

**ITEM 1**

**COVER PAGE**

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**PART 2A OF FORM ADV: FIRM BROCHURE**

**Mount Kellett Capital Management LP**

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This brochure provides information about the qualifications and business practices of Mount Kellett Capital Management LP. If you have any questions about the contents of this brochure, please contact us at (212) 588-6100. 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. Registration with the SEC does not imply a certain level of skill or training.

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

## **ITEM 2**

### **MATERIAL CHANGES**

Jason Maynard is retiring from an active role with the Adviser and its affiliates and has become a senior adviser to the Adviser. Mr. Maynard no longer has an interest in the general partner of Adviser, and going forward, Mark McGoldrick will have sole voting control over the general partner of the Adviser. Mr. Maynard will have a reduced economic interest in the Adviser.

## ITEM 3

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## **ITEM 4**

### **ADVISORY BUSINESS**

Mount Kellett Capital Management LP (the "Adviser") is a Delaware limited partnership formed in 2008. The Adviser provides investment management and related services to private pooled investment vehicles. The Adviser may also advise separately managed accounts for institutional and other investors. Investment funds and other vehicles and accounts to which the Adviser serves as management company or provides investment management services are referred to herein as the "Mount Kellett Funds". The Mount Kellett Funds are typically U.S. and non-U.S. limited partnerships and other investment vehicles that are not registered or required to be registered pursuant to an exemption under the U.S. Investment Company Act of 1940 and the equity interests of which are not required to be registered pursuant to the U.S. Securities Act of 1933. The Mount Kellett Funds include private equity style funds, hedge fund structures and managed accounts.

The Adviser maintains offices in New York, and through subsidiaries, offices in Hong Kong, London and Mumbai. An affiliate of the Adviser maintains an office in Texas. The principal owner of the Adviser is Mark McGoldrick. In addition, each of Jason Maynard and The Norinchukin Bank maintain a passive minority equity interest in the Adviser, but neither has a role in the investment decisions of the Adviser. As of July 31, 2014, the Adviser's regulatory assets under management equaled approximately \$7,527,068,838.

The Adviser has discretionary authority with respect to investment decisions, and its advice with respect to the Mount Kellett Funds is made in accordance with the investment objectives and guidelines as set forth in the Mount Kellett Funds' respective offering memoranda, organizational documents and investment management agreements (collectively, the "Fund Documents").

The primary investment strategy which the Adviser currently pursues on behalf of its credit focused funds and managed accounts is to make opportunistic investments globally across asset classes, capital structures and geographies, including, but not limited to, investments in the debt and equity of private and public companies, bank loans and bonds, distressed and stressed investments, including control positions, single credits, portfolios of corporate loans, consumer receivables and mortgage loans, and real estate and real-estate-related securities. The Adviser may compensate unaffiliated individuals or firms for sourcing investments or other transactions.

## **ITEM 5**

### **FEES AND COMPENSATION**

The Adviser or its affiliate generally receives management fees, carried interest and/or performance-based fees or allocations in connection with the investment management services that it provides to the Mount Kellett Funds. The respective Fund Documents

generally permit the Adviser, its affiliates or the applicable Mount Kellett Fund the ability to waive, rebate or reduce all or part of the management fee and/or carried interest or performance fee/allocation with respect to investments made by certain investors without waiving, rebating or reducing the fees/allocations or carried interest charged/payable to other investors (such as in the case of, but not limited to, investments made by the Adviser, its partners/employees and their family members in a Mount Kellett Fund).

For the Adviser's private equity style funds, the Adviser generally receives a management fee equal to 2.0% per annum of capital committed during the commitment period or of invested capital after expiration of the commitment period. In the case of the Adviser's hedge funds, the Adviser generally receives a management fee of 2.0% per annum of net asset value.

Generally, an affiliate of the Adviser receives performance-related compensation of 20% of the net capital appreciation upon realization, or at the end of the relevant fiscal period. Performance-related compensation may be subject to hurdles, waterfalls, claw-backs and/or loss carry forwards, depending on, among other things, the strategy and structure of the relevant Mount Kellett Fund.

Furthermore, Mount Kellett employees and other individuals who are associated with Mount Kellett may receive discounted products and services from portfolio companies.

#### *Additional Fees and Expenses*

In addition to those fees described above, Mount Kellett Funds may pay additional fees and expenses, such as the following non-exhaustive list of items:

- acquisition, financing, holding, monitoring, hedging or disposition of Mount Kellett Fund investments
- due diligence costs
- broken deal expenses
- brokerage commissions
- clearing and settlement charges
- expenses relating to short sales
- bank service fees
- fees and expenses of custodians consultants and experts
- travel and entertainment expenses incurred for investment related purposes
- outside legal counsel, consultants and accountants
- the cost of operational and accounting software and related expenses
- other legal, operating, accounting, tax return preparation and consulting,
- extraordinary expenses (including litigation, indemnification and contribution expenses)
- administrator's fees, fees of valuation firms, pricing services and financing costs (including interest expenses)
- expenses for liability insurance, including directors' and officers' liability insurance, and other insurance expenses
- extraordinary expenses (including litigation, indemnification and contribution expenses)
- taxes and other governmental fees and charges
- management fees; asset management fees (whether paid to third parties or to affiliates of the Adviser); servicing and special servicing fees (whether paid to third parties or to affiliates of the Adviser)
- meetings of the advisory board; annual or special meetings of the partners and

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| <ul style="list-style-type: none"> <li>auditing, appraisal and administrative expenses and fees for outside services</li> <li>• cost of software (including the fees of third party software developers) used by the Adviser and its affiliates to track and monitor investments</li> <li>• all other expenses related to the purchase, sale or transmittal of the applicable Mount Kellett Fund's assets including for office space and infrastructure, rent, and salaries relating to Mount Kellett's Mauritius and Dublin investment platforms</li> </ul> | <ul style="list-style-type: none"> <li>periodic reports to the partners costs of printing and mailing reports and notices</li> <li>• withholding and other investment-related taxes</li> <li>• extraordinary expenses and any other similar expenses related to the Mount Kellett Funds</li> </ul> |
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More detailed information about specific fees and expenses that the Mount Kellett Funds may pay is provided in the Fund Documents provided to underlying investors in the Mount Kellett Funds.

## **ITEM 6**

### **PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Affiliates of the Adviser accept performance-based compensation in the form of the carried interest or incentive allocation, as applicable.

The existence of the carried interest and incentive allocation may create an incentive for the Adviser and/or its affiliates to seek more speculative investments on behalf of the Mount Kellett Funds than would otherwise be the case in the absence of such performance-based compensation. In addition, due to the method of calculating the carried interest and incentive allocation, the compensation of the affiliates of the Adviser who receive such amounts may be affected by the timing of dispositions and other factors which will be within the control of the Adviser or its affiliates.

## **ITEM 7**

### **TYPES OF CLIENTS**

The clients to whom the Adviser provides investment advice are private investment funds offered to investors on a private placement basis. The underlying investors in such clients are typically institutional and high net worth investors. The Adviser also advises separately managed accounts for institutional and other investors.

With limited exception where permitted by applicable law, the Adviser requires that the underlying investors in the Adviser's private investment funds be "qualified purchasers" as that term is defined in Section 2(a)(51) of the Investment Company Act (with the exception of certain persons who qualify as "knowledgeable employees" under Rule 3(c)-5 of the

Investment Company Act). Mount Kellett also requires, with exceptions granted at the discretion of the Adviser, that the underlying investors in the private investment funds invest no less than \$1,000,000 and, in some cases, as much as \$10,000,000 in the applicable fund.

