



## **Firm Brochure**

(Part 2A of Form ADV)

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

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

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

March 26, 2021

## Material Changes

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### Annual Update

The Material Changes section of this brochure will be updated annually when material changes occur since the previous release of the Adviser Brochure (the “Brochure”).

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### Material Changes since the Last Update

This Brochure replaces the previous version dated March 27, 2020. There are limited but no material changes to this version.

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

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

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### Full Brochure Available

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

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# Advisory Business

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## Firm Description

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

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## Principal Owners

The principal owners of Merganser are the Gahan 2019 Descendants' Trust and Jonathan M. Nelson indirectly through Providence Equity Capital Markets Merganser LLC, an affiliate of Providence Equity Partners L.L.C. ("Providence"). Providence is registered with the SEC as an investment adviser. The trustees of the Gahan 2019 Descendants' Trust are Thomas J. Gahan (Special Investment Trustee), Dolores R. Gahan (Investment Trustee) and Michael J. Gahan (Independent Trustee). Please see "Other Financial Industry Activities and Affiliations" below for more information.

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## Types of Advisory Services

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

As of December 31, 2020, Merganser managed approximately \$14,866 million in assets for approximately 86 clients, all of which is managed on a discretionary basis.

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## **Investment Management Agreement (“IMA”)**

Services are provided to clients in accordance with an IMA and/or the organizational documents of the applicable client. Each client’s investment guidelines, including its investment restrictions, and applicable fees are documented in the IMA. The IMA is provided to the client in writing and signed by both parties prior to the start of the relationship.

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## **Tailored Relationships**

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

Agreements may not be assigned without client consent.

## **Fees and Compensation**

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### **Description**

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

Investment Grade Floating Rate Bond – 20 basis points

Cash Enhanced – 20 basis points

Short Term Bond 1-3 Year Government/Credit – 25 basis points

Intermediate Term Bond Government Credit – 25 basis points

Core Aggregate - 25 basis points

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

Floating Rate Bond – \$40,000

Cash Enhanced – \$40,000

Short Term Bond – \$50,000

Intermediate Term Bond – \$60,000

Core Bond – \$60,000

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

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

Advisory fees for separately managed accounts are billed quarterly, typically in arrears. Merganser does not deduct advisory fees from separately managed client accounts. Rather, Merganser bills such clients or, in the alternative, the client authorizes the custodian of the account to pay the applicable fee to Merganser. In certain instances, separately managed account clients pay advisory fees in advance. If an IMA with such a client is terminated before the end of a billing period, Merganser will refund to the client any pre-paid but unearned fees based on the number of days remaining in the billing period.

Merganser also sponsors certain Funds, which are pooled vehicles formed as an alternative method of managing investor's assets. Such Funds are intended to provide a means of investment for accredited investors with assets insufficient to justify separate account management, or for those desiring the additional diversification offered by the larger pool of investments. Merganser charges fees for its account management services for the Funds at an annual rate of (a) 0.20% of assets under management for the Merganser Short-Term Bond Fund LLC, (b) 0.20% of assets under management for the Merganser Floating Rate Bond Fund LLC, (c) 0.225% of assets under management for the Merganser Intermediate Bond Fund II LLC, (d) 0.225% of assets under management for the Merganser Core Bond Fund II LLC, and (e) 0.29% of assets under management for the Merganser Core Plus Bond Fund LLC. Such fees are invoiced to the Funds each month and are generally paid by the Funds monthly in arrears. Except as may be provided in a Fund's organizational documents or IMA, management fees paid by the Funds are indirectly borne by Fund investors. Investors in certain of the Funds will incur certain additional fees described in the Fund organizational documents if they require non-scheduled withdrawals.

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## **Other Fees and Expenses**

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

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

Except as provided above and in the organizational documents of the Funds, Merganser generally pays for a Fund's advisory and administrative services as well as the Fund's marketing and distribution expenses, custody expenses, account maintenance expenses, annual accounting and audit expenses, tax

preparation expenses, ordinary valuation and pricing expenses, ongoing legal expenses and organizational expenses.

The Adviser may utilize the services of broker-dealers in connection with investments made by a client. Any brokerage or other transaction costs are borne by such client except as provided above or in the applicable client IMA or organizational documents. For additional information, please see “Brokerage Practices” below.

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

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

Merganser did not charge any performance-based fees as of December 31, 2020.

