

## **Mercator Management (USA) LP**

**92 Nassau Street, 4<sup>th</sup> Floor  
Princeton, NJ 08542**

**March 17, 2022**

This “**Brochure**” provides information about the qualifications and business practices of Mercator Management (USA) LP (hereinafter “**Mercator**”, “**we**”, “**us**”, “**our**,” the “**Investment Manager**” or the “**Firm**”). If you have any questions about the contents of this Brochure, please contact our Chief Compliance Officer (“**CCO**”), Scott Hobart, by email at [scott.hobart@mercatorpartners.com](mailto:scott.hobart@mercatorpartners.com). Information in this Brochure has not been approved or verified by the U.S. Securities and Exchange Commission (the “**SEC**”) or by any state securities authority.

Mercator has applied as an “Investment Adviser Expecting to be Eligible for Commission Registration within 120 Days” with the SEC. Registration as an investment adviser does not imply that Mercator or any of its principals or employees possesses a particular level of skill or training in the investment advisory business or any other business.

Additional information about Mercator Management (USA) LP is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Item 2: Material Changes**

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This Brochure is Mercator's initial Form ADV Part 2A which has been submitted with our application for registration with the SEC; therefore, there are no material changes to report. In the future, if the Brochure contains material changes from our last update, we will identify and discuss those changes in this section.

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#### **Item 4: Advisory Business**

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Mercator Management (USA) LP (hereinafter “**Mercator**”, “**we**”, “**us**”, “**our**” or the “**Firm**”) is organized as a Delaware limited Partnership with a principal place of business Princeton, New Jersey.

We serve as the investment adviser, with discretionary trading authority, to private, pooled investment vehicles, the securities of which are offered through a private placement memorandum to accredited investors, as defined under the Securities Act of 1933, as amended, and qualified purchasers, as defined under the Investment Company Act of 1940, as amended. We do not tailor our advisory services to the individual needs of any particular investor.

Following registration with the SEC, Mercator intends to provide discretionary investment management services to Mercator Convergence (Onshore) Fund, LP, a Delaware domiciled limited partnership (the “**Fund** or “**Client**”). Mercator Convergence GP LLC, an affiliate of Mercator, is the general partner of the Fund. The Fund’s “**Limited Partners**” are hereafter collectively referred to as the “**Investors**” where appropriate.

Our investment decisions and advice with respect to the Fund are subject to the Fund’s investment objectives and guidelines, as set forth in its respective “**Offering Documents**,” which may include without limitation private placement memoranda and limited partnership agreements.

As of December 31, 2021, Mercator’s regulatory assets under management are \$29,667,156.

#### **Item 5: Fees and Compensation**

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The fees applicable to the Fund, which is offered only to qualified purchasers (within the meaning of Section 2(a)(51) of the Investment Company Act of 1940) and accredited investors (within the meaning of Regulation D under the Securities Act of 1933), are set forth in detail in the corresponding Offering Documents.

#### **Item 6: Performance-Based Fees and Side-By-Side Management**

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We and our affiliates are entitled to a performance-based compensation. Currently Mercator only manages one fund. As a result, we and our affiliates do not face certain conflicts of interest that may arise when an investment manager accepts performance-based fees from some clients, but not from other clients.

Performance-based allocation arrangements may create an incentive for us to recommend investments which may be riskier or more speculative than those which we would recommend under a different arrangement.

The above conflicts of interest are mitigated by investment guidelines, objectives and restrictions contained in the Offering Documents.

#### **Item 7: Types of Clients**

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Our client is the Fund, as described in Item 4 above, and the Fund is generally open to, among others, institutions, pension plans, endowments, high net-worth individuals, financially sophisticated individuals, and other sophisticated investors that are qualified purchasers.

## **Item 8: Methods of Analysis, Investment Strategies, and Risk of Loss**

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The descriptions set forth in this Brochure of specific advisory services that we offer to Clients, and investment strategies pursued and investments made by us on behalf of our Clients, should not be understood to limit in any way our investment activities. We may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that we consider appropriate, subject to each Client's investment objectives and guidelines as set forth in the Offering Documents. The investment strategies we pursue are speculative and entail substantial risks. Clients should be prepared to bear a substantial loss of capital. There can be no assurance that the investment objectives of any Client will be achieved.

