

**ADV Part 2A**

**Brochure**

**Dated March 31, 2014**

**Chatham Credit Management III, LLC  
400 Galleria Parkway, Suite 1950  
Atlanta, Georgia 30339**

**with respect to**

**Chatham Investment Fund III, LLC  
Chatham Investment Fund QP III, LLC**

**Chatham Credit Management III, LLC can be contacted by telephone at (770) 618-2100;  
and by fax to the attention of Brian G. Reynolds at (770) 618-2101**

**Chatham Credit Management III, LLC can be contacted on the internet at  
[chathamcapital.com](http://chathamcapital.com).**

**This Brochure provides information about the qualifications and business practices of Chatham Credit Management III, LLC. If you have any questions about the contents of this Brochure, please contact us at (770) 618-2100. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

**Additional information about Chatham Credit Management III, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

Item 2

**Material Changes**

Not Applicable

### Item 3

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Item 4      **Advisory Business**

A.      **Advisory Firm and Principal Owners.**

Chatham Credit Management III, LLC is a Georgia limited liability company. Chatham Credit Management III, LLC was formed in 2006 and has been in business since April 2007. The managing member of Chatham Credit Management III, LLC is Chatham Credit Holdings, LLC. The managing member and sole owner of Chatham Credit Holdings, LLC is Brian Reynolds. Chatham Credit Management III, LLC, Chatham Credit Holdings, LLC and Brian Reynolds have their principal offices in Atlanta, Georgia.

**The Funds**

Chatham Credit Management III, LLC is the fund manager of the following private funds:

- Chatham Investment Fund III, LLC
- Chatham Investment Fund QP III, LLC

Chatham Credit Management III, LLC operates these funds as a single source of financing for investments, and causes these funds to participate jointly in all investments in proportion to each fund's respective capital commitment.

We refer to these funds as the Funds in this Brochure.

B.      **Advisory Services.** Chatham Credit Management III, LLC manages the business and affairs of the Funds.

Chatham Credit Management III, LLC provides the administrative and investment management services to the Funds such as:

- administration,
- location and origination of investments,

- business evaluation,
- transaction structuring,
- valuation,
- negotiation,
- documentation,
- continuing oversight of portfolio investments, and
- the other activities incidental to the operations of the Funds.

- C. **Advisory services are tailored to the needs of the Funds.** The advisory services offered by Chatham Credit Management III, LLC are tailored to the needs of the Funds. See Items 8 and 13 of this Brochure for a discussion of these advisory services. See Item 16 of this Brochure for a discussion of the limits on the types of securities that Chatham Credit Management III, LLC could cause the Funds to invest in without Board of Advisors approval.
- D. **No Wrap Fee Programs.** Chatham Credit Management III, LLC does not participate in any wrap fee programs.
- E. **Assets under Management.** Chatham Credit Management III, LLC manages the assets of the Funds. The regulatory assets under management of the Funds as of December 31, 2013 were approximately \$84 million.
- These assets consist primarily of first lien and second lien loans to companies in various industries, such as niche-oriented manufacturing, distribution, technology, service, retail, restaurant and healthcare.

Chatham Credit Management III, LLC has discretionary power over the assets of the Funds. See Item 16 of this Brochure for a discussion of the limits on the discretionary power of Chatham Credit Management III, LLC.



Item 5      **Fees and Compensation**

A.      **Management Fee.**

Chatham Credit Management III, LLC is entitled to a management fee and to a performance fee. These fees are provided for in the governing documents of the Funds and are not negotiable.

This Item 5A describes the management fee. The performance fee is described in Item 6 of this Brochure.

The offering of interests in the Funds terminated on December 31, 2007. The period during which the Funds may make investments ended on December 31, 2011. We refer to this period as the Investment Period in this Brochure.

The Funds are permitted to make investments in existing Portfolio Companies after the end of the Investment Period. We refer to these types of investments as Follow-On Investments in this Brochure.

The Funds pay Chatham Credit Management III, LLC a management fee, which we refer to in this Brochure as the Management Fee.

In this Brochure, we refer to a company in which the Funds invest as a Portfolio Company and to an investment made by the Funds as a Portfolio Investment.

The Management Fee equals:

- (i)      1.5% per year of an amount equal to, as of any date,
  - (A)      the total investor capital contributions, minus
  - (B)      the portion of investor capital contributions attributable to Portfolio Investments disposed of by the Funds, and
- (ii)     0.9% per year of the leverage deployed by the Funds.

The Funds use leverage to enhance returns. See Item 8A of this Brochure under Leverage for a brief discussion of the use of leverage by the Funds.

- B. **Timing and Deduction of Management Fee.** The Management Fee is typically paid quarterly in advance, but in no event will be paid more than five months in advance.

The Management Fee is in addition to the obligations of investors to fund their commitments. The Management Fee is deducted from the Funds.

- C. **Other Expenses.**

**Expenses Paid by the Manager**

Chatham Credit Management III, LLC pays all of its ordinary administrative and overhead expenses, including:

- the expenses of obtaining office space, supplies and administrative activities of its operations; and
- compensation of its personnel.

**Expenses Paid by the Funds**

The Funds pay the expenses of their activities, which we refer to in this Brochure as the Fund Expenses, such as:

- the Management Fee;
- legal, auditing, insurance, consulting, annual meeting, website, investor communication and accounting expenses;
- expenses associated with the preparation of the financial statements, tax returns and K-1s of the Funds;
- out-of-pocket expenses of investments not consummated;

- costs of leverage; and
- other expenses associated with acquiring, managing, holding, marketing and disposing of investments of the Funds, including extraordinary expenses (