## **ITEM 8**

### **METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS<sup>1</sup>**

#### **Methods of Analysis and Investment Strategies**

The Adviser generally seeks to pursue its investment objective on behalf of the Mount Kellett Funds by acquiring investments and portfolios of investments primarily in North America, Asia and Europe. In North America and in Europe, the Mount Kellett Funds generally pursue opportunities in opportunistic stressed and distressed debt and equity investments as well as special situations and entry valuations for private opportunistic transactions. In Asia, the Mount Kellett Funds generally pursue investments in private opportunistic equity investments. The Adviser focuses on making opportunistic investments on a global basis across asset classes, capital structures and geographies, including, but not limited to, investments in the debt and equity of private and public companies, bank loans and bonds, stressed and distressed investments, including control positions, single credits, portfolios of corporate loans, consumer receivables and mortgage loans, and real estate and real estate-related assets and securities. Through subsidiaries, the Mount Kellett Funds may be an originator of credit on an opportunistic basis. The Mount Kellett Funds' investment activities are not limited to the investment strategies described above. The Mount Kellett Funds may pursue any investment strategy which the Adviser determines to be appropriate, provided such strategy is consistent with the Mount Kellett Funds' investment objective. These may include, but are not limited to, special situations arising in the energy, intellectual property, technology and life sciences sectors and other sector specific opportunities or geographic regions.

#### **Risks Relating to Investment Strategies**

The Mount Kellett Funds are speculative and entail substantial risks. There can be no assurance that the investment objectives of the Mount Kellett Funds will be achieved, and certain investment practices can, in some circumstances, potentially increase any adverse impact on the Mount Kellett Funds' investment portfolios. The Adviser's risk management approach seeks to isolate and mitigate, not eliminate, risk and there may be certain risks that the Adviser determines should not or cannot be hedged against. Accordingly, the Adviser's activities could result in substantial losses under certain circumstances. Investing in securities involves risk of loss that investors should be prepared to bear.

The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in one or more of the Mount Kellett Funds. These risk factors include

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<sup>1</sup> The description immediately below reflects the principal methods of analysis, investment strategies and risk of loss of the Mount Kellett Funds.

only those risks the Adviser believes to be material and relate to particular investment strategies employed by the Adviser. More detailed descriptions of risk factors are included in the applicable Mount Kellett Funds' offering documents.

### **General Investment-Related Risks**

#### *Illiquidity of Investments*

The Mount Kellett Funds will invest a significant amount of their capital in securities, loans or other assets for which no, or only a limited, market exists or that are subject to legal or other restrictions on transfer. The market prices, if any, for such assets tend to be volatile, and may fluctuate due to a variety of factors that are inherently difficult to predict, including, but not limited to, changes in interest rates, prevailing credit spreads, general economic conditions, financial market conditions, domestic or international economic or political events, developments or trends in any particular industry, and the financing condition of the obligors on the Mount Kellett Funds' assets. Accordingly, the Mount Kellett Funds may not be able to sell assets when the Mount Kellett Funds desire to do so or to realize what the Adviser or its affiliates perceives to be the fair value of their assets in the event of a sale. The sale of illiquid assets and restricted securities often requires more time and the incurrence of significant selling expense by the Mount Kellett Funds. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale. In addition, in times of extreme market disruption, there may be no market at all for one or more of the asset classes held by the Mount Kellett Funds, potentially resulting in the inability of the Mount Kellett Funds to dispose of their assets for an indefinite period of time.

#### *Investments in Undervalued Assets*

One of the primary objectives of the Mount Kellett Funds is to invest in undervalued assets. The identification of investment opportunities in undervalued assets is a difficult task that often requires complex analysis of potential investments and sophisticated evaluation of micro and macro level economic factors. There is no assurance that such investment opportunities will be successfully recognized or acquired. While investments in undervalued assets offer the opportunity for above-average capital appreciation, these investments involve a high degree of financial risk and can result in substantial losses. Returns generated from the Mount Kellett Funds' investments may not adequately compensate for the business and financial risks assumed. Investors in Mount Kellett Funds should be aware that they may lose all or part of their investment.

The Mount Kellett Funds may be forced to sell, at a substantial loss, assets which they believe are undervalued, if they are not in fact undervalued. In addition, the Mount Kellett Funds may be required to hold such assets for a substantial period of time before realizing their anticipated value. In addition, subject to the availability of credit, to the extent the Mount Kellett Funds finance such purchases with borrowed funds, they will have to pay interest on such funds during such waiting period.

#### *Investments in Highly Leveraged Companies*



The Mount Kellett Funds may invest in the securities or debt obligations of highly leveraged companies. There is a risk that such companies could default on their obligations which may result in losses to the Mount Kellett Funds as a result of such companies' inability to repay loans made by the Mount Kellett Funds or debt obligations of such companies held by the Mount Kellett Funds. Such default may result in such companies becoming subject to bankruptcy proceedings, liquidation or reorganization which may result in a complete or partial loss in value of the Mount Kellett Funds' investments in such securities or obligations. Additionally, to the extent the Mount Kellett Funds hold loans made to such companies or equity securities or debt obligations of such companies that are not adequately secured or which are junior in priority to debt obligations and loans made or held by other lenders, the Mount Kellett Funds may not be able to receive an attractive return on their investment or may lose all or a portion of the value of its investment in such companies. Because of loan covenants and other restrictions imposed on the operation of highly leveraged companies pursuant to the credit agreements that such companies enter into with their lenders, such companies may find it more difficult to, or may be restricted from, obtaining additional capital to fund investment activities and day-to-day operations. As a result, such companies may not perform as well as they would have had they had more conservative levels of debt.

#### *Use of Leverage*

To the extent certain Mount Kellett Funds are able to obtain credit, such Mount Kellett Funds may leverage their investments with non-recourse debt financing (subject to customary recourse carve-outs). The Mount Kellett Funds may also obtain recourse debt financing collateralized by the Mount Kellett Funds' assets or by undrawn capital commitments (including through the use of a subscription line of credit). Although the use of leverage may enhance returns and increase the number of investments that can be made, it may also substantially increase the risk of loss. There can be no assurance that the Mount Kellett Funds will be able to obtain credit or obtain credit on terms available to their competitors, or that indebtedness will be accessible by the Mount Kellett Funds at any time, and to the extent that it is available there can be no assurance that such indebtedness will be on terms favorable to the Mount Kellett Funds, including with respect to interest rates. The failure by the Mount Kellett Funds to obtain indebtedness on favorable terms (or at all) could adversely affect the Mount Kellett Funds' investment results.

#### *Dependence Upon Key Management*

The success of the Mount Kellett Funds depends on the ability of Mark McGoldrick and the other senior members of the Adviser's investment team to successfully implement the Mount Kellett Funds' investment objectives. In particular, if the Mount Kellett Funds were to lose the services of Mark McGoldrick, the consequences to the applicable Mount Kellett Funds would be material and adverse and could lead to the premature termination of such Mount Kellett Funds.

#### *Distressed Assets*

The Mount Kellett Funds may invest a portion of their assets in distressed assets and portfolios of distressed assets, including non-investment grade obligations of U.S. and non-U.S. companies (including companies in significant financial or business difficulties). Although such

investments may result in significant returns to the Mount Kellett Funds, they involve a substantial degree of risk. Any one or all of the issuers of such securities and instruments may be unsuccessful or not show any return for a considerable period of time. An economic downturn or a period of rising interest rates, for example, could cause a decline in the prices of such securities and instruments. The level of analytical sophistication, both financial and legal, necessary for successful investment in distressed assets is unusually high.