## **Types of Clients**

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### **Description**

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

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

Client relationships vary in scope and length of service.

### **Account Minimums**

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

Merganser has discretion to waive these account minimums.

In addition, investors wishing to invest less than \$20,000,000 may invest in one or more of the Funds. The Funds do not have a minimum size, but minimum subscription amounts are established for certain Fund investors as provided in

the relevant offering documents, which, in certain cases, are subject to waiver in Merganser's sole discretion.

## **Methods of Analysis, Investment Strategies and Risk of Loss**

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### **Methods of Analysis**

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

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

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

#### Change(s) in credit opinion

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

#### Change(s) in market valuation

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

#### Change(s) in client's needs

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



Based on the work of the sector team, Merganser's product teams, which are comprised of our portfolio managers, construct each client's portfolio from the bottom up. A typical portfolio has approximately 75 to 125 securities. Before negotiating the purchase of the security, Merganser first does a portfolio needs assessment. Merganser reviews each portfolio's exposure to the market sector and the specific security in question. Merganser determines whether the duration impact of adding the security would be acceptable within the context of the Adviser's overall portfolio strategy and the accounts' investment guidelines. Final portfolio characteristics are guided by each client's objectives and benchmarks.

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## **Research Process**

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

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

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

The top-down facet of Merganser's investment process involves ongoing asset allocation discussions. These discussions are iterative and include input from the entire investment team. Merganser reviews relative value opportunities,

valuation metrics and technical market factors in all the following sectors: (a) corporates, (b) governments, (c) asset backed, and (d) mortgages.

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## Investment Strategies

Merganser believes that in an inefficient over the counter market, the Adviser's active fixed income management process should seek to provide consistent excess returns for its clients. As fundamental investors, Merganser is dedicated to understanding intricate fixed income vehicles. The Adviser is committed to seeking to provide superior returns through identification of securities and sectors that have compelling risk/reward characteristics. Our investment process is based on relative value; our focus is on security selection and sector allocation; and we seek to add value through diligent research, execution, and risk management.

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

Merganser's primary strategies are as follows:

Strategy	Target Duration*	Benchmark
Investment Grade Floating Rate Bond	Less than 3 months	ICE BofAML 3-Month LIBOR
Cash Enhanced	.25 to 1 year	ICE BofAML 1 Year Treasury Bill Index
Short Term Bond 1-3 Year Government Credit	1 to 3 years	Bloomberg Barclays 1-3 Year Government/Credit Index
Intermediate Government Credit	3 to 5 years	Bloomberg Barclays US Intermediate Government/Credit Index
Core Bond	4 to 7 years	Bloomberg Barclays US Aggregate Index

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

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

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## Risk of Loss

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

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

- **Interest-Rate Risk:** Fluctuations in interest rates will cause investment prices to fluctuate. For example, when interest rates rise, yields on existing bonds rise, causing their market values to decline.
- **Market Risk:** The price of a security or bond may drop in reaction to tangible and intangible events and conditions. This type of risk is caused by external factors independent of a security's particular underlying circumstances. For example, political, economic and social conditions such as energy and commodity prices, political administration transitions or terrorism may trigger market events.
- **LIBOR Risk:** It is the intention of the United Kingdom's Financial Conduct Authority ("FCA") that by the end of 2021, banks will no longer be compelled to submit quotes for the London Interbank Offered Rate ("LIBOR"). As a result, the survival of LIBOR in its current form, or at all, is not guaranteed after 2021. The transition process away from LIBOR may involve, among other things, increased volatility or illiquidity in markets for instruments that currently rely on LIBOR. The transition may also result in a reduction in the value of certain assets held by the Adviser's clients. While certain alternative rates are available, they differ significantly from LIBOR and their adoption in the marketplace is uncertain.
- **Inflation Risk:** When any amount of inflation is present purchasing power declines over time. A dollar in the future buys less than a dollar today.
- **Reinvestment Risk:** This is the risk that future proceeds from investments may have to be reinvested at a potentially lower rate of return (i.e., interest rate). This primarily relates to fixed income securities.
- **Business Risk:** These risks are associated with a particular industry or a particular company within an industry. For example, oil-drilling companies depend on finding oil and then refining it (a lengthy process) before they can generate a profit. They generally carry a higher risk of profitability than an electric company, which generates its income from a steady stream of customers who buy electricity regardless of the economic environment.

