreased by an amount equal to the daily limit, positions in the future can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. Futures contract prices on various commodities occasionally have moved the daily limit for several consecutive days with little or no trading. Similar occurrences could prevent the Funds from promptly liquidating unfavorable positions and subject the Funds to substantial losses. In addition, the Funds may not be able to execute futures contract trades at favorable prices if trading volume in such contracts is low. It is also possible that an exchange or the CFTC may suspend trading in a particular contract, order immediate liquidation and settlement of a particular contract or order that trading in a particular contract be conducted for liquidation only. In addition, the CFTC and various exchanges impose speculative position limits on the number of positions that may be held in particular commodities. Also, the deposit requirements in the futures market are less onerous than margin requirements in the securities market. Therefore,

increased participation by speculators in the futures market also may cause temporary price distortions. Trading in commodity futures contracts and options are highly specialized activities that may entail greater than ordinary investment or trading risks.

Options. The successful use of options may depend on the ability of Merced Capital or the other Fund general partners to forecast interest rate and market movements correctly. For example, if a Fund were to write a call option based on its general partner's or Merced Capital's expectation that the price of the underlying security would fall, but the price were to rise instead, the Fund would be required to sell the security upon exercise at a price below the current market price. Similarly, if a Fund were to write a put option based on its general partner's or Merced Capital's expectation that the price of the underlying security would rise, but the price were to fall instead, the Fund would be required to purchase the security upon exercise at a price higher than the current market price.

In addition, when it purchases an option, a Fund runs the risk that it will lose its entire investment in the option in a relatively short period of time, unless the Fund exercises the option or enters into a closing transaction with respect to the option during the life of the option. If the price of the underlying security does not rise (in the case of a call) or fall (in the case of a put) to an extent sufficient to cover the option premium and transaction costs, the Fund will suffer a loss on its investment in the option. This contrasts with an investment by the Fund in the underlying security, since the Fund will not lose any of its investment in such security if the price does not change. The effective use of options also depends on the Funds' ability to terminate option positions at times when Merced Capital or other Fund general partner deems it desirable to do so. There is no assurance that the Funds will be able to effect closing transactions at any particular time or at any acceptable price. In the event of the bankruptcy of a broker through which the Funds engage in transactions in options, the Funds could experience delays and/or losses in liquidating open positions purchased or sold through the broker.

Short Selling. Short selling involves selling securities which are not owned and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which a Fund engages in short sales depends upon the Fund's investment strategy and opportunities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to a Fund of buying those securities to cover the short position. There can be no assurance that the Funds will be able to maintain the ability to borrow securities sold short. In such cases, a Fund can be "bought in" (i.e., forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position are available for purchase at or near prices quoted in the market. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

Non-U.S. Investments. The Funds' portfolios include obligations of obligors domiciled in a variety of non-U.S. jurisdictions, and assets located in non-U.S. jurisdictions. Risks associated with investing in certain non-U.S. jurisdictions may include the following: (i) the unpredictability of international trade patterns; (ii) the possibility of governmental actions adverse to business generally; (iii) the imposition or modification of controls on foreign currency exchange, repatriation of proceeds or non-U.S. investment; (iv) the imposition or increase of withholding or other taxes on income or gains; (v) potential tax filing requirements in such jurisdictions; (vi) the imposition of potentially confiscatory levels of taxation; (vii) price volatility; (viii) the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure

requirements; (ix) governmental influence on the national and local economies and (x) fluctuations in currency exchange rates. Each of the foregoing could increase the risk of an investment in the Funds.

The governments of certain of the countries in which the Funds may invest have exercised and continue to exercise substantial influence over many aspects of the private sector. The availability of investment opportunities for the Funds depends in part on governments continuing to liberalize their policies regarding foreign investment and to further encourage private sector initiatives. In certain jurisdictions, foreign ownership of assets and companies may be restricted, requiring a Fund to share the applicable investment with local third-party partners or investors, and there may be significant local land use and permit restrictions, local taxes and other transaction costs which adversely affect the returns sought by the Fund.

The securities of some non-U.S. issuers are less liquid and more volatile than securities of comparable U.S. issuers and securities markets in some countries are fragmented, small and less liquid than the securities markets of the United States and certain other developed countries. In addition, the securities markets in the countries in which the Funds may invest have in the past experienced substantial price volatility which could have an adverse impact on the value of the Funds' investments. Periods of economic and political uncertainty may result in further volatility in the value of the Funds' investments. As a result, there may be greater volatility than the volatility that could be expected by investors in comparable securities traded in U.S. securities markets. There can be no assurance that such investments will not be sold at prices below their acquisition costs.