There is no assurance that the Adviser or its affiliates will correctly evaluate the value of the collateral (if any) in the loans and/or securities purchased by the Mount Kellett Funds or the prospects for a successful reorganization, turnaround, restructuring or similar action. In any reorganization or liquidation proceeding relating to a company in which a Mount Kellett Fund invests, such Mount Kellett Fund may lose its entire investment, may be required to accept cash or securities with a value less than that Mount Kellett Funds' original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from that Mount Kellett Funds' investments may not provide adequate compensation for the risks assumed.

Investments in securities and in financial instruments and other obligations issued by distressed companies require active monitoring and will often require participation in business strategy or reorganization proceedings by the Mount Kellett Funds and their representatives, including the Adviser. To the extent that the Mount Kellett Funds and its representatives become involved in such proceedings, the Mount Kellett Funds may have a more active participation in the affairs of the company than it would otherwise have. In addition, involvement by the Adviser and its representatives in an issuer's reorganization proceedings could result in the imposition of restrictions limiting the Mount Kellett Funds' ability to liquidate their position in the issuer for a certain period of time under applicable insolvency or securities laws.

In addition, each of the Mount Kellett Funds may invest a portion of its assets in distressed assets and portfolios of distressed assets of Asian companies, including, but not limited to, assets and portfolios located in China, Korea, Japan, Taiwan, India and Southeast Asia. The Mount Kellett Funds may also invest a portion of their assets in distressed assets and portfolios of distressed assets outside of North America, Europe and Asia. Laws governing creditors' rights and bankruptcy process in certain of these countries are significantly less developed than in countries which are not members of the Organization for Economic Co-operation and Development ("OECD"), untested and continue to evolve, at times in an uncertain manner. Further, governments in these countries generally play a more direct role in the economies of these countries than is the case in OECD countries. As a result, laws regarding creditors' rights and the bankruptcy process may be preempted by government action, changes in government policies or new laws and regulations. Accordingly, the Mount Kellett Funds may experience difficulty and uncertainty in protecting and enforcing its rights with respect to distressed investments in these countries. In addition, there is a greater chance of government interference in these jurisdictions.

#### *Real Estate*

Real estate values may be affected by a number of factors, including, but not limited to, changes in national or international economic climate, adverse local and regional market conditions (such as an oversupply of space or a reduction in demand for space), the quality and philosophy of

management, competition based on rental rates, attractiveness and location of the properties, financial conditions of tenants, buyers and sellers of properties, quality of maintenance, insurance and management services, changes in operating costs and changes in interest rates. Such real estate values are also affected by such factors as government regulations, environmental laws and regulations, changes in property taxes, changes in the tax laws, zoning requirements, interest rate levels, the availability of financing and potential liability under changing environmental and other laws, uninsurable losses, acts of God and other factors beyond the control of the Mount Kellett Funds.

Other risks incident to investments in companies engaged in real estate activities, including direct real estate investments and investments in mortgages, generally, include (i) risks associated with the ownership, acquisition, development, construction and operation of real estate properties, the risk of uninsured losses, the risk of damage or destruction of property from terrorist activities, the ability of the owner to provide adequate management, maintenance and insurance, the expenses of periodically renovating, repairing and reletting spaces, and increasing operating costs (including mortgage payments, real estate taxes, insurance, maintenance costs and utilities) that may not be passed through to tenants; (ii) risks of owning properties through joint ventures or partnerships, which may render a portfolio company, or the relevant Mount Kellett Fund, as applicable, unable to exercise sole decision-making authority and subject the portfolio company, or the Mount Kellett Fund, as applicable, to the risk that a joint venturer or partner will act in a manner contrary to the best interests of the underlying portfolio company, or the Mount Kellett Fund, as applicable; (iii) general real estate investment considerations, such as the need to relet space upon the expiration of current leases, dependence on major tenants and the possibility of tenant defaults, the ability of a property to generate revenue sufficient to meet debt service payments and other operating expenses, periodic excessive real estate development and the illiquidity of real estate investments; (iv) borrowing risks, such as the possibility that: (a) an underlying portfolio company will incur excessive debt obligations and not have sufficient funds available to make principal payments as they come due; (b) indebtedness might be required to be refinanced at higher interest rates or otherwise on terms less favorable than existing indebtedness; (c) a portfolio company's properties may be foreclosed upon if it is unable to make required mortgage payments; and (d) interest rates will increase, which, in the case of variable rate indebtedness, could adversely affect the ability of a portfolio company to make distributions to shareholders; and (v) relative illiquidity of real estate investments which will tend to limit the ability of a portfolio company to vary its holdings promptly in response to changes in local economic or other conditions will be terminated by the entity controlling the property or in connection with the sale of such property, that contracts may not be renewed upon expiration or may not be renewed on terms consistent with current terms, and that the rental revenues upon which management fees are based will decline as a result of general real estate market conditions or specific market factors. Additionally, all real estate and real estate-related investments are subject to the risks that: (a) a general downturn in the regional or local economy will depress real estate prices, and (b) changes in interest rates may adversely affect the value of real estate and real estate securities.

The real estate securities in which the Mount Kellett Funds may invest are potentially subject to the impact of leverage at both the property and entity levels. Many real estate companies have outstanding indebtedness at the corporate or entity level, such as secured and/or unsecured notes

and bonds and preferred stock. These various types of leverage may serve to amplify gain or loss, much like the Mount Kellett Funds' own possible use of leverage.

The Mount Kellett Funds may be unsuccessful in structuring their investments to minimize any detrimental impact that a recession may have on its investments and as a result such Mount Kellett Fund may suffer significant losses.

#### *Real Estate Markets in the U.S. and certain other OECD Countries*

The markets in the United States and certain other OECD countries have experienced declines in real estate values in recent years. The decline in real estate values has been coupled with an increase in unemployment rates which has led to a reduction in demand for new homes and other real estate assets. There is a risk that high unemployment rates could continue or that structural unemployment could rise, both of which would have a further adverse effect on real estate values. Delinquencies and losses with respect to mortgage loans have increased, and may continue to increase. In addition, housing prices and appraisal values in the United States and certain other OECD countries declined, after extended periods of significant appreciation. A decline or an extended flattening of those values is likely to result in additional increases in delinquencies and losses on residential mortgage loans.

#### ***Credit Investments***

##### *High Yield Debt*

The Mount Kellett Funds may invest a portion of their assets in debt, including, without limitation, "higher yielding" (and, therefore, generally higher risk) debt securities, when the Adviser believes that debt securities offer opportunities for capital appreciation. In most cases, such debt will be rated below "investment grade" or will be unrated and face ongoing uncertainties and exposure to adverse business, financial or economic conditions and the issuer's failure to make timely interest and principal payments. The market for high-yield securities has experienced periods of volatility and reduced liquidity. The market values of certain of these debt securities may reflect individual corporate developments. It is likely that a general economic recession or a major decline in the demand for products and services provided by the obligor could have a materially adverse impact on the value of such securities. In addition, adverse publicity and investor perceptions, whether or not based on fundamental analysis, may also decrease the value and liquidity of these debt securities.