### ***Investment Objective***

Mercator currently manages one strategy. Mercator seeks to position the Fund, which has a long/short global equities mandate, in companies impacted by structural disruption across the asset heavy industries as a direct consequence of a greater focus on sustainability, efficiency, electrification, and decarbonization. The Fund's long exposure focuses on:

- i. Companies and business models leveraged to the opportunity created for products/technologies/processes contributing substantially and positively to the EU Taxonomy environmental objectives and/or related sustainability factors,
- ii. Positively contributing companies that retain some legacy exposure to non-contributing businesses, and
- iii. Select instances where a company's activity falls outside of the Taxonomy, or there is an ambiguous interpretation relating to Taxonomy criteria or sustainability factors, but where a science based due diligence process can validate its overall beneficial contribution.

The Fund's short exposure focuses on companies with a substantial negative contribution to EU Taxonomy environmental objectives and related sustainability factors, exposing them to significant transition risk. Mercator structures its risk according to an investment duration of 24-36 months for long exposures and 18-24mths for short exposures (reflective of the need for a clear set of catalysts to underpin our short bias risk). Mercator seeks to enhance returns through actively readjusting the weighting of core allocations whilst the positioning is held within the mandate.

Mercator uses fundamental and technical analysis to formulate client investment opportunities. Mercator's primary investment strategy is built around primary research discipline that draws on thought leaders in academia, national laboratories and proprietary analysis. In addition, Mercator may consider industry research, economic theory, quantitative methods and market data.

### ***Risk Management***

Risk management is an ingrained part of Mercator's investment methodology. It informs the decision making around how the Investment Manager seeks to articulate a view, the size

and duration of the positioning held and the need to adjust risk given performance on both an individual position and portfolio level. Mercator's risk management framework relies on both front and middle office to operate as a cohesive unit. Risk modelling is not a task undertaken for the purposes of protocol and reporting.

As an example of the risk tools deployed across positioning, the below outlines two methodologies which form part of our risk management framework:

**Risk Weighted Capital:** Mercator will apply a risk weighted capital methodology to its position sizing framework. Risk weighted capital is calculated by multiplying a position size by the worst-case outcome for the stock. The Investment Manager seeks to ensure that no single position can impair the Fund portfolio.

**Position Review Triggers:** Mercator will also adhere to a set of position review triggers which further serve to re-enforce a commitment to capital preservation and risk assessment. Underperforming positions will be subject to reviews at pre-determined trigger levels. An absolute move in stock price across a series of levels elicits a forum for review accompanied by a required set of supporting documentation. Senior members of Mercator and the Chief Investment Officer are charged with discretion to act depending on the magnitude of the underperformance.

### ***Risk of Loss Factors***

The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in the clients advised by us. These risk factors include only those risks we believe to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by us.

An investment involves significant risks, and is suitable only for those persons who can bear the economic risk of the loss of their entire investment, who have limited need for liquidity in their investment, and who have met the conditions set forth in the Offering Documents. There can be no assurances that we will achieve our investment objectives. An investment carries with it the inherent risks associated with investments in publicly-traded stocks and bonds, options, and related instruments, including, without limitation, the risks described below. Each prospective investor should carefully review the Offering Documents and the documents referred to herein before deciding to invest with Mercator Management (USA) LP.

The Fund may be deemed to be a highly speculative investment and is not intended as a complete investment program. It is designed only for sophisticated persons who are able to bear the economic risk of the loss of their entire investment in the Fund, who have a limited need for liquidity in their investment and who meet the conditions set forth in this Memorandum and the Subscription Agreement. There can be no assurances that the Fund will achieve its investment objective. The following risks should be carefully evaluated before making an investment in the Fund. The list of risks below does not purport to be an exhaustive list of the risks relating to an investment in the Fund.

### ***Market Risks***

The profitability of a significant portion of the Fund's investment program depends to a great extent upon correctly assessing the future course of the price movements of securities and other investments. There can be no assurance that the Investment Manager will be able to

predict accurately these price movements. With respect to the investment strategy utilized by the Fund, there is always some, and occasionally a significant, degree of market risk.

#### *Nature of Investments*

The Investment Manager has broad discretion in making investments for the Fund. Investments generally consist of positions in publicly traded equities issued by exchange-listed companies and other assets that may be affected by business, financial market or legal uncertainties. There can be no assurance that the Investment Manager will correctly evaluate the nature and magnitude of the various factors that could affect the value of and return on investments. Prices of investments may be volatile, and a variety of factors that are inherently difficult to predict, such as domestic or international economic and political developments, may significantly affect the results of the Fund's activities and the value of its investments. No guarantee or representation is made that the Fund's investment objective will be achieved.