Fluctuations in currency rates may adversely affect the ability of the Funds to successfully acquire non-U.S. assets and may also adversely affect the performance of the Funds' investments in such assets. Because non-U.S. securities or other non-U.S. assets may be purchased with and payable in currencies of countries other than the U.S., the value of these assets measured in U.S. dollars may be affected favorably or unfavorably by changes in currency rates and exchange control regulations. In addition to currency and exchange risks, these investments may be subject to additional risks relating to foreign political and regulatory risks, which may affect the liquidity of such investments. Additional risks include possibilities of instability of the local country's political and economic structures, less predictable means of dispute resolution and enforcement of local rights regarding the investments.

Some countries in which the Funds invest may employ managed exchange rate regimes which, in addition to other policies, may distort the results of, and returns on, the Funds' investments in such countries. Several countries, however, have been unable to sustain their exchange rates and have devalued their currency or shifted to floating exchange rate regimes. It is not possible over the life of the Funds to assess the degree to which individual currencies will be permanently affected, but significant depreciation of any particular currency may adversely impact the Funds' investments in the applicable country and/or the Funds' returns from such investments.

Finally, some countries in which the Funds may invest control, in varying degrees, the repatriation of capital and profits that result from foreign investment. Capital markets, often opaque, continue to be highly regulated and will likely be subject to continuing government restrictions. There can be no assurance that the Funds will be permitted to repatriate capital or profits, if any, from these countries.

Currency Exchange Risk. A portion of the Funds' investments are or may be denominated in various foreign currencies and in other financial instruments, the price of which is determined

with reference to such foreign currencies. The Funds, however, value their investments and other assets in U.S. dollars. The value of the Funds' net assets not denominated in U.S. dollars will fluctuate with U.S. dollar exchange rates as well as the price changes of the Funds' investments in the various local markets and currencies. The Funds will incur costs in converting investment proceeds from one currency to another. While the Funds intend to hedge currency exchange risk, they are not obligated to do so, and there can be no assurance as to the success of any hedging operations that the Funds may implement.

Third Party Provider Considerations. In certain situations, a Fund may only acquire a minority interest in a project or asset in which it invests, may rely on independent third-party management, joint venture partners or service providers with respect to the operation of a project or asset in which it invests and, therefore, may not be able to exercise control over the management of such project or investment. Although a Fund may not have complete control over these investments and, therefore, may have a limited ability to protect its position therein, Merced Capital expects that appropriate rights will be negotiated to protect the Fund's interests. Certain risks exist in connection with the engagement of a third-party provider, including the possibility that third-party providers may have financial difficulties, may have economic or business interests or goals which are inconsistent with those of the Fund or may be in a position to take action contrary to the Fund's investment objectives, each of which may affect the ability of the third-party provider to perform its services successfully and result in a negative impact on the performance of the investment. In addition, the Fund may in certain circumstances be liable for the actions of such third-party providers. In instances where a Fund invests with a joint venture partner, the Fund may not have absolute control over the management of such investment.

Illiquidity of Investments. The Funds' portfolios are likely to consist of a number of securities and other obligations for which no significant market exists or which require a substantial period of time before a significant market develops. The Funds' investments may include public and private senior and senior secured debt, unsecured loans, second lien loans, debtor-in-possession financings, delayed drawdown loans, term and revolving bank loans, commercial mortgage-backed securities and residential mortgage-backed securities. Trading in loans is often subject to delays as transfers may require extensive and customized documentation, the payment of significant fees and the consent of the agent bank or underlying obligor. In addition, the Funds may make investments that are subject to legal or contractual restrictions or requirements that limit the Funds' ability to transfer them or sell them for cash. Other investments may be private, direct investments with no trading market at all. The resulting illiquidity of an investment may make it difficult for the Funds to sell such investments if the need arises. If a Fund needs to sell all or a portion of its portfolio over a short period of time, it may realize value significantly less than the value at which it had previously recorded those investments. There can be no assurance that the Funds will be able to generate returns for their investors or that the returns will be commensurate with the risks of investing in the types of instruments described herein.

Bankruptcy and Insolvency of Borrowers. Borrowers may experience bankruptcy or insolvency. In the event of a Chapter 11 filing by a borrower, the Bankruptcy Code of 1978, as amended (the "Bankruptcy Code"), authorizes the borrower to use a creditor's collateral and to obtain additional credit by grant of a priority lien on its assets, senior even to liens that were first in priority prior to the filing, as long as the borrower provides what the presiding bankruptcy judge considers to be "adequate protection," which may, but need not always, consist of the grant of replacement or additional liens or the making of cash payments to the affected secured creditor. The imposition of priority liens on the Funds' collateral would adversely affect the priority of the liens and claims held by the Funds and could adversely affect the Funds' recovery on the affected loans.