##### *Mezzanine Loans*

The investment portfolios of the Mount Kellett Funds may include mezzanine loans. A mezzanine loan is a privately negotiated, high yield and often unsecured subordinated debt obligation of an issuer that is unrated or rated below investment grade, the payments on which obligation often contain a form of equity participation in the issuer. Mezzanine loans typically have greater credit and liquidity risk than loans and are typically less liquid than high-yield bonds. A mezzanine loan may not have any public rating from a rating agency, nor will it have been registered with any securities regulator. Mezzanine finance generally comprises a secured loan which is subordinated in terms of priority of repayment and security behind the senior debt

and therefore has a higher risk profile than senior debt. Because of the greater risk, mezzanine lenders may be granted options or warrants to acquire equity securities in the borrower that can be exercised in certain circumstances, principally being immediately prior to the sale of the borrower or an initial public offering of its equity securities. Many of the mezzanine loans purchased by the Mount Kellett Funds will have no, or only a limited, trading market. In general, there is a very limited secondary market for mezzanine loans. Illiquidity in the market for mezzanine loans may restrict the Mount Kellett Funds' ability to dispose of investments in a timely fashion and for a fair price. Mezzanine loans may become non-performing for a variety of reasons. Such non-performing mezzanine loans may require substantial workout negotiations or restructuring that may entail, among other things, a substantial reduction in the interest rate, a substantial write down of the principal of the loan and/or the deferral of payments. In addition, the Mount Kellett Funds may incur additional expenses to the extent they are required to seek recovery upon a default on a mezzanine loan or participate in the restructuring of such obligation. Although the Adviser or its affiliates may exercise voting rights with respect to an individual mezzanine loan on behalf of the Mount Kellett Funds, there can be no certainty that the Adviser or its affiliates will be able to exercise votes in respect of a sufficient percentage of voting rights with respect to such mezzanine loan to determine the outcome of such vote.

Investments in mezzanine loans where the underlying assets are non-income producing properties, including properties under development and undeveloped land, tend to have a higher risk of nonpayment than fully-developed real estate assets as a result of the potential failure of any anticipated development project. In the event of any such failure, the loan may go into default, which could result in losses and adversely impact the Mount Kellett Funds' investment returns.

Issuers of mezzanine loans are likely to be highly leveraged and typically do not have available to them more traditional methods of financing. The risk associated with acquiring the securities of such issuers generally is greater than is the case with investment grade securities of corporate issuers. The prices of mezzanine loans are likely to be more sensitive to adverse economic changes or individual corporate developments than investment grade securities of corporate issuers. For example, during an economic downturn or a sustained period of rising interest rates, issuers of mezzanine loans may be more likely to experience financial stress, especially if such issuers are highly leveraged. During such periods, timely service of debt obligations may also be adversely affected by specific issuer developments, the issuer's inability to meet specific projected business forecasts or the unavailability of additional financing. The risk of loss due to default by the issuer is significantly greater for the holders of mezzanine loans because such securities often are unsecured and subordinated to other creditors of the issuer of such securities. In addition, due to the subordinated nature of the mezzanine loans, the Mount Kellett Funds' rights under, and its recovery on, the mezzanine loan may be severely limited if the issuer of the mezzanine loan becomes the subject of bankruptcy or insolvency proceedings. Furthermore, the issuer may incur additional expenses to the extent it is required to bring litigation in order to seek recovery upon a default on a mezzanine loan or participate in the restructuring of such obligation.

### *Secured Loans*

Certain loans held by the Mount Kellett Funds will be secured. While secured loans originated or purchased by the Mount Kellett Funds may be structured to be over-collateralized, the Mount Kellett Funds may be exposed to losses resulting from default and foreclosure. Therefore, the value of the underlying collateral, the creditworthiness of the borrower and the priority of the lien are each of great importance. The Mount Kellett Funds cannot guarantee the adequacy of the protection of the Mount Kellett Funds' interests, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, the Mount Kellett Funds cannot assure that claims may not be asserted that might interfere with enforcement of the Mount Kellett Funds' rights. In the event of a foreclosure, the Mount Kellett Funds may assume direct ownership of the underlying asset. The liquidation proceeds upon sale of such asset may not satisfy the entire outstanding balance of principal and interest on the loan, resulting in losses to the Mount Kellett Funds. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss.

### *Lower Credit Quality Loans*

There are no restrictions on the credit quality of the loans that may be held in the Mount Kellett Funds' portfolios. Loans arranged or purchased by the Mount Kellett Funds may be deemed to have substantial vulnerability to default in payment of interest and/or principal. Certain of the loans which the Mount Kellett Funds may acquire have large uncertainties or major risk exposures to adverse conditions, and may be considered to be predominantly speculative. Generally, such loans offer a higher return potential than higher quality loans, but involve greater volatility of price and greater risk of loss of income and principal. The market values of certain of these loans also tend to be more sensitive to changes in economic conditions than better quality loans.

### *Investments in Large Portfolios*

The Mount Kellett Funds may invest in large portfolios of related assets. Such investments may consist of large numbers of individual assets and will often require highly sophisticated and detailed due diligence as well as complex analysis by the Adviser to evaluate whether such investments will be suitable for the Mount Kellett Funds. Because of the amount of capital required to make investments in large portfolios and/or the lack of availability of financing for such investments, such investments may require that the Mount Kellett Funds participate in joint ventures or consortia formed for the purpose of acquiring such portfolios. Investments through joint ventures and such consortia are subject to reliance on and disagreements between joint venture partners and consortium members regarding investment decisions which may impact the Mount Kellett Funds' ability to exit from such investments. Larger portfolios in which the Mount Kellett Funds invest may often require loan servicing. In such circumstances, the profitability of a Mount Kellett Fund's investment in a large portfolio will be in part dependent on the success of third-party servicers and special servicers in collecting payments from sub-performing or non-performing assets in such portfolio.

### *Borrower Fraud*

Of paramount concern in investing in loans and other debt instruments is the possibility of fraud, material misrepresentation or omission on the part of the borrower or the lack of adequate documentation or any documentation regarding such loans and debt obligations. Such occurrences may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of the Mount Kellett Funds to perfect or effectuate a lien on the collateral securing the loan. The Mount Kellett Funds will rely upon the accuracy and completeness of representations made by borrowers and lenders to the extent reasonable, but cannot guarantee such accuracy or completeness or the adequacy or existence of required documentation. Under certain circumstances, payments to the Mount Kellett Funds may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

### *Alternative Investment Vehicles*

The Adviser or its affiliates may form one or more alternative investment vehicles which could be real estate investment trusts ("REITs"), partnerships, limited liability companies and/or corporations to hold certain investments. Investments made through such entities are subject to the risk that any such REIT or partnership, for example, may fail to satisfy the requirements to qualify as a REIT or partnership, as the case may be, in any given taxable year. In the case of a REIT, such failure could subject such entity to taxation as a corporation and may render it ineligible to elect REIT status for a period of time. In the case of a partnership, failure to be treated as a partnership for Federal income tax purposes could also subject such partnership to an entity-level tax.

### *Private Equity Investments*

Certain Mount Kellett Funds may acquire controlling or minority equity stakes in privately held companies. The success of such Mount Kellett Funds' investments in privately held companies that it controls will depend in part on the Adviser's ability to develop plans and strategies to exploit new business opportunities for such companies as well as the Adviser's ability to restructure and effect improvements in the operations of such companies. The activity of developing such plans and strategies and of identifying and implementing operational improvements at portfolio companies entails a high degree of uncertainty. There can be no assurance that such Mount Kellett Funds will be able to successfully identify and implement such plans, strategies or improvements.

The success of such Mount Kellett Funds' investments in minority equity stakes of privately held companies will depend in part on the performance and abilities of such companies' controlling shareholders. Because such Mount Kellett Funds will not control such companies, the Mount Kellett Funds' ability to exit from such investments may be limited. Additionally, such Mount Kellett Funds are likely to have a reduced ability to influence management of such companies. The Adviser may also have disagreements with controlling shareholders over the strategy and operations of such companies. As a result of the foregoing, such Mount Kellett Funds' equity investments in such companies may perform poorly.