#### *Equity-Related Instruments in General*

The Fund may invest in equity securities and equity-related instruments, including but not limited to publicly listed equity securities in the U.S. or abroad, privately offered equity securities and financial instruments that may reference a single issuer, a specific sector or a broad equity index. Equity securities represent ownership interests in their respective issuers and are generally carry the most risk associated with a specific issuer's capital structure.

The price of equity securities and their related financial instruments vary for a variety of reasons, including but not limited to supply and demand of the equity securities, the actual or perceived business opportunities associated with the issuer, the current and potential future cash flow of the issuer, the issuer's management, their ability to execute on a specific business plan, the general economic environment, and the outlook for the overall economy. To the extent the Fund owns an equity security or otherwise has exposure to an equity security or an equity-related financial instrument, this investment carries the risks associated with owning equities and may also carry risks associated with the form of financial instrument (e.g., options, derivative or securities-based futures contract). Any investment in equities or equity-related instruments entails a significant risk of loss.

#### *Risks Associated with Materials and Basic Industries*

Investing in the materials and basic industries sectors is subject to various risks including those associated with government regulation and intervention, currency risk, significant competition, changing consumer demands, and impacts of innovation, among other things.

#### *Hedging Transactions*

Hedging techniques involve one or more of the following risks: (i) imperfect correlation between the performance and value of the instrument and the value of the Fund securities or other objective of the General Partner; (ii) possible lack of a secondary market for closing out a position in this instrument; (iii) losses resulting from interest rate, spread or other market movements not anticipated by the General Partner; (iv) the possible obligation to meet additional margin or other payment requirements, all of which could worsen the Fund's position; and (v) default or refusal to perform on the part of the counterparty with which the Fund trades. Furthermore, to the extent that any hedging strategy involves the use of over-the-counter derivatives transactions, this strategy may be affected by implementation of the various regulations adopted pursuant to Dodd-Frank.

The General Partner will not attempt to hedge all market or other risks inherent in the Fund's positions, and will hedge certain risks, if at all, only partially. Specifically, the General Partner may choose not, or may determine that it is economically unattractive, to hedge certain risks

— either in respect of particular positions or in respect of the Fund’s overall portfolio. The Fund’s portfolio composition will commonly result in various directional market risks remaining unhedged. The General Partner may rely on diversification to control these risks to the extent that the General Partner believes it is desirable to do so; however, the Fund is not subject to formal diversification policies.

The ability of the Fund to hedge successfully will depend on the ability of the General Partner to predict relevant market movements, which cannot be assured. The General Partner is not required to hedge and there can be no assurance that hedging transactions will be available or, even if undertaken, will be effective. In addition, it is not possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities is likely to fluctuate as a result of independent factors not related to currency fluctuations. Moreover, it should be noted that the portfolio will always be exposed to certain risks that cannot be hedged, such as counterparty credit risk. Furthermore, by hedging a particular position, any potential gain from an increase in the value of this position may be limited.

#### *Short Sales*

The Fund will engage in short selling. Short selling, or the sale of securities not owned by the Fund, involves certain risks. Such transactions expose the Fund to the risk of loss in an amount greater than the initial investment, and such losses can increase rapidly and without effective limit. There is the risk that the securities borrowed by the Fund in connection with a short sale would need to be returned to the securities lender on short notice. If such request for return of securities occurs at a time when other short sellers of the subject security are receiving similar requests, a “short squeeze” can occur, wherein the Fund might be compelled, at the most disadvantageous time, to replace borrowed securities previously sold short with purchases on the open market, possibly at prices significantly in excess of the proceeds received earlier.

#### *Options*

The purchase or sale of an option involves the payment or receipt of a premium by the investor and the corresponding right or obligation, as the case may be, to either purchase or sell the underlying security, commodity or other instrument for a specific price at a certain time or during a certain period. Purchasing options involves the risk that the underlying instrument will not change price in the manner expected, so that the investor loses its premium. Additionally, the premium paid for an option is based, in part, on the time to expiration, and with the passage of time, the premium associated with an option declines, assuming all other factors being equal. Selling options involves potentially greater risk because the investor is exposed to the extent of the actual price movement in the underlying security rather than only the premium payment received (which could result in a potentially unlimited loss). Over-the-counter options also involve counterparty solvency risk.