The bankruptcy process has a number of significant inherent risks. Many events in a bankruptcy proceeding are the product of contested matters and adversary proceedings and are beyond the control of the creditors, including the Funds. A bankruptcy filing by a borrower may adversely and permanently affect the borrower. If 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 Funds' investment. The duration of a bankruptcy proceeding is also difficult to predict, and a creditor's return on investment can be adversely affected by delays until a plan of reorganization or liquidation ultimately becomes effective. The administrative costs in connection with a bankruptcy proceeding are frequently high and would be paid out of the borrower's estate prior to any return to creditors. Because the standards for classification of claims under bankruptcy law are vague, the Funds' influence with respect to the class of securities or other obligations it owns may be lost by increases in the number and amount of claims in the same class or by different classification and treatment.

Upon a bankruptcy filing by a borrower, the Bankruptcy Code imposes an automatic stay on payments of its prepetition debt. Non-performing debt obligations may require substantial workout negotiations, restructuring or bankruptcy filings that may entail a substantial reduction in the interest rate, deferral of payments and/or a substantial write-down of the principal of a loan or conversion of some or all of the debt to equity. If a borrower were to file for Chapter 11 reorganization, the Bankruptcy Code authorizes the borrower to restructure the terms of repayment of a class of debt even if the class fails to accept the restructuring, as long as the restructured terms are "fair and equitable" to the class and certain other conditions are met.

The bankruptcy process can involve substantial legal, professional and administrative costs, be subject to unpredictable and lengthy delays and negatively impact the underlying collateral and a Fund's return on that particular investment. The debt of entities in bankruptcy will in most cases not pay current interest, may not accrue interest during bankruptcy and their assets may suffer an erosion of value. Such investments can result in a total loss of principal. During the bankruptcy process, the creditors may not take adverse actions towards the bankrupt entity or any of its assets without court approval. In the early stages of the bankruptcy process, it is often difficult to estimate the extent of, or even to identify, any contingent claims that might be made. In addition, certain claims that have priority by law (for example, claims for taxes) may be substantial, eroding the value of any recovery by holders of other securities of the bankrupt entity.

In the event of any default under a secured loan held by a Fund, the Fund may find it necessary or desirable to foreclose on such loans. The foreclosure process is often lengthy and expensive. Borrowers may resist foreclosure actions by asserting numerous claims, counterclaims and defenses against the Fund, including, without limitation, numerous lender liability claims and defenses, even when such assertions have no basis in fact, in an effort to prolong the foreclosure action and force the lender into a modification of the loan or a favorable buy-out of the borrower's position. In some states, foreclosure actions can sometimes take several years or more to litigate. At any time prior to or during the foreclosure proceedings, the borrower may file for bankruptcy, which would have the effect of staying the foreclosure actions and further delaying the foreclosure process. The expense and delay associated with foreclosure of a loan could have a substantial negative effect on the amount recovered.

Any secured debt is secured only to the extent of its lien and only to the extent of underlying assets or incremental proceeds on already secured assets. Moreover, underlying assets are subject to credit, liquidity and interest rate risk. Although the amount and characteristics of the underlying assets selected as collateral may allow a Fund to withstand certain assumed deficiencies in payments occasioned by the borrower's default, if any deficiencies exceed such

assumed levels or if underlying assets are sold, it is possible that the proceeds of such sale or disposition will not be equal to the amount of principal and interest owing to a Fund with respect to its investment. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the collateral will further reduce the proceeds and thus increase the loss.

Secured loans are also subject to other risks, including (i) the possible invalidation of a debt or lien as a “fraudulent conveyance,” (ii) the possible invalidation as a “preference” of liens perfected or recovery by a bankrupt borrower of debt payments made in the ninety days before a bankruptcy filing, (iii) equitable subordination claims by other creditors, (iv) so-called “lender liability” claims by the borrower and (v) environmental liabilities that may arise with respect to collateral securing the obligations. Recent decisions in bankruptcy cases have held that a secondary loan market participant can be denied a recovery from the debtor in a bankruptcy if a prior holder of the loans either received and does not return a preference or fraudulent conveyance or engaged in conduct that would qualify for equitable subordination.