## **Equity and Equity Related Securities**

### *General*

The Mount Kellett Funds will invest in equity securities. The value of these securities generally will vary with the performance of the issuer and movements in the equity markets. As a result, the Mount Kellett Funds may suffer losses if they invest in equity securities of issuers whose performance diverges from the Adviser's expectations or if equity markets generally move in a single direction and the Mount Kellett Funds have not hedged against such a general move.

### *Derivative Instruments*

The Mount Kellett Funds may invest in derivative instruments, which may include options, swaps, structured securities and other instruments and contracts that are derived from, or the value of which is related to, one or more underlying securities, financial benchmarks, currencies or indices. Derivatives typically allow an investor to hedge or speculate on the price movements of a particular security, financial benchmark, currency, index or commodity at a fraction of the cost of investing in the underlying asset. There is no assurance that derivatives the Mount Kellett Funds may wish to acquire will be available at any particular time, on satisfactory terms or at all. The prices of many derivative instruments, including many options and swaps, are highly volatile.

The value of a derivative depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives of such asset. However, there are a number of other risks associated with derivatives trading. For example, because many derivatives are "leveraged," and thus provide significantly more market exposure than the money paid or deposited when the transaction is entered into, a relatively small adverse market movement can not only result in the loss of the entire investment, but also may expose the Mount Kellett Funds to the possibility of a loss exceeding the original amount invested. In addition, the identity of counterparties to derivative transactions entered into by the Mount Kellett Funds are not always readily ascertainable or, if known, may change without the knowledge of the Adviser or its affiliates. Derivative contracts may expose the Mount Kellett Funds to the credit risk of the parties with which the Mount Kellett Funds deal. Non-performance of such contracts by counterparties, for financial or other reasons, could expose the Mount Kellett Funds to losses, whether or not the transaction itself was profitable. Derivatives may also expose investors to liquidity risk, as there may not be a liquid market within which to close or dispose of outstanding derivatives contracts.

### *Global Investments*

The Mount Kellett Funds expect to invest a significant portion of their net assets in the debt, loans, equity securities and other financial instruments issued by issuers located in countries outside the OECD. In addition to business uncertainties, such investments may be affected by political, social and economic uncertainty affecting a country or region. Many financial markets outside the OECD are not as developed or as efficient as those in OECD countries, and as a result, liquidity may be reduced and price volatility may be higher. The legal and regulatory environment may also be different, particularly as to bankruptcy and reorganization. Financial



accounting standards and practices may differ, and there may be less publicly available information in respect of such companies. Investments in non-U.S. securities and other investments involve risks relating to currency exchange matters, including fluctuations in the rate of exchange between the U.S. dollar (the currency in which the books of the Mount Kellett Funds are maintained) and the various foreign currencies in which the Mount Kellett Funds' investments will be denominated and costs associated with conversion of investment principal and income from one currency into another.

The Mount Kellett Funds may be subject to additional risks which include possible adverse political and economic developments, possible seizure or nationalization of deposits and possible adoption of governmental restrictions which might adversely affect payments to investors located outside the country of the issuer, whether from currency blockage or otherwise. Investments made by the Mount Kellett Funds outside the U.S. may also subject the Mount Kellett Funds to the risk that they may be subject to penalties under the Foreign Corruption Practices Act as a result of the conduct of agents, consultants, finders, joint venture partners or companies in which the Mount Kellett Funds invest. Furthermore, the acquisition and sale of certain investments may be subject to brokerage taxes and duties levied by governments, which has the effect of increasing the cost of such investment and reducing the realized gain or increasing the realized loss on such investments at the time of sale. Income received by the Mount Kellett Funds from sources within some countries may be reduced by withholding and other taxes imposed by such countries. Any such taxes paid by the Mount Kellett Funds will reduce its net income or return from such investments. While the Adviser or its affiliates will take these factors into consideration in making investment decisions for the Mount Kellett Funds, no assurance can be given that the Mount Kellett Funds will be able to fully avoid these risks.

#### *Investments in Asia*

The Mount Kellett Funds intend to invest a significant portion of their assets in Asian countries. Laws and regulations of such countries may impose restrictions that would not exist in the OECD countries. In addition, governments of such countries from time to time impose restrictions intended to prevent capital flight, which may, for example, involve punitive taxation (including high withholding taxes) on certain securities transfers or the imposition of exchange controls making it difficult or impossible to exchange or repatriate foreign currency. These and other restrictions may make it impracticable for the Mount Kellett Funds to distribute the amounts realized from such investments at all or may force the Mount Kellett Funds to distribute such amounts other than in U.S. dollars, and therefore a portion of such distributions may be made in foreign securities or currencies.

#### *European Investments*

The issuers of some of the securities or other instruments which the Mount Kellett Funds may purchase may be companies or trusts located within the European Union. Investing in the securities or other instruments issued by such companies involves certain considerations, including political and economic considerations, such as risks of increased government regulation; contradictory national and EU regulatory regimes; fluctuations in the rate of

exchange between currencies and costs associated with currency conversion; and certain government policies that may restrict the Mount Kellett Funds' investment opportunities.

With respect to certain European countries, there is a possibility of imposition of withholding or other taxes on dividends, interest, capital gains or other income. An issuer of securities may be domiciled in a country other than the country in whose currency the instrument is denominated. The values and relative yields of investments in the securities markets of different countries, and their associated risks, are expected to change independently of each other.

Certain European countries, including Greece, Ireland, Italy, Portugal and Spain, are currently experiencing varying degrees of financial distress. Risks from the debt crisis in Europe could result in a disruption of the financial markets, which could have a detrimental impact on global economic conditions. Credit spreads have widened further in European peripheral countries and European banks. There remains considerable uncertainty as to future developments in the European debt crisis and the impact on global financial markets. A further significant deterioration of European credit markets could result in material reductions in the value of sovereign debt and other asset classes, disruptions in capital markets, widening of credit spreads, loss of investor confidence in the financial services industry, a slowdown in global economic activity, and other adverse developments that could negatively impact the performance of the Mount Kellett Funds. Furthermore, there is continued concern about national-level support for the Euro and the accompanying coordination of fiscal and wage policy among Euro-zone countries. In the event that there is a breakup of the Euro, there could be adverse economic consequences relating to, among other things, a decoupling of the unprecedented integration of the euro-zone financial system and the extensive cross-border holdings of assets by financial institution and subsequent fluctuations in newly-reinstated local currencies. Such a return to unfavorable economic conditions may result in a material adverse effect on any investments made by the Mount Kellett Funds.

#### *Currency Exchange Exposure and Currency Hedging*

The Mount Kellett Funds' assets generally will be denominated in the currency of the jurisdiction in which the assets are located. Consequently, the return realized on any investment whose functional currency is not the currency of the jurisdiction in which the assets are located may be adversely affected by movements in currency exchange rates, in addition to the performance of the investment itself. Furthermore, the Mount Kellett Funds may incur costs in connection with conversions between various currencies. Currency exchange dealers realize a profit based on the difference between the prices at which they are buying and selling various currencies. Thus, a currency exchange dealer normally will offer to sell currency to the Mount Kellett Funds at one rate, while offering a lesser rate of exchange should the Mount Kellett Funds desire immediately to resell that currency to the currency exchange dealer. The Mount Kellett Funds will conduct their currency exchange transactions either on a spot (i.e., cash) basis at the spot rate prevailing in the currency exchange market or through entering into forward or options contracts to purchase or sell currencies. A significant portion of the Mount Kellett Funds' investments may not be in assets denominated in U.S. dollars. There is a risk that such currencies could depreciate significantly leading potentially to material adverse consequences for the applicable non-U.S. market (and therefore for investments made by the Mount Kellett Funds). Due to current market

conditions, including conditions in the credit markets, as well as current levels of U.S. government and consumer savings and debt, there is a risk that the U.S. dollar could depreciate significantly leading potentially to material adverse economic consequences for the U.S. economy (and therefore for the Mount Kellett Funds' investments). In addition, governments from time to time intervene, directly and/or by regulation, in the currency markets, with the specific effect, or intention, of influencing prices which may, together with other factors, cause all of such markets to move rapidly in the same direction. The effect of such intervention is often heightened by a group of governments acting in concert.