#### *Derivatives*

To the extent that the Fund invests in swaps, derivative or synthetic instruments, or enters into repurchase agreements or other over-the-counter transactions, the Fund may take a credit risk with regard to parties with whom it trades and may also bear the risk of settlement default. These risks may differ materially from those entailed in exchange-traded transactions that generally are backed by clearing organization guarantees, more frequent mark-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default. It is



expected that all securities and other assets deposited with custodians or brokers will be clearly identified as being assets (directly or indirectly) of the Fund, and hence the Fund should not be exposed to a credit risk with regard to such parties. However, it may not always be possible to achieve this segregation, and there may be practical or time problems associated with enforcing rights to its assets in the case of an insolvency of any such party.

#### *Use of Leverage*

As noted in Section 3 above, the Fund may utilize leverage. This results in the Fund controlling substantially more assets than the Fund has equity. Leverage increases the Fund's returns if the Fund earns a greater return on investments purchased with borrowed funds than the Fund's cost of borrowing such funds. However, the use of leverage exposes the Fund to additional levels of risk, including (i) greater losses from investments than would otherwise have been the case had the Fund not borrowed to make the investments, (ii) margin calls or interim margin requirements which may force premature liquidations of investment positions and (iii) losses on investments where the investment fails to earn a return that equals or exceeds the Fund's cost of borrowing such funds. In the event of a sudden, precipitous drop in value of the Fund's assets, the Fund might not be able to liquidate assets quickly enough to repay its borrowings, further magnifying its losses.

In an unsettled credit environment, the Investment Manager may find it difficult or impossible to obtain leverage for the Fund. In such event, the Fund could find it difficult to implement its strategy. In addition, any leverage obtained, if terminated on short notice by the lender, could result in the Investment Manager being forced to unwind the Fund's positions quickly and at prices below what the Investment Manager deems to be fair value for such positions.

#### *Currency Risks*

The Fund may have exposure to fluctuations in currency exchange rates. It may, in part, seek to offset the risks associated with this exposure or enter into foreign exchange transactions to increase its returns. These transactions involve a significant degree of risk and foreign exchange markets are volatile, specialized and technical. Significant changes, including changes in liquidity and prices, can occur in these markets within very short periods of time. Changes in exchange rates over time are the result of many factors directly or indirectly affecting the economic and political conditions in the country or economic region associated with a specific currency. Exchange rates fluctuate for a number of reasons, including:

- existing and expected rates of inflation,
- existing and expected interest rate levels,
- the balance of payments between the relevant country and its major trading partners,
- political, civil or military unrest in the relevant country or economic region; and
- monetary, fiscal and trade policies of the relevant country or economic region (including pegging, de-pegging, flooring or capping an exchange rate relative to another currency).

Governments use a variety of techniques, such as intervention by their central banks or imposition of regulatory controls or taxes, to affect the exchange rate of their currencies. Foreign exchange rates can either be fixed by sovereign governments or floating. Exchange rates of most economically developed nations are permitted to fluctuate in value relative to the value of other currencies. However, governments do not always allow their currencies to float freely in response to economic forces. Governments use a variety of techniques, such as intervention by their central bank or imposition of regulatory controls or taxes, to affect the trading value of their respective currencies. They may also issue a new currency to replace an existing currency or alter the exchange rate or relative exchange characteristics by devaluation

or revaluation of a currency. The value of the Fund could be affected by the actions of sovereign governments, which could change or interfere with theretofore freely determined currency valuation, fluctuations in response to other market forces and the movement of currencies across borders. Additionally, market perceptions of the relative strength or cohesion of a specific political state or monetary union can dramatically affect the value of a currency. Fluctuations in exchange rates may negative impact the value of an investment in the Fund to the extent the Fund has currency exposure in the form of a hedge, a non-U.S. dollar denominated instrument or as a standalone position.