Monetary Policy and Governmental Intervention. As part of the response to the recent global financial crisis, the U.S. Federal Reserve (the “Federal Reserve”) and global central banks, including the European Central Bank, have, in addition to other governmental actions to stabilize markets and seek to encourage economic growth, acted to hold interest rates to historic lows. It cannot be predicted with certainty when, or how, these policies will change, but actions by the Federal Reserve and other central bankers may have a significant effect on interest rates and on the U.S. and world economies generally, which in turn may affect the performance of the Funds’ investments. Further financial crises may result in additional governmental intervention in the markets. In addition, the consequences of the extensive changes to the regulation of various markets and market participants contemplated by the legislation and increased regulation arising out of the financial crisis are difficult to predict or measure with certainty.

Terrorist Activities. Terrorist activities, anti-terrorist efforts, armed conflicts involving the United States or its interests abroad and natural disasters may adversely affect the United States, its financial markets and global economies and could prevent the Partnership from meeting its investment objectives and other obligations. The potential for future terrorist attacks, the national and international response to terrorist attacks, acts of war or hostility and natural disasters have created many economic and political uncertainties in the past and may do so in the future, which may adversely affect the United States and world financial markets and the Partnership for the short or long-term in ways that cannot presently be predicted.

Risks Related to an Investment in the Funds

Overall Risks. Although the senior management and investment professionals of Merced Capital have experience investing in private debt, distressed securities and other markets, no assurances are provided that the Funds’ investment strategies or their execution will be successful or that the investment objectives of the Funds will be realized. Furthermore, there are no guarantees that any benefits or advantages to investors suggested in materials provided to investors will be available or accomplished or that any historical successes of any entity or person identified herein will be repeated with respect to the Funds or will confer any benefits on the Funds or their investors.

Dependence on the General Partners. The General Partners make all decisions with respect to the Funds’ assets and the general management of the Funds and delegate these responsibilities to Merced Capital. Fund investors have no right or power to take part in the management of the Funds or in the management of the Fund general partners. As a result, the success of the Funds

depends largely on the abilities of the Fund general partners and Merced Capital. Each general partner and its respective members, partners, agents and employees have responsibilities to other investment partnerships and accounts and may undertake additional responsibilities to new investment partnerships or accounts in the future. Should these individuals cease to participate in the management of a Fund general partner or Merced Capital for any reason, the general partner's ability to manage that Fund, and the investment results of that Fund, may be substantially adversely affected. Notwithstanding each general partner's fiduciary responsibility to the investors in a Fund, the general partner has personal liability to the Fund investors for the return of any capital contributions.

No Right to Control Fund Operations. Fund investors have no right or power to take part in the management of the Funds or any of their investments and will not receive detailed financial information, which is available to the Fund general partner and Merced Capital. In order to preserve their limited liability status in the Funds and limit their personal exposure from the liabilities and obligations of the Funds, investors must rely entirely on the Fund general partner and Merced Capital to conduct and manage the affairs of the Funds. Accordingly, no person should purchase an interest in the Funds unless such person is willing to entrust all aspects of the management of the Funds to Merced Capital and the other Fund general partners.

Diverse Investor Base. The Fund investors include both taxable and tax-exempt investors and may include persons or entities organized in multiple jurisdictions. Because such investors may have conflicting investment, tax and other interests with respect to their investment in the Funds, there may be conflicting interests between investors relating to the nature of the investments made by the Funds, the structuring of the Funds' investments, the timing of investment dispositions and similar matters. For example, certain Fund investors may be eligible to invest in a project through a special purpose vehicle, which may result in different tax treatment. As a result, different returns may be realized by different investors. When considering a potential investment, Merced Capital will consider the investment objectives of a Fund as a whole, not the investment objectives of any investor individually. Consequently, Merced Capital and other Fund general partners may make decisions from time to time that may be more beneficial to one type of investor than another.

Lack of Diversification. The Fund general partners are under no obligation to diversify a Fund's investments, whether by reference to the amount invested or the industries or geographical areas in which portfolio companies operate. A Fund may invest in a limited number of investments, and as a consequence the aggregate returns realized by the investors may be adversely affected by the unfavorable performance of one or a small number of such investments. If a general partner elects to concentrate a Fund's investments in a particular industry, issuer or geographic region, the Fund's portfolio will then become more susceptible to fluctuations in value resulting from adverse economic conditions affecting that particular industry, issuer or geographic region.

Leverage. Although the Funds do not currently expect to use leverage at the Fund level, they have the ability to borrow on a short-term basis to meet liquidity needs. To the extent that a Fund uses leverage, a decrease in the value of the assets of the Fund will tend to have a greater adverse impact on the Fund's investors than if leverage were not used.