Foreign exchange transactions (including conversion and repatriation) by the Mount Kellett Funds may be subject to significant foreign exchange controls and may require the approval of, or registration with the local administration of, foreign exchange. There is no assurance that such approval or registration necessary for the conversion into U.S. dollars or other currencies and repatriation of such funds will be readily obtained.

#### *Political/Sovereign Risk*

The Mount Kellett Funds will invest a significant portion of their assets in investments located in North America, Western Europe, Australia, New Zealand and other OECD countries and may also invest of significant portion of their assets outside of the aforementioned countries (such markets, "Emerging Markets"). The economies of Emerging Markets may differ favorably or unfavorably from those of OECD countries in such respects as growth of gross domestic product, rate of inflation, currency depreciation or appreciation, capital reinvestment, resource self-sufficiency and balance of payments position. Governments of many Emerging Markets have exercised and continue to exercise substantial influence over many aspects of the private sector. In some cases, the government owns or controls many companies, including some of the largest companies in such countries. Accordingly, government actions could have a significant effect on economic and market conditions in a Emerging Market. In light of the Euro-zone sovereign debt crisis, there is also a significantly increased chance of government actions at the European Union and national (i.e., individual European countries) levels which could also have an impact on economic or market conditions within and without the Euro-zone. Moreover, the economies of Emerging Markets generally are heavily dependent upon international trade and, accordingly, have been and may continue to be adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. There is also an increased possibility of similar measures being imposed by the European Union and governments of Euro-zone countries. These economies also have been and may continue to be adversely affected by economic conditions in the countries with which they trade. With respect to Emerging Markets, there is the possibility of nationalization, expropriation or confiscatory taxation, political changes, government regulation, economic or social instability, diplomatic developments (including war) or terrorism which could affect adversely the economies of such countries or the value of the Mount Kellett Funds' investments in such countries.

In addition, the inter-relatedness of the economies of certain Emerging Markets has deepened over the years, with the effect that economic difficulties in one country often spread to other Emerging Markets. No assurance can be given that the Mount Kellett Funds' investments will

not be adversely affected by effects in countries outside of where investments are located. In particular, Emerging Markets may be significantly affected by economic conditions in OECD countries, including the U.S., which are major export markets for Emerging Markets.

In addition, the continued uncertainty over the Euro currency, the sovereign debt crisis in European countries such as Greece, Portugal, Italy, Spain and Ireland and the possibility that other European Union members may experience similar financial troubles could further disrupt global markets. In particular, equity and fixed income markets could continue to be disrupted and result in volatile bond yields on the sovereign debt of European Union members. The issues arising out of the current sovereign debt crisis may transcend Europe, cause investors to lose confidence in the safety and soundness of European financial institutions and the stability of European member economies, and likewise affect the Mount Kellett Funds and other financial institutions, the stability of the global financial markets and any economic recovery.

### ***Certain Industries***

#### ***Natural Resource Investments***

The Mount Kellett Funds may invest in natural resources, the rights to such assets, such as metals, hydrocarbons, timber, water and mineral resources and related operating companies, including companies engaged in the exploration, production and distribution of oil, gas and other natural resources. The development, production, transportation, and marketing of natural resources are subject to many risks and an investment that depends upon the continued and long-term success of these activities is inherently uncertain. Investments in such sectors may be affected by a number of factors not present with other investments, including, without limitation, uncertainty concerning the quality and size of the natural resource, uncertainty as to the cost of developing or producing the resource, local and global commodity price fluctuations, government regulation, environmental issues, shifts in supply and demand for such resources, land use and title issues, import and export duties and other trade issues, changing macroeconomic conditions, changes in fuel and other input prices and labor issues.

The costs associated with the exploration, development, production, transportation and marketing of energy-related resources, such as hydrocarbons, are subject to many risks and an investment that depends upon the continued and long-term success of these activities is inherently uncertain. Many energy-related resources are also subject to governmental regulations that can change over time. The natural resources industry can be significantly affected by events relating to international political developments, energy and resource conservation, the success of exploration projects, commodity prices, and tax and government regulations, as well as extraordinary events, such as the British Petroleum oil spill in the Gulf of Mexico.

#### ***Investments in Technology Industries***

The Mount Kellett Funds may invest in companies that operate in various technology industries. The technology sector is challenged by various factors, including rapidly changing market conditions and participants, new competing products and services and improvements in existing products and services. There is no assurance that products or services sold by companies in

which the Mount Kellett Funds invest will not be rendered obsolete or adversely affected by competing products and services or other challenges. Instability, fluctuation or an overall decline within technology industries may not be balanced by investments in other industries not so affected. In the event that the technology sector declines, returns may decrease.

### *Intellectual Property*

The Mount Kellett Funds may invest in intellectual property rights, such as patents, copyrights and trademarks, including those pertaining to pharmaceutical products, and franchise rights. Investments in intellectual property related assets involve a high degree of business, financial, technological, regulatory and litigation risk which can result in substantial losses. Some of these risks relate to the assets themselves, although many of the risks relate to the products utilizing these assets and to the companies that manufacture or market these products. The acquisition prices at which the Mount Kellett Funds acquire such assets will often be based, in part, on sales projections with respect to the related products, which projections may prove to be inaccurate. There is a risk that the related product will not obtain all governmental approvals or, if obtained, may be revoked due to previously unknown or undisclosed side-effects or complications. Additionally, government policies and regulations applicable to intellectual property rights may change in ways that adversely affect the duration and/or scope of the intellectual property protections.

The Mount Kellett Funds may invest in intellectual property rights or companies who own intellectual property rights that are governed by non-OECD jurisdictions. Non-OECD jurisdictions may provide significantly less protection than the United States because (i) the non-OECD jurisdictions may not have intellectual property laws, (ii) the non-OECD jurisdictions may have laws which are inadequate to protect the intellectual property rights, or (iii) the foreign intellectual property laws may not be vigorously enforced. There is also the risk that a company may not apply for protection in all of the non-OECD jurisdictions that it does business.

### *Investments in the Life Sciences Sector*

Investments in pharmaceutical and other health care related assets involve a high degree of business, financial, technological and regulatory risk which can result in substantial losses. Some of these risks relate to the assets themselves, although many of the risks relate to the products underlying these assets and to the companies that manufacture or market these products. These risks include, without limitation, risks associated with investing in an early-stage company, risks of obtaining governmental approvals or changes in government policy, litigation risks or the risks of new entrants into the markets in which such companies compete.

### *Regulatory Constraints*

The operation of the Mount Kellett Funds and the tax consequences of an investment in the Mount Kellett Funds are substantially affected by legal requirements, including those imposed by tax laws and related regulations. In addition, no assurance can be given that future legislation, administrative rulings or court decisions will not adversely affect the operation of the Mount Kellett Funds or an investment in a Mount Kellett Fund.