#### *Non-U.S. Securities*

The Fund may invest outside of the United States. Investing in securities of non-U.S. governments and companies which are generally denominated in non-U.S. currencies and utilization of options and swaps on non-U.S. securities involves certain considerations comprising both risks and opportunities not typically associated with investing in securities of the United States government or United States companies. These considerations include changes in exchange rates and exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, greater risks associated with counterparties and settlement, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

#### *Counterparty Risk*

To the extent that the Fund invests in swaps, "synthetic" or derivative instruments, repurchase agreements, forward contracts, certain types of options or other customized financial instruments, or, in certain circumstances, non-U.S. securities, the Fund takes the risk of non-performance by the other party to the contract. This risk may include credit risk of the counterparty and the risk of settlement default. This risk may differ materially from those entailed in exchange-traded transactions that generally are supported by guarantees of clearing organizations, daily mark-to-market and settlement, and segregation and minimum capital requirements applicable to intermediaries. Transactions entered directly between two counterparties generally do not benefit from such protections and expose the parties to the risk of counterparty default.

#### *Less Liquid Securities*

While the Fund's portfolio is generally expected to be comprised of relatively liquid securities, the Fund (through its investment in the Fund) may, at times, invest in less liquid securities, including certain illiquid privately offered securities. The Investment Manager may find it more difficult to readily dispose of these investments in the ordinary course of business. In addition, some of these investments may not have an established trading market. In the absence of an established trading market, the Fund will, in accordance with its valuation policies then in effect, value such investments in good faith at each time the Fund's net asset value ("NAV") is determined. Accordingly, the NAV of the Fund may be based in part on the valuations placed on Fund assets by the Investment Manager (in consultation with the Governance Committee) without reference to an established trading market for such investments. It should, however, be noted that no more than 5% of the Fund's portfolio (measured at cost at time of investment) will be invested in illiquid private securities at any given time.

#### *Incentive Allocation*

The allocation of a percentage of the Fund's net profits to the General Partner may create an incentive for the Investment Manager, an affiliate of the General Partner, to cause the Fund to make investments that are riskier or more speculative than would be the case if this allocation were not made. Since the allocation is calculated on a basis that includes unrealized appreciation of assets, such allocation may be greater than if it were based solely on realized gains.

In addition, in the event that a Limited Partner makes a complete or partial withdrawal from its Capital Account, or is required to retire at any time other than at the end of a fiscal year, the Incentive Allocation may be computed and charged to such Partner as though the date of such Limited Partner's withdrawal of capital or retirement was the last day of a fiscal year. This may result in the Limited Partner being charged an Incentive Allocation during the year even though the Limited Partner does not have net profits based on the entire year's performance (i.e., due to losses that occur after the withdrawal).

#### *Public Policy Risk*

Regulatory and legal changes could significantly restrict the Fund's ability to realize profits. Any future regulatory developments including but not limited to proposed legislation, administrative action or judicial decisions might, among other things, impair the prospective liquidity and value of the investments made by the Fund.

#### *No Separate Counsel; No Responsibility or Independent Verification*

Seward & Kissel LLP represents the General Partner, the Investment Manager, and the Fund (each, a "Party" and collectively, the "Parties") as U.S. counsel. Seward & Kissel LLP does not represent investors in the Fund and no independent counsel has been retained to act on behalf of the Limited Partners. Seward & Kissel LLP is not responsible for any acts or omissions of the Parties (including their compliance with any guidelines, policies, restrictions or applicable laws, or the selection, suitability or advisability of their investment activities) or any administrator, accountant, custodian/prime brokers or other service providers to the Parties. Seward & Kissel LLP's representation of the Parties is limited to specific matters as to which they have been consulted by the applicable Party. There may exist other matters that could have a bearing on a Party as to which Seward & Kissel LLP has not been consulted.

#### *Absence of Regulatory Oversight*

While the Fund may be considered similar to an investment company, it does not intend to register as such under the Investment Company Act in reliance upon an exemption available to privately offered investment companies, and, accordingly, the provisions of the Investment Company Act (which, among other matters, require investment companies to have disinterested directors, require securities held in custody to at all times be individually segregated from the securities of any other person and marked to clearly identify such securities as the property of such investment company and regulate the relationship between the adviser and the investment company) will not be afforded to the Fund or the Limited Partners.

#### *Accounting for Uncertainty in Income Taxes*

The Financial Accounting Standards Board has released Accounting Standards Codification Topic 740 ("**ASC 740**") (formerly known as "**FIN 48**"), to provide consistent guidance on the recognition of uncertain tax positions. ASC 740 prescribes, among other things, the minimum recognition threshold that a tax position is required to meet before being recognized in an entity's financial statements. A prospective Limited Partner should be aware that, among other things, ASC 740 could have a material adverse effect on the periodic calculations of the

value of the net assets of the Fund, including reducing the value of the net assets of the Fund to reflect reserves for income taxes that may be payable in respect of prior periods by the Fund. This could adversely affect certain Limited Partners, depending upon the timing of their purchase and withdrawal of their Interests.