Assessment of Value May Not Be Accurate. Each Fund's success depends in large part on the ability of its general partner to accurately assess the fundamental value of the Fund's assets. An accurate assessment of fundamental value will depend on a complex analysis of a number of legal, financial, microeconomic, macroeconomic and other factors. No assurance can be given that the general partner will accurately assess the nature and magnitude of the many factors

having a bearing on the value of the Fund's assets. Further, no assurance can be given that all of the relevant factors or that all of the pertinent information will be considered by or be available to those parties in formulating any particular investment or trading decision. Their failure to consider any of those factors or to accurately assess the nature and magnitude of the relevant factors or pertinent information may cause the Fund to miss significant profit opportunities or to incur substantial losses. The Fund general partners are not required to have such valuations independently determined or verified.

Competition for Suitable Investments. Identifying, completing and realizing attractive distressed investments in general is very competitive and involves a high degree of uncertainty. The availability of investment opportunities generally will be subject to market conditions beyond the control of the Funds. The Funds are likely to encounter competition from other similarly focused funds formed before or after the establishment of the Funds. Some of these competitors are likely to have more relevant experience in certain circumstances, greater financial resources and/or more personnel than the Funds, Merced Capital, the other Fund general partners or their respective affiliates. Potential competitors also include other investment partnerships and corporations, business development companies and other financial investors investing directly or through affiliates. It is possible that competition for appropriate investment opportunities may increase, which could negatively impact the Funds' ability to consummate investments and adversely affect the terms upon which investments can be made. There can be no assurance that a Fund's general partner will be able to locate and consummate investments that satisfy a Fund's return objectives or realize their values or that it will be able to fully invest the Fund's available capital.

Restrictions on Transfer and Investor Liquidity. Interests in the Funds are issued in reliance upon certain exemptions from registration or qualification under applicable Federal and State securities laws and, therefore, will be subject to certain restrictions on transferability. There is no public or other market for interests in the Funds and none is expected ever to develop. An investor's interest in a Fund cannot be assigned, transferred or encumbered (e.g., as security for a loan) without the consent of the Fund's general partner. Accordingly, an investor's interest in a Fund constitutes an illiquid investment and should only be purchased by persons that are able to bear the risk of their investment in that Fund for an indefinite time.

Substantial Charges to Partnership. The Funds are obligated to pay a management fee and various other expenses and fees regardless of whether the Funds achieve any profits. Furthermore, because of the nature of the Funds' investment and trading methods and techniques, its expenses (e.g., for brokerage commissions and other transaction costs) may be higher than those of other investment entities. Brokerage commissions are inherent to the Funds' investment activities and must be borne by the Funds before there are any trading profits.

Lack of Additional Funds. Following its initial investment in a project, a Fund may have the opportunity or necessity to make a follow-on investment. There is no assurance that the Fund will make follow-on investments or that the Fund will have sufficient resources to make such follow-on investments. Any decision not to make follow-on investments or a Fund's inability to make them may have a substantial negative impact on a project in need of such an investment. Further, in the event that cash flow from the investment is utilized to make such follow-on investment, distributable cash flow to investors would be reduced.

Effect of Performance Based Compensation. The existence of performance based compensation may create an incentive for the Fund general partners to make riskier or more speculative investments than it would otherwise make in the absence of such an arrangement.

With particular respect to Merced, the annual liquidity Fund, its general partner is entitled to receive an incentive allocation based on the increase in the value of its investors' capital accounts. The incentive allocation may, therefore, create an incentive for Merced Capital to cause Merced to make investments that are riskier or more speculative than would be the case if such compensation were not paid. In addition, because such compensation is calculated on a basis that includes unrealized appreciation of Merced's assets, such compensation may be greater than if it were based solely on realized gains. Beginning in 2018, gain allocated with respect to the incentive allocation that is attributable to the sale or disposition of a capital asset will be recharacterized as short-term capital gain to the extent the capital asset giving rise to the gain has been held for three years or less. Short term capital gain is taxed at the higher ordinary income tax rates. As a result of this new three-year holding period, the interests of Merced Capital and the investors may not always be aligned with respect to the timing of the disposition of an investment, which timing could have an impact on investment performance.

Long Term Investment. Although certain investments by a Fund may generate current income, the return of capital and the realization of gains, if any, will generally occur only upon the partial or complete disposition of such investments by the Fund or, with particular respect to Merced, upon the withdrawal by an investor of its capital account. While an investment may be sold by a Fund at any time, it is not generally expected that this will occur for a number of years after an initial investment has been made.