## *Taxation*

With respect to certain countries, there is a possibility of expropriation, confiscatory taxation, imposition of withholding or other taxes, duties or levies on dividends, interest, capital gains gross sale or disposition proceeds or other income, limitations on the removal of funds or other assets of the Mount Kellett Funds, political or social instability or diplomatic developments that could affect investments in those countries. An issuer of securities may be domiciled in a country other than the country in whose currency the instrument is denominated. The values and relative yields of investments in the securities markets of different countries, and their associated risks, are expected to change independently of each other.

## **ITEM 9**

### **DISCIPLINARY INFORMATION**

The Adviser does not believe that there are any legal or disciplinary events that are material to a client's or prospective client's evaluation of the Adviser's advisory business or the integrity of the Adviser's management.

## **ITEM 10**

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

The Adviser and its management persons are not registered as broker-dealers and do not have any application pending to register with the SEC as a broker-dealer or registered representative of a broker-dealer.

The Adviser and its management persons are not registered as, and do not have any application to register as, a futures commission merchant, commodity pool operator, commodity trading advisor, or an associated person of the foregoing entities.

The Adviser, its affiliates and its personnel may take action or give advice with respect to certain Mount Kellett Funds that differs from the advice given to other Mount Kellett Funds. The Adviser, its affiliates and its personnel will devote as much of their time to the activities of each Mount Kellett Fund as they deem necessary and appropriate and the amount of time devoted to different Mount Kellett Funds may vary. The Adviser, its affiliates and its personnel will allocate investment opportunities among the Mount Kellett Funds on an equitable basis in their good faith discretion, based on the applicable investment guidelines of the Mount Kellett Funds, available capital, anticipated duration of the investment, likelihood of current income, portfolio diversification requirements, liquidity requirements and other factors that the Adviser, its affiliates and its personnel deems appropriate. As investment adviser to the Mount Kellett Funds, the Adviser owes a fiduciary duty to all Mount Kellett Funds and in instances where the investment objectives of such vehicles overlap, the Adviser may have a conflict in allocating investment opportunities among all such vehicles or accounts as well as a conflict in adequately allocating its resources (and the time commitments of its investment team and senior management) among the various Mount Kellett Funds.

The Mount Kellett Funds may at times participate in certain investment opportunities alongside pooled investment vehicles sponsored or managed by unaffiliated third parties. Certain partners and employees of the Adviser may have investments in such pooled investment vehicles and any such investments shall be approved by the Adviser on a case-by-case basis. There is a potential conflict of interest between the interests of such partners or employees in the Mount Kellett Funds on the one hand and the interests of such partners or employees in such pooled investment vehicles on the other hand. The Adviser believes that in instances in which the Mount Kellett Funds participate in an investment opportunity alongside any such pooled investment vehicle, because the interests of the Mount Kellett Funds and such pooled investment vehicle will be aligned with respect to such investment opportunity, the interests of such partners or employees of the Mount Kellett Funds and their interests in such pooled investment vehicle should be substantially aligned, thereby mitigating any potential conflict of interest.

The Mount Kellett Funds may also be charged asset-based (e.g., asset management fees) or performance-based compensation by third parties engaged in the sourcing, monitoring and sale of specific investments by the Mount Kellett Funds. Such third parties may also co-invest alongside the Mount Kellett Funds. Specific investments will be subject to the approval of the Adviser. The Adviser will typically enter into these types of arrangements for purposes of obtaining deal flow and otherwise accessing the expertise of third party investment or management terms and joint venture partners.

## **ITEM 11**

### **CODE OF ETHICS, PARTICIPATION IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

The Adviser has adopted a Code of Ethics (the "Code"). The Code incorporates the following general principles that all employees are expected to uphold: employees must at all times place the interests of clients first; all personal securities transactions must be conducted in a manner consistent with the Code and any actual or potential conflicts of interest or any abuse of an employee's position of trust and responsibility must be avoided; employees must not take any inappropriate advantage of their positions; information concerning the identity of securities and financial circumstances of the Mount Kellett Funds, including the Mount Kellett Funds' investors, must be kept confidential; and independence in the investment decision-making process must be maintained at all times. The Code also places restrictions on personal trades by employees, including that they disclose their personal securities holdings and transactions to the Adviser on a periodic basis, mandatory holding periods and requires, with limited exceptions, that employees pre-clear personal securities transactions.

Clients and prospective clients may request a copy of the Code by contacting the Adviser at the address or telephone number listed on the first page of this document.

Subject to applicable restrictions under the Adviser's written policies and procedures, the Adviser may in the future effect rebalancing or internal cross transactions between the Mount Kellett Funds. In such cases, one Mount Kellett Fund will purchase securities held by

another Mount Kellett Fund. The Adviser will endeavor to effect these transactions based on a fair, current independent market price and consistent with valuation procedures established by the Adviser, or if specified in the applicable Fund Documents, on a cost plus interest factor basis. Neither the Adviser nor any related party will receive any compensation in connection with these rebalancing transactions. When effecting cross transactions between Mount Kellett Funds, the Adviser and its personnel may have cross ownership interests and will potentially have conflicting division of loyalties and responsibilities. To the extent that such transactions may be viewed as principal transactions due to the ownership interest in the Mount Kellett Fund by the Adviser or its personnel, the Adviser will comply with the requirements of Section 206(3) of the Investment Advisers Act of 1940 (the "Advisers Act"), including that any such transactions will be considered on behalf of investors and approved or disapproved by (i) an advisory board comprised of representatives of investors in the Mount Kellett Funds or (ii) a committee consisting of one or more persons selected by the Adviser (or its affiliate), and any valuation approved by such a committee will be determined by an independent third-party that has appropriate experience in providing such valuations.

The Adviser, its affiliates and its employees may invest on behalf of themselves in securities and other instruments that would be appropriate for, held by, or may fall within the investment guidelines of the Mount Kellett Funds. The Adviser, its affiliates and its employees may give advice or take action for their own accounts that may differ from, conflict with or be adverse to advice given or action taken for the Mount Kellett Funds. These activities may adversely affect the prices and availability of other securities or instruments held by or potentially considered for one or more Mount Kellett Funds. Potential conflicts also may arise due to the fact that the Adviser and its personnel may have investments in some Mount Kellett Funds but not in others different levels of investments in the various Mount Kellett Funds. The Adviser has established policies and procedures to monitor and resolve conflicts with respect to investment opportunities in a manner it deems fair and equitable, including the restrictions placed on personal trading in the Code, as described above. In addition, the certain Mount Kellett Funds have established advisory boards comprised of representatives of their respective funds.

## **ITEM 12**

### **BROKERAGE PRACTICES**

The Adviser will use various brokers and dealers to execute, settle and clear securities transactions for the Mount Kellett Funds. Subject to best execution, in selecting brokers (including a prime broker) to execute transactions, provide financing and securities on loan, hold cash and short balances and provide other services the Adviser may consider, among other things, the ability of the brokers and dealers to effect the transaction in an accurate and timely manner, including clearance and error/dispute resolution, their reputation, financial strength and stability, block trading and block positioning capabilities, willingness to execute difficult transactions, willingness and ability to commit capital, ability to provide access to underwritten offerings and secondary markets, ongoing reliability, the overall costs of a trade



(i.e., net price paid or received) including commissions, mark-ups, mark-downs or spreads in the context of the Firm's knowledge of negotiated commission rates currently available and other current transaction costs, the nature of the security and the available market makers, the desired timing of the transaction and size of trade, their ability to keep confidential the Firm's trading activity on behalf of the Mount Kellett Funds, and the ability to provide market intelligence regarding trading activity of other participants, the brokerage or research services they can provide, and capital introduction services and other marketing assistance.