- **Liquidity Risk:** Liquidity is the ability to readily convert an investment into cash. Generally, assets are more liquid if many traders are interested in a standardized product. For example, Treasury Bills are highly liquid, while real estate properties are not.
- **Mortgage-Backed and Other Asset-Backed Securities Risk:** The value of mortgage-backed securities (“MBS”) and asset-backed securities (“ABS”) are impacted by the risk of underlying borrowers’ inability to meet their loan obligations. Moreover, MBS and ABS are sensitive to prevailing interest rate changes, which may lead to valuation issues and/or increased volatility or illiquidity of the securities.
- **Credit Risk:** Excessive borrowing to finance a business’ operations increases the risk of financial stress because the company must meet the terms of its obligations in good times and bad. During periods of financial stress, the inability to meet loan obligations may result in bankruptcy and/or a declining market value.
- **Extension & Prepayment Risk:** During periods of rising interest rates, the average life of certain types of securities is extended because of slower than expected principal payments. This may lock in a below market interest rate, increase the security’s duration and reduce the value of the security. During periods of declining interest rates, the issuer of a security exercises its option to prepay principal earlier than scheduled, forcing a client to reinvest in lower yielding securities. To the extent an account invests significantly in asset-backed and mortgage-related securities, its exposure to prepayment and extension risks may be greater than other investments in fixed income securities.
- **Counterparty Risk:** The institutions, including brokerage firms and banks, with which the Adviser (directly or indirectly) does business, or to which securities have been entrusted for custodial purposes, may encounter financial difficulties that impair the operational capabilities to trade security positions.
- **Regulatory Risk:** Under the new presidential administration, there is expected to be increased governmental and self-regulatory scrutiny of the securities industry in general. It is impossible to predict what, if any, changes in regulations will result from these developments, but any regulations which restrict the ability of the manager to employ, or broker and other counterparties to extend, credit in their trading (as well as resulting regulatory changes) could have a material adverse impact on profit potential.
- **Allocation Risk:** Fixed-income securities may be divided into the following asset classes: (a) U.S. Treasuries, (b) government-related securities, (c) corporate-issued securities, and (d) securitized products. Since an asset class will perform differently from other asset classes in a given strategy, varying asset class exposure will enhance or hinder

performance if a strategy favors an underperforming asset class at a given time.

- **Cybersecurity Risk:** Investment firms are inherently susceptible to cybersecurity attacks given the widespread use of technology. Thus, the Adviser's networks and computer systems are at risk of security breaches; computer viruses; network failures; or unauthorized access to electronic systems, client data, and other sensitive information. Although the aforementioned risks are mitigated through cybersecurity risk management programs (e.g., Cyber Committee, Business Continuity Plan, etc.), there are inherent limitations on the execution of the Adviser's safeguards. For example, the Adviser cannot guarantee the success of its third-party cybersecurity vendors. Moreover, the operation of any risk management program poses a likelihood of failing to identify particular risks.

Cyber-attacks and other malicious internet-based activity continue to increase in frequency and magnitude. Techniques used to sabotage, or to obtain unauthorized access to, systems or networks change frequently and generally are not recognized until launched against a target. Therefore, companies, as well as their third-party partners (including vendors), may be unable to anticipate these techniques, react in a timely manner or implement adequate preventive measures. Merganser's information and technology systems may be vulnerable to actual or perceived damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches, usage errors by their respective professionals, power outages and catastrophic events such as fires, tornadoes, floods, hurricanes, and earthquakes.

Cyber-attacks may also take the form of socially engineered frauds, such as "phishing." There have been reports of alleged government sponsored hacking attempts on American corporate intellectual property and Merganser may be at risk of cyber-attacks. Third parties may also attempt to fraudulently induce employees, customers, third-party service providers or other users of Merganser's systems to disclose sensitive information to gain access to Merganser's data or that of its clients. Companies and service providers have also been subject to "ransomware" attacks. As further evidence of the increasing and potentially significant impact of cyber security breaches, the U.S. government, and several multinational companies, including financial institutions and retailers, have reported cyber security breaches affecting their computer systems that resulted in the personal information of millions of citizens, customers and employees being compromised.

Although Merganser has implemented various measures to manage risks relating to these types of events, if these systems are compromised, become inoperable for extended periods of time, or

cease to function properly, Merganser may incur specific time or expense to fix or replace them and to seek to remedy the effects of such issues. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in Merganser's operations and result in a failure to maintain the security, confidentiality, or privacy of sensitive data, including personal information relating to investors (and the beneficial owners of investors). Such a failure could harm Merganser's reputation, subject any such entity and its respective affiliates to legal claims or otherwise adversely affect their business and financial performance.

- **Risks Related to Pandemics and Other Diseases:** The international transmission of COVID-19 has fundamentally changed the way humans experience life worldwide. From an economic perspective, efforts to contain the spread of COVID-19 have resulted in border closings and other major travel restrictions, significant disruptions to business operations, supply chains and customer activity, lower consumer demand for certain goods and services, in person event cancellations and restrictions, school closures, service cancellations, and prolonged and/or reoccurring lockdowns and stay at home orders, as well as general concern and uncertainty in the markets. Even as restrictions have been lifted in certain jurisdictions, they have been reimposed in others, and this pattern is expected to continue for the foreseeable future. The protracted implementation of the COVID-19 vaccine and the spread of new variations of the virus have hampered recovery efforts and created further uncertainty. Although the long-term economic fallout of COVID-19 is difficult to predict, it has and is likely to continue to contribute to market volatility and systemic economic weakness. It is also likely to lead to future economic slowdown given unprecedented levels of government spending and fundamental disruption to the operation and existence of certain industries. Health crises caused by the outbreak of COVID-19 and the disproportionate impact of the pandemic on certain communities and industries has exacerbated pre-existing political, social, economic, market and financial risks. The COVID-19 pandemic and its effects are expected to continue through the end of 2021 and beyond, and therefore the future economic outlook is inherently uncertain. All the foregoing has and may continue to have an adverse impact on the performance of certain of a Fund's investments.

The full long-term effects, duration and ultimate costs of the COVID-19 pandemic are impossible to predict, and the circumstances surrounding the COVID-19 pandemic will continue to evolve.

## Disciplinary Information

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This item is not applicable to Merganser.

## Other Financial Industry Activities and Affiliations

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### Affiliated Investment Advisers

Merganser is affiliated with the related persons listed below.

- Providence Equity LLP: organized in the United Kingdom and authorized to perform certain activities by the UK Financial Conduct Authority.
- Providence Equity Partners L.L.C.: a U.S. registered investment adviser with the SEC.
- Providence Equity Capital Markets L.L.C.: a U.S. registered investment adviser with the SEC.
- Providence Equity Advisors Mauritius Limited: organized in Mauritius and regulated by the Mauritius Financial Services Commission.
- Providence Equity L.L.C.: organized in New York and has filed a single Form ADV with Providence Equity Partners L.L.C. as a relying advisor.

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

Certain members of the board of directors of Merganser and indirect equity owners of Merganser are also employees and/or owners.

The affiliated advisers listed above (the “Providence Affiliates”) are operated and managed separately from Merganser, and the Providence Affiliates do not have any involvement in the day-to-day investment operations of Merganser. Merganser does not direct or coordinate investment recommendations with the Providence Affiliates and all such recommendations and allocations of investment opportunities are made by Merganser independent of the Providence Affiliates.

Providence has an arrangement with its former affiliate, Providence Strategic Growth Capital Partners L.L.C. (“PSG”), whereby it shares certain back-office and administrative services and information. As part of this arrangement, certain persons are dual employees of both Providence Equity Partners L.L.C. and PSG but provide services to the other entity. There may be certain cases where PSG employees provide services to Merganser. Like the Providence Affiliates, PSG is operated and managed separately from Merganser, and PSG does not have any involvement in the day-to-day investment operations of Merganser. PSG is not liable for nor does it have any duties to any Merganser

clients or Funds, and investors should not expect to have any recourse to or relationship with PSG or its affiliates.

For a description of material conflicts of interest created by the relationship among Merganser and the affiliated advisers, as well as a description of how such conflicts are addressed, please see “Code of Ethics, Participation or Interest in Client Transactions and Personal Trading” below.

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

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### **Code of Ethics**

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

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

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

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

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

The Adviser, its affiliates, certain of its principals and employees, and/or their family members and related vehicles invest in and alongside certain of the Funds or in separately managed accounts. Except with respect to any such investments in mutual funds advised or sub-advised by the Adviser, advisory fees assessed on such investments are typically substantially reduced or waived entirely by the Adviser, a Fund, or its general partner, as applicable.



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## **Personal Trading**

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

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## **Investor Due Diligence Information**

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

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## **Conflicts of Interest**

The Adviser and its affiliates engage in a broad range of activities, including investment activities for clients, for their own account and for the account of their clients. Certain affiliates of the Adviser provide transaction-related, advisory, management and other services to operating companies. The Adviser has described various conflicts of interest that may arise in respect of its business, as well as a description of how the Adviser addresses such conflicts of interest, below. The discussion below does not describe all conflicts that may arise. While the Adviser endeavors to resolve all conflicts in a fair and impartial manner, there can be no assurance that its own interests will not influence its conduct and decisions.

### **Potential Conflicts**

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

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

Merganser is affiliated with other investment advisers, as described in "Other Financial Industry Activities and Affiliations" above. Providence Equity Partners L.L.C., and Providence Equity Capital Markets L.L.C. focus primarily on different investment strategies than those of Merganser, although such

investment strategies may overlap from time to time, and all are investment advisers or relying advisers that are registered with the SEC. Clients of Merganser, Providence Equity Partners L.L.C., and Providence Equity Capital Markets L.L.C. may invest in the same companies, including in the same security or in different securities of such company. In the ordinary course of conducting its activities, interests of Merganser's clients may therefore conflict with the interests of the clients of Providence Equity Partners L.L.C., and Providence Equity Capital Markets L.L.C. Other than Providence Equity Partners L.L.C., and Providence Equity Capital Markets L.L.C. the investment adviser affiliates of Merganser do not have their own clients. Generally, however, conflicts between the Adviser and its affiliates are mitigated because the Adviser and its affiliates are separately operated and generally do not share trading or investment information. Providence, an indirect owner of the Adviser, is subject to certain restrictions imposed by third-party investors in Providence that may limit the annual compensation that Providence may pay to its employees. These restrictions include compensation of the Adviser's employees and could potentially pose a conflict of interest as they could indirectly affect the Adviser's ability to recruit and retain personnel. However, the Adviser believes these restrictions have not had any impact on the Adviser's ability to recruit and retain personnel to date and will not have any negative impact on its ability to recruit and retain personnel in the future.

Certain conflicts described above with respect to the relationship between PSG and Merganser also apply to the relationship between PSG and Merganser, however, such conflicts are mitigated by the fact that Merganser and PSG are not affiliated and as such operate separate businesses, including different investment strategies.

### **Principal Transactions**

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

### **Cross-Transactions**

A cross-transaction generally refers to a transaction where one client managed by the Adviser or its affiliates seeks to acquire an investment that another client of the Adviser seeks to sell. Cross-transactions may create conflicts of interest

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

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

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

Conflicts may arise when a client makes investments in conjunction with an investment being made by another client or a client of the Adviser's affiliate, or in a transaction where another client or client of such an affiliate has already made an investment. Investment opportunities may be appropriate for a client and/or clients of the Adviser's affiliate at the same time, at different or overlapping levels of a company's capital structure. Conflicts may arise in determining the terms of investments, particularly where these clients may invest in different types of securities in a single company such as debt and equity, or different levels of debt. Questions may arise as to whether payment obligations and covenants should be enforced, modified or waived, whether payments should be accelerated, or whether debt should be refinanced. Decisions about what action should be taken in a troubled situation, including whether or not to enforce claims, whether or not to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work out or restructuring or other concessions that may be given in such a situation raise conflicts of interest, and the Adviser may be incentivized to choose a course of action that benefits one client to the detriment of another client. Investments by more than one client of the Adviser or its affiliates in a given company may also raise the risk of using assets of a client of the Adviser or its affiliates to support positions taken by other clients of the Adviser or its

affiliates. There can be no assurance that the return of a client participating in a transaction would be equal to and not less than another client participating in the same transaction or that it would have been as favorable as it would have been had such conflict not existed.

From time to time, Merganser may invest in certain structured securities where an affiliate may have contributed collateral to a non-affiliate's underwriting. Merganser shall not participate in a new issue where the affiliate's collateral is a material contribution to the deal. The CCO or designee shall approve all participation based on various factors. Moreover, Merganser shall not have any limitations on such transactions in the secondary market due to the distance of the transaction to the affiliate.

### **Allocations**

Each client may pursue investment opportunities similar to those pursued by another client. The allocation of investment opportunities among clients will be determined by the Adviser in its good faith judgment and in accordance with the organizational documents and IMAs of the relevant clients. Allocation decisions can raise conflicts, for example, if clients have different fee structures. Subject to a client's investment guidelines, IMA, and the Adviser's policies, the Adviser generally allocates investment opportunities among eligible clients on a pro rata basis based upon account size. Other contributing factors or deviations from pro rata allocations include (i) client investment guidelines, (ii) sector and issuer diversification, (iii) cash available for investment, (iv) realized gain/loss limitations, (v) new client startups, (vi) anticipated cashflows, (vii) client terminations and (viii) liquid lot sizes. The Adviser makes allocation determinations based on the Adviser's expectations at the time such investments are made, however investments and their characteristics may change and there can be no assurance that an investment may prove to have been more suitable for another Fund in hindsight.

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

It is expected that employees of the Adviser responsible for managing a particular client will have responsibilities with respect to other client accounts, including client accounts that may be established in the future. Conflicts of interest may arise in allocating time, services, or functions of these employees between client accounts. These employees have an incentive to allocate more time, services or functions to accounts from which such employees derive a higher economic benefit and/or better performing accounts.

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

The investors in the Funds and mutual funds may include U.S. taxable and tax-exempt entities, and institutions from jurisdictions outside of the United States. Such investors may have conflicting investment, tax, and other interests with respect to their investments in a pooled investment vehicle. The conflicting interests among the investors may relate to or arise from, among other things, the nature of investments made by a pooled investment vehicle, the structuring

of the acquisition of investments and the timing of the disposition of investments. Consequently, conflicts of interest may arise in connection with decisions made by the Adviser, including with respect to the nature or structuring of investments, that may be more beneficial for one investor than for another investor, especially with respect to investors' individual tax situations. In selecting and structuring investments appropriate for a pooled investment vehicle, the Adviser will consider the investment and tax objectives of the applicable pooled investment vehicle and the investors as a whole rather than the investment, tax or other objectives of any investor individually.

## **Brokerage Practices**

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### **Selecting Brokerage Firms**

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

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

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

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

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### **Best Execution**

Merganser has a fiduciary obligation when executing transactions for a client to seek the most favorable terms available given the circumstances surrounding the transaction. Merganser will usually accept the best price when executing a trade for a client but may also consider the full range and quality of a broker's services, along with its financial condition. Merganser maintains relationships with a broad broker network. Merganser will not use client brokerage to pay for client referrals or to achieve any other financial benefit (even at the expense of obtaining lower transaction fees).

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### **Soft Dollars**

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

brokers and Merganser does not consider research and non-execution services in selecting brokers to execute client transactions.

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**Directed Brokerage**

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

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**Order Aggregation**

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

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

If there is an inadequate quantity of the security to allocate it to all eligible accounts (lot size for each allocation will be at a level that in the Adviser's judgment facilitates trading and minimizes costs), Merganser will allocate the

security in a fair and equitable manner, considering how the addition of the security will affect the overall portfolio construction. Other contributing factors or deviations from pro rata allocations include (i) client investment guidelines, (ii) sector and issuer diversification, (iii) cash available for investment, (iv) realized gain/loss limitations, (v) new client startups, (vi) anticipated cashflows, (vii) client terminations and (viii) liquid lot sizes.

## **Review of Accounts**

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### **Periodic Reviews**

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

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

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### **Review Triggers**

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

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### **Regular Reports**

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

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

A Fund's investors receive reports from the Fund pursuant to the terms of each Fund's offering memorandum. Generally, and except as set forth in a Fund's organizational documents, such investors receive a monthly report showing the Fund's transactions and holdings, the characteristics of the underlying portfolio and the Fund's performance.

# Client Referrals and Other Compensation

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## Referrals

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

## Custody

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### Account Statements

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

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

Merganser is deemed to have custody over the assets of the Funds. Annually, an independent public accounting firm audits the Funds and audited financial statements are distributed to Fund investors within 120 days of the fiscal year end (December 31<sup>st</sup>). Assets for the Fund are held by a qualified custodian (BNY Mellon Asset Servicing). Merganser sends monthly statements to the Fund investors utilizing BNY Mellon accounting data. Fund investors are urged to compare these reports with statements supplied directly from BNY Mellon, which are available upon request. Participants may contact BNY Mellon Asset Servicing if they would like to receive statements directly from the custodian.



## Investment Discretion

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

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

## Voting Client Securities

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

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

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

## Financial Information

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This item is not applicable to Merganser.

## Requirements for State-Registered Advisers

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This item is not applicable to Merganser.