Commitments May Not Be Called. With respect to the Lock-Up Funds, capital commitments generally will be drawn down in the discretion of the Fund's general partner, generally with prior written notice. No assurance can be given that a Lock-Up Fund will be able to fully invest its committed capital.

Capital Call Defaults; Exclusion from Investments. With respect to the Lock-up Funds, if an investor fails to make a capital contribution when due and the contributions, if any, made by non-defaulting investors are inadequate to cover the defaulted capital contribution, the Fund may be unable to pay its obligations when due. As a result, the Fund may be subjected to significant penalties that could materially adversely affect the returns to the non-defaulting investors, and the Fund may be unable to complete investments.

An investor may be excluded from participating in any investment if a Fund's general partner determines in its sole discretion that such participation might otherwise have certain materially adverse effects on an investment, the Fund, the Fund's general partner, or any of their respective affiliates, including if such participation would be likely to result in violations of law or the imposition of a material regulatory, compliance, legal, tax or other similar burden. If an investor is excluded from participating in an investment it will not participate in the acquisition of the investment or in any income, gain, loss, deduction, credit or distribution with respect thereto. In the event that one or more investors are excluded from participating in an investment, the investors who are not excluded, all things being equal, may have a percentage ownership interest in certain investments that is greater than their percentage ownership interest in other investments, and their percentage interest in a Fund as a whole may be greater than the percentage interest of the excluded investors in the Fund as a whole.

If a Fund investor fails to pay in full any requested capital contributions, the Fund's general partner may take certain actions, which may result in liquidation of the Fund's investments or a sale of such investor's interest in the Fund. Additionally, the Fund's general partner will have the authority to pursue any available legal or equitable remedies, with the expenses of collection of the unpaid amount, including attorneys' fees, to be paid by such defaulting investor. The Fund's

general partner is granted additional powers to deal with defaulting investors in the Fund's partnership agreement.

Recycling; Reinvestment. During a Lock-up Fund's commitment period and, under certain circumstances, throughout the term of the Lock-up Fund, the Lock-up Fund's general partner has the right to recall proceeds distributed by the Lock-up Fund constituting a return of capital. In addition, during the Lock-up Fund's commitment period, proceeds from realized investments constituting a return of capital may be redeployed or recycled in new investments by the Lock-up Fund. To the extent such recalled or recycled amounts are reinvested, an investor will remain subject to investment and other risks associated with such investments.

Forecasts. The Funds' investors have been provided several forecasts and descriptions of goals and objectives of the Funds. Although those forecasts and stated goals and objectives are based upon assumptions and research which the general partners believe are reasonable, actual results of operations and achievements may differ materially from the statements, goals, and objectives provided, including those set forth in the Funds' partnership agreements.

Targeted Returns. Any target returns disclosed with respect to any Fund are based on a variety of assumptions about asset mix, the capital markets and performance of the underlying assets, which the Funds may not be able to achieve. There can be no assurance that the Funds will achieve these or any other levels of returns.

Sophisticated Investors. While investment in the Funds can offer the potential of higher than average returns, it also exposes investors to a correspondingly higher degree of risk and is therefore considered appropriate only for sophisticated investors who can afford to assume this risk. Investors must have knowledge and experience in financial and business matters and be capable of evaluating such merits and risks. Each investor in a Fund is required to represent that such investor satisfies these criteria and that it is acquiring the Fund interest for investment.

Access to Information Will be Limited. A Fund investor's rights to information from the Fund will be specified, and limited, in the Fund's partnership agreement. In particular, Merced Capital and the Fund general partners obtain certain types of material information from or about portfolio investments that will not be disclosed to the Fund investors. Decisions by the Merced Capital or Fund general partners to withhold information may have adverse consequences for the Fund investors in a variety of circumstances.

Litigation Potential and Indemnification and Exculpation of General Partners. The very nature of a Fund's assets may expose it to the risk of litigation and associated legal costs. For instance, Merced Capital may find it necessary to litigate in order to protect the priority or security of an asset in the course or as a result of a restructuring or bankruptcy. The risk of litigation is somewhat greater where the Fund exercises control or significant influence over a company's direction. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would, absent fraud, willful misconduct or gross negligence by the Fund general partner, be borne by the Fund and would reduce the net assets or could require the investors to return to the Fund distributed capital and earnings. Merced Capital and others are indemnified in connection with such litigation, subject to certain conditions.

Repayment of Certain Distributions. If a Fund is unable otherwise to meet its obligations, the Fund's investors may be required to repay to the Fund, or to pay to creditors of the Fund, distributions previously received by the investors pursuant to the law of the State of Delaware or

the terms of the Fund's partnership agreement. In addition, Fund investors may be required to pay to the Fund amounts that are required to be withheld by the Fund for tax purposes.