#### *Brokerage and Custodial Risk*

There are risks involved in dealing with the custodians or prime brokers who settle Fund trades. The Fund maintains a custody account with its prime broker and primary custodian (the "Prime Broker"). Although the General Partner monitors the Prime Broker and believes that it is an appropriate custodian, there is no guarantee that the Prime Broker, or any other custodian that the Fund may use from time to time, will not become bankrupt or insolvent. While both the U.S. Bankruptcy Code and the Securities Investor Protection Act of 1970 seek to protect customer property in the event of a bankruptcy, insolvency, failure, or liquidation of a broker-dealer, there is no certainty that, in the event of a failure of a broker-dealer that has custody of Fund assets, the Fund would not incur losses due to its assets being unavailable for a period of time, the ultimate receipt of less than full recovery of its assets, or both.

The Fund and/or the Prime Broker may appoint sub-custodians in certain non-U.S. jurisdictions to hold the assets of the Fund. The Prime Broker may not be responsible for cash or assets which are held by sub-custodians in certain non-U.S. jurisdictions, nor for any losses suffered by the Fund as a result of the bankruptcy or insolvency of any such sub-custodian. The Fund may therefore have a potential exposure on the default of any sub-custodian and, as a result, many of the protections that would normally be provided to a fund by a custodian may not be available to the Fund. Under certain circumstances, including certain transactions where the Fund's assets are pledged as collateral for leverage from a non-broker-dealer custodian or a non-broker-dealer affiliate of the Prime Broker, or where the Fund's assets are held at a non-U.S. custodian, the securities and other assets deposited with the custodian or broker may not be clearly identified as being assets of the Fund and the Fund could be exposed to a credit risk with regard to such parties. Custody services in certain non-U.S. jurisdictions remain undeveloped and, accordingly, there is a transaction and custody risk of dealing in certain non-U.S. jurisdictions. Given the undeveloped state of regulations on custodial activities and bankruptcy, insolvency, or mismanagement in certain non-U.S. jurisdictions, the ability of the Fund to recover assets held by a sub-custodian in the event of the sub-custodian's bankruptcy or insolvency could be in doubt, as the Fund may be subject to significantly less favorable laws than many of the protections that would be available under U.S. laws. In addition, there may be practical or timing problems associated with enforcing the Fund's rights to its assets in the case of a bankruptcy or insolvency of any such party.

#### *Business and Regulatory Risks of Hedge Funds*

The regulatory environment for hedge funds is evolving, and changes in the regulation of hedge funds may adversely affect the value of investments held by the Fund and the ability of the Fund to obtain the leverage it might otherwise obtain or to pursue its trading strategies. In addition, securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. Regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The regulation of derivative transactions and funds that engage in such transactions is an evolving area of law and is subject to modification by government and judicial actions. The effect of any future regulatory change on the Fund could be substantial and adverse.

#### *Cybersecurity Risk*

The Fund, the Investment Manager and their service providers, including banks, broker-dealers, custodians and their affiliates, may be subject to operational and information security risks resulting from cyber- attacks. Cyber-attacks include, among other behaviors, stealing or corrupting data maintained online or digitally, denial of service attacks on websites, the unauthorized release of confidential information, unauthorized asset transfers, and various other forms of cybersecurity breaches. Cyber-attacks affecting the Fund, the Investment Manager, or their service providers may adversely impact the Fund. For instance, cyber-attacks may interfere with the processing or execution of Fund transactions, cause the release of confidential information, including private information about Limited Partners, subject the Fund, the Investment Manager or their affiliates to regulatory fines or financial losses, or cause reputational damage. Additionally, cyber-attacks or security breaches (e.g., hacking or the unlawful withdrawal or transfer of funds), affecting any of the Fund's key service providers, such as the Investment Manager, banks, broker- dealers, custodians, or other counterparties holding assets of the Fund, may cause significant harm to the Fund, including the loss of capital. Similar types of cybersecurity risks are also present for issuers of securities in which the Fund may invest. These risks could result in material adverse consequences for such issuers, and may cause the Fund's investments in such issuers to lose value. While the Investment Manager has instituted specific policies and has engaged specialized vendors to manage cybersecurity risk and disaster recovery, there are no assurances that these policies and vendors will mitigate risks associated with cybersecurity.