Accordingly, the commission rates (or dealer markups and markdowns) charged to the Mount Kellett Funds by brokers or dealers in the foregoing circumstances may be higher than those charged by other brokers or dealers who may not offer such services. The Adviser need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost or spread. Generally, neither the Adviser nor the Mount Kellett Funds separately compensates any broker for any of these other services. The Adviser maintains policies and procedures to review the quality of executions, including periodic reviews by its investment professionals.

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

The Mount Kellett Funds may pay "bundled" commissions to brokers who provide execution and research or analytical services (which can be done on a direct-execution basis or through a commission-sharing arrangement). The Mount Kellett Funds may also "unbundle" execution and pay for research or analysis on a stand-alone basis. Other than this bundling of research or analysis services, the Mount Kellett Funds do not currently intend to utilize "soft" dollars to obtain research or research-related services or non-research assistance or services. The other Mount Kellett Funds do not currently utilize "soft dollars" to obtain research or research related services or non-research assistance or services. The Adviser and the Mount Kellett Funds may change their policies on research, the use of bundling commissions and "soft dollars" at any time and without notice to investors.

### **2. Brokerage for Client Referrals**

As discussed above, subject to best execution, the Adviser may consider, among other things, brokerage commissions, clearing and settlement charges, capital introduction and marketing assistance in selecting or recommending broker-dealers for the Mount Kellett Funds. The Adviser will therefore not necessarily select the lowest cost broker to execute trades for the Mount Kellett Funds.

The Adviser has established a trade error policy to ensure that each trade error is corrected in an expeditious manner. Unless Fund Documents state otherwise, losses caused by trade errors will be reversed with the Adviser being responsible to make the affected Mount Kellett Funds whole only if the trade error resulted from the Adviser's bad faith, fraud, willful misconduct, or gross negligence. Otherwise, the affected Mount Kellett Funds will be responsible for bearing losses associated with trade errors.

### **3. Directed Brokerage**

The Adviser does not recommend, request or require that a client direct the Adviser to execute transactions through a specified broker-dealer.

If the Adviser determines that the purchase or sale of the same security is in the best interest of more than one Mount Kellett Fund, the Adviser may, but is not obligated to, aggregate orders in order to reduce transaction costs to the extent permitted by applicable law. When an aggregated order is filled through multiple trades at different prices on the same day, each participating Mount Kellett Fund will receive the average price with transaction costs allocated pro rata based on the size of each Mount Kellett Fund's participation in the order as determined by the Adviser. In the event of a partial fill, allocations generally will be made on a pro rata basis on the initial order but may be modified on a basis the Adviser deems appropriate, including for example, in order to avoid odd lots or *de minimis* allocations.

## **ITEM 13**

### **REVIEW OF ACCOUNTS**

The Adviser and its affiliates have formed an Investment Committee for the Mount Kellett Funds and members of the Investment Committee participate in the periodic reviews of the Mount Kellett Funds' portfolios of these funds. A review of a specific investment in a fund's portfolio may be triggered by any unusual activity or special circumstances. The Adviser provides annual audited financial statements within 120 days of the applicable Mount Kellett Fund's fiscal year end and quarterly unaudited financial information to investors. As described earlier, the Adviser advises its clients on a wide variety of investments. Many of these investments require regular asset management and oversight to ensure that business plans, which are determined at asset acquisition, are being realized. Such positions are monitored to identify variations from business plans and take appropriate measures as necessary.

The Adviser prepares periodic reports/letters to provide to its clients and/or the clients' underlying investors, detailing the performance and composition of such clients' investments. As a general matter, such reports/letters are prepared and issued monthly for its hedge funds and quarterly for its private equity funds. The Mount Kellett Funds are also subject to review by independent public accountants, which results in annual audited financial statements being produced for each such Mount Kellett Fund. Managed accounts will generally receive reports as determined on a case-by-case basis and may also be reviewed by an independent public accountant, resulting in the production of annual audited financial statements.

For additional information related to the types and frequency of reports provided to clients, please see the relevant Fund Documents, to the extent applicable.

## **ITEM 14**

### **CLIENT REFERRALS AND OTHER COMPENSATION**

The Adviser does not compensate any person for client referrals and does not receive economic benefits from non-clients for providing investment advice and other advisory services. The Adviser has engaged certain placement agents to solicit certain types of investors for investments in certain of the Mount Kellett Funds. The Adviser will, at its own expense, compensate such placement agents for their services. The Adviser may in the future enter into additional arrangements with third party placement agents or distributors to solicit investors in the Mount Kellett Funds, and such arrangements will generally provide for the compensation of such persons for their services at the Adviser's expense (including through offsets to the fees and compensation received by the Adviser and its affiliates in respect of the relevant Mount Kellett Funds).

## **ITEM 15**

### **CUSTODY**

The Adviser is deemed to have custody of client funds and securities because it has 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 Mount Kellett Funds are sent by qualified custodians to the Adviser.

The Adviser is subject to Rule 206(4)-2 under the Advisers Act (the "Custody Rule"). However, it is not required to comply (or is deemed to have complied) with certain requirements of the Custody Rule with respect to each Mount Kellett Fund because it complies with the provisions of the so-called "Pooled Vehicle Annual Audit Exception", which, among other things, requires that each Mount Kellett Fund be subject to audit at least annually by an independent public accountant that is registered with, and subject to regular inspection by, the Public Company Accounting Oversight Board, and requires that each Mount Kellett Fund distribute its audited financial statements to all investors within 120 days of the end of its fiscal year.

## **ITEM 16**

### **INVESTMENT DISCRETION**

The Adviser has been appointed as the management company to certain of the Mount Kellett Funds with discretionary trading and investment authorization. The Adviser has discretionary authority with respect to investment decisions, and its advice with respect to the Mount Kellett Funds is made in accordance with the investment objectives and guidelines as set forth in the Mount Kellett Funds' respective Fund Documents. The Adviser assumes discretionary authority to manage the client accounts through the execution of investment management agreements with the Mount Kellett Funds.

## **ITEM 17**

### **VOTING CLIENT SECURITIES**

In compliance with Advisers Act Rule 206(4)-6, the Adviser has adopted proxy voting policies and procedures. The general policy is to vote proxy proposals amendments, consents or resolutions (collectively, "Proxies") in a prudent and diligent manner that will serve the applicable Mount Kellett Fund's best interests and is in line with each Mount Kellett Fund's investment objectives. The Adviser may take into account all relevant factors, as determined by the Adviser in its discretion, including: (i) the impact on the value of the securities or instruments owned by the relevant Mount Kellett Fund and the returns on those securities; (ii) the anticipated associated costs and benefits; (iii) the continued or increased availability of portfolio information and (iv) industry and business practices. In limited circumstances, the Adviser may refrain from voting Proxies where the Adviser believes that voting would be inappropriate taking into consideration the cost of voting the Proxies and the anticipated benefit to the Mount Kellett Funds. Conflicts of interest may arise between the interests of the Mount Kellett Funds on the one hand and the Adviser or its affiliates on the other hand. If the Adviser determines that it may have, or is perceived to have, a conflict of interest when voting Proxies, the Adviser will vote in accordance with its Proxy voting policies and procedures. Clients may obtain a copy of the Adviser's Proxy voting policies and its Proxy voting record upon request.

## **ITEM 18**

### **FINANCIAL INFORMATION**

The Adviser is not required to include a balance sheet for its most recent fiscal year, is not aware of any financial condition reasonably likely to impair its ability to meet contractual commitments to clients, and has not been the subject of a bankruptcy petition at any time during the past ten years.