Voluntary Withdrawals. Voluntary withdrawals of investor interests are not permitted, except in limited instances set forth in the Fund partnership agreements. As a result, investors may not be able to liquidate their investments prior to the end of a Lock-Up Fund's term and completion of the winding up of the Partnership, or, with respect to Merced, at the time set forth in its partnership agreement. A withdrawn investor may not be entitled to immediate payment for its interest in a Fund. Any withdrawal of an investor would likely reduce the amount of capital available for investment or other activities.

Compulsory Withdrawal. A Fund investor may be forced to withdraw from the Fund in whole or in part at any time under certain circumstances, including if the Fund's general partner reasonably believes that such investor's participation would put the Fund or the other investors at a material tax, legal, regulatory or pecuniary disadvantage or for any other reason described in the Fund's partnership agreement. Withdrawal payments are subject to allocation of expenses, carried interest and reserves and may result in such investor not realizing the value of its interest in the Fund had it not been forced to withdraw.

In-Kind Distributions. Although the Funds expect to distribute cash to the investors, there can be no assurance that this expectation will be met. If permitted by law and in such circumstances as a Fund's general partner deems appropriate, an investor may receive in-kind distributions of portfolio investments, which investments may be highly illiquid and may be required to be held for an indefinite period of time, during which depreciation in value may occur. In the event of any distributions in-kind, the assets to be distributed will be valued pursuant to the valuation procedures described in the Fund's partnership agreement.

Side Letters. A Fund and its general partner may from time to time, without the approval of any investor, enter into side letters or similar written agreements with one or more investors whereby, in consideration for agreeing to invest certain amounts in the Fund and other consideration deemed appropriate to the Fund (such as regulatory or tax considerations), such investors may be granted economic, information and other rights related to their investment in the Fund that may be more favorable than those granted to the investors generally under the Fund's partnership agreement. Such agreements will have the effect of establishing rights under, or altering or supplementing the terms of, the Fund's partnership agreement but only with respect to those investors that are parties to such side letters.

Uncertain Time Frame for Winding Up Affairs. At the end of a Fund's term, the winding up of its affairs will commence. In connection with the dissolution and winding up of a Fund, its general partner (or other relevant liquidator) has the authority to sell, exchange or otherwise dispose of the assets of the Fund in such reasonable manner as the general partner (or other relevant liquidator) determines to be in the best interest of the Fund. Even upon the end of the Fund's term, the Fund will likely continue to hold investments that cannot be advantageously disposed of promptly during the winding up period, and there can be no assurances with respect to the period in which the assets of the Fund will be disposed of following commencement of the winding up of the Fund.

Tax Legislation May Adversely Affect the Firm's Employees and Other Service Providers. The U.S. Congress has recently passed legislation that could treat carried interest as ordinary income for U.S. federal income tax purposes under certain circumstances. Enactment of such legislation could adversely affect employees or other individuals performing services for the Funds who hold

direct or indirect interests in the general partners and benefit from carried interest, which could make it more difficult for Merced Capital to incentivize, attract and retain individuals to perform services for the Funds.

Item 9 Disciplinary Information

Except as described below, there are no legal or disciplinary events involving Merced Capital or its employees that are related to Merced Capital's business or the Funds. From time to time the Funds and Merced Capital are parties to litigation involving investments by the Fund. There is currently no material litigation involving Merced Capital or the Funds.

As described in the audited financial statement of Merced Partners III, Merced III, Merced Capital and certain of their affiliates are defendants in a lawsuit pending in the New York State courts. The plaintiff in the case alleges breach of a non-confidentiality agreement. Following trial, the trial court awarded damages, fees and interest to the plaintiff. The Merced parties have appealed the decision. Merced Capital does not believe that, if the appeal is unsuccessful, the case will have a material adverse effect on its business.

Item 10 Other Financial Industry Activities and Affiliations

Neither Merced Capital nor any of its affiliates is registered under any financial regulatory authority outside the United States. None of Merced Capital's employees is a registered broker or affiliated with any such securities broker or dealer. Merced Capital's sole business is management of private investment funds.

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

Merced Capital has adopted a Code of Ethics pursuant to SEC Rule 204A-1. Upon request, Merced Capital will provide the Code of Ethics to any investor (or prospective investor) in any Fund managed by Merced Capital. The Code of Ethics requires that Merced Capital employees disclose information regarding their personal securities accounts, and that they refrain from trading in securities about which they possess material, non-public information.

Merced Capital employees are not permitted to invest in equity securities in which the Funds invest.

Item 12 Brokerage Practices

Merced Capital maintains relationships with a large number of executing brokers. Merced Capital considers a variety of factors in selecting executing brokers, including ability to locate inventory, speed and reliability of execution, cost, and asset type. Executing brokers do not have access to or custody of assets of the Funds. Each of the Funds maintains a custodial account with a large, super-regional national bank with an office in Minneapolis, and each Fund maintains bank accounts with another super-regional national bank.

Merced Capital does not receive so-called "soft dollar" benefits from any broker, other than various forms of research received from time to time, including brokers' own research reports on companies, industries and the economy as well as research prepared by third parties and made available to Merced Capital by brokers that execute Fund transactions. The research provided by executing brokers benefits Merced Capital in the sense that it does not have to produce or pay for the research itself, which creates an incentive for Merced Capital to select a broker based on this

benefit rather than on Merced Capital's obligation to seek best execution on behalf of the Funds. However, Merced Capital does not "pay up" for such research and the receipt of any such research is not a material factor in the selection of brokers to execute Fund transactions.

Merced Capital monitors the Funds' bank and custodial accounts on a daily basis and reconciles cash and securities on a daily basis. Merced Capital also monitors the safety and soundness of its bank and custodian and takes appropriate action to assure that cash balances are invested in a secure manner.

Certain of the Funds maintain accounts with prime brokers, but their activity in those accounts is not material in relation to the overall activities of the Funds. The Funds may enter into additional prime brokerage arrangements if Merced Capital determines that it would be beneficial to the Funds.

From time to time, Merced Capital may aggregate Fund orders for the purchase and sale of securities. See *Item 4 – Advisory Business – Allocation, Aggregation and Brokerage* for more information.

Item 13 Review of Accounts

Merced Capital monitors Fund investments on a daily, weekly, monthly or quarterly basis, depending on the nature of the investment. Quoted securities are tracked and monitored daily. Less liquid, longer-term investments (such as equipment, real estate or operating companies) are monitored weekly or monthly, unless there is a change or potential disposition pending.

All Fund investors receive quarterly letters from Merced Capital regarding the prior quarter's Fund performance and discussing any changes to the portfolio of the Fund.

Investors in Merced receive a monthly statement showing the investor's capital account and gain or loss for the year to date. Investors in the lock-up Funds receive quarterly statements. Each of the Funds is audited following the close of each calendar year. Ernst & Young LLP has been the auditor of all funds managed by Merced Capital since Merced Capital was founded. Audited financial statements are provided to all investors in March of each year.

Item 14 Client Referrals and Other Compensation

Merced Capital does not pay any third party for client referrals and has never retained a placement agent or other type of capital raising firm.

Item 15 Custody

The Funds receive monthly statements from their banks and custodians. Merced Capital provides monthly statements to investors in Merced and quarterly statements to investors in the other Funds. Cash balances and positions held by custodians are monitored and reconciled daily.

Item 16 Investment Discretion

As noted above, the partnership agreements for the Funds give the general partner of each Fund broad discretion to make investment decisions on behalf of the Funds. No limited partner in any Fund has any authority to direct or manage the investment of the Fund's assets. Merced Capital is the general partner of Merced and exercises this authority in its capacity as general partner, and

the general partners of the other Funds delegate this authority to Merced Capital pursuant to written agreement.

Item 17 Voting Client Securities

As adviser to the Funds, Merced Capital is responsible for voting all proxies and bankruptcy claims with respect to investments held by the Funds. Merced Capital votes proxies in the best interests of each particular Fund, which may result in different voting results for proxies for the same issuer. Merced Capital believes that voting proxies in accordance with the following guidelines is in the best interests of its clients:

- Generally, Merced Capital votes 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, Merced Capital votes 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, Merced Capital determines whether a proposal is in the best interests of its clients and may take into account the following factors, among others:

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

Merced Capital maintains a record of all votes and will consider any investor request to review such votes.

Item 18 Financial Information

Merced Capital does not solicit the prepayment of fees from clients six months or more in advance. There is no financial condition that is reasonably likely to impair Merced Capital's ability to meet its contractual commitments to the Funds.

As disclosed under Item 9, above, Merced Capital is party to a lawsuit in New York state. To the extent Merced Capital is ultimately liable for damages, fees and costs, such amounts would be reimbursed by Merced III pursuant to the terms of the limited partnership agreement of Merced III.

Merced Capital has never been the subject of a bankruptcy petition.

Item 19 Requirements for State-Registered Advisers

Merced Capital is not registered with any state securities authority.