#### *Lack of Liquidity of Fund Investments*

Fund assets may include securities and other financial instruments or obligations that are thinly- traded or for which no market exists and/or which are restricted as to their transferability under applicable securities laws. The sale of any such investments may be possible only at substantial discounts, and it may be extremely difficult to accurately value any such investments.

#### *Limited Withdrawal and Transfer Rights*

A Limited Partner generally will be permitted to withdraw all or any part of its capital account only in accordance with the terms described in the Offering Documents. Transfers of the Interests will be permitted only with the written consent of the General Partner. Accordingly, the Interests should only be acquired by investors willing and able to commit their funds for an appreciable period of time.

#### *Non-Disclosure of Positions*

In an effort to protect the confidentiality of its positions, the Fund generally will not disclose its positions to Limited Partners on an ongoing basis except as detailed in the monthly risk reports, although the General Partner, in its sole discretion, may permit such disclosure on a select basis to certain Limited Partners.

#### *Regulatory Risk*

It is possible that changes in applicable laws and regulations may affect the Fund's operations. In addition, a number of substantial regulatory changes are pending or in the process of changing in certain markets. However, the consequences of additional regulation on the liquidity and the functioning of the markets in which the Fund trades cannot be predicted and may materially diminish the profitability of investment opportunities for the Fund.

#### *Reliance on the Managing Member*

The Fund relies heavily on the expertise and efforts of Mr. Hobart, the Managing Member of the General Partner and the majority owner of the Investment Manager. Mr. Hobart is

responsible for all of the major decisions affecting the Fund. Should Mr. Hobart determine to discontinue managing the affairs of, or withdraw from, the Investment Manager or should Mr. Hobart die, be incapacitated or, for some other reason be unable to effectively manage the affairs of the Investment Manager, the business and results of the operations of the Fund may be adversely affected.

#### *Unrelated Business Taxable Income for Certain Tax-Exempt Investors*

Pension and profit-sharing plans, Keogh plans, individual retirement accounts and other tax-exempt investors may realize “unrelated business taxable income” as a result of an investment in the Fund since the Fund may employ leverage. Any tax-exempt investor should consult its own tax adviser with respect to the effect of an investment in the Fund on its own tax situation.

### **Item 9: Disciplinary Information**

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To the best of our knowledge, there are no legal or disciplinary events that are material to an Investor's or prospective investor's evaluation of our advisory business or the integrity of our management.

### **Item 10: Other Financial Industry Activities and Affiliations**

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Neither we nor our management persons are registered as broker-dealers, and neither of us has any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer, respectively.

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

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#### ***Code of Ethics***

Mercator has adopted a “**Code of Ethics**” that sets forth the standards of conduct expected of all employees providing services to clients and requires compliance with applicable securities laws.

The Code of Ethics contains written policies reasonably designed to prevent the unlawful use of material non-public information Mercator or any of its employees. Prospective clients and clients may contact Mercator at the telephone number or email listed on the cover of this Brochure to request a copy of its Code of Ethics. Mercator appointed an individual to serve as Chief Compliance Officer who, together with senior management, will be responsible for monitoring and enforcing the Code of Ethics.

The Code of Ethics establishes the high standard of conduct that we expect of our employees and procedures regarding our employees’ personal trading of securities. The foundation of our Code of Ethics is based upon the following underlying fiduciary principles:

- Employees must at all times place the interests of the Fund and Investors first;
- Employees must ensure that all personal securities transactions are conducted consistent with the Code of Ethics’ Employee Personal Investment Policy; and
- Employees should not take inappropriate advantage of their position at the Firm.

Further, the policies provide that all employees must act within the spirit and the letter of all federal, state, and local laws and regulations pertaining to the securities business, and at all

times, the interest of each client has precedence over any personal interest. Mercator's Code of Ethics requires employees to report their personal securities transactions and prohibits employees from directly or indirectly engaging in certain securities transactions without first obtaining approval. In addition, the Code of Ethics requires employees to comply with procedures designed to prevent the misuse of, or trading upon, material non-public information.

#### **Item 12: Brokerage Practices**

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Mercator is authorized to determine the broker-dealer to be used for executing securities transactions for the Fund. In selecting broker-dealers to execute transactions, we do not need to solicit competitive bids and do not have an obligation to seek the lowest available commission cost. It is not our practice to negotiate "execution only" commission rates; therefore, the Fund may be deemed to be paying for research, brokerage or other services provided by the broker which are included in the commission rate.

We shall also have the authority to select and appoint custodians of the assets of the Fund. The Firm's authority is limited by its own internal policies and procedures and the Fund's investment guidelines.

##### ***Best Execution***

In selecting an appropriate broker-dealer to effect a client trade, we seek to obtain "**Best Execution**," meaning seeking to obtain not necessarily the lowest commission but the best overall qualitative execution in the particular circumstances. Accordingly, in seeking Best Execution, we will take into consideration the price of a security offered by the broker-dealer, as well as a broker-dealers' full range and quality of their services including, among other things, their facilities, reliability and financial responsibility, execution capability, commission rates, responsiveness to us, brokerage and research services provided to us (for example, research ideas, analysis, and investment strategies), special execution and block positioning capabilities, clearance, and settlement and custodial services.

##### ***Soft Dollars***

We do not currently maintain soft dollar accounts or generate soft dollar credits, as of the date hereof, but may do so in the future. We do receive research from some brokers with which we transact business.

Subject to best execution, we may consider, among other things, capital introduction and marketing assistance with respect to Investors in the Fund in selecting or recommending broker-dealers for the Fund.

#### **Item 13: Review of Accounts**

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Our Portfolio Manager and investment professionals continuously monitor and analyze the transactions, positions, and investment levels of the Fund to ensure that they conform with the investment objectives and guidelines that are stated in the Fund's Offering Documents. In these reviews, the Firm pays particular attention to any changes in the investment's fundamentals, overall risk management and changes in the markets that may affect price levels.

### **Account Reporting**

We perform various periodic reviews of the Fund's portfolio. Such reviews are conducted by our senior management.

We will distribute an audited financial report with respect to the previous fiscal year to all Investors within 120 days of fiscal year end. We may also distribute monthly unaudited investor statements and a quarterly investor letter to all Investors.

### **Item 14: Client Referrals and Other Compensation**

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We do not receive economic benefits from non-clients for providing investment advice and other advisory services. Neither we nor any of our related persons, directly or indirectly, compensate any person who is not a supervised person for client referrals.

### **Item 15: Custody**

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We will be deemed to have custody of Client funds and securities because we have the authority to obtain Client funds or securities, for example, by deducting advisory fees from a Client's account or otherwise withdrawing funds from a Client's account. Account statements related to the Clients are sent by qualified custodians to Mercator.

We will comply with Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended (the "**Advisers Act**") (i.e., the "**custody rule**") by meeting the conditions of the pooled vehicle annual audit approach. Upon completion of the relevant Fund's annual audit by an independent auditor that is registered with, and subject to inspection by, the Public Company Accounting Oversight Board (PCAOB), we will distribute the Fund's audited financials to Investors within 120 days of such Fund's fiscal year end.

### **Item 16: Investment Discretion**

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We will have full discretionary investment authority with respect to the Fund, including authority to make decisions with respect to which securities to be bought and sold, as well as the amount and price of those securities.

### **Item 17: Voting Client Securities**

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In compliance with Rule 206(4)-6 of the Advisers Act (i.e., the "proxy voting rule"), we have adopted proxy voting policies and procedures. The general policy is to vote all proxy proposals, amendments, consents or resolutions (collectively, "**Proxies**") in a prudent and diligent manner that will serve the applicable Client's best interests and is in line with the Client's investment objectives.

We may take into account all relevant factors, as determined by us in our discretion, including, without limitation:

- the impact on the value of the securities or instruments owned by the relevant client and the returns on those securities;
- the anticipated associated costs and benefits;
- the continued or increased availability of portfolio information; and
- industry and business practices.



Generally, clients may not direct our vote in a particular solicitation.

Clients may obtain a copy of our Proxy voting policies and our Proxy voting record upon request.

**Item 18: Financial Information**

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We are not required to include a balance sheet for our most recent fiscal year, are not aware of any financial condition reasonably likely to impair our ability to meet contractual commitments to Clients and have not been the subject of a bankruptcy petition at any time during the past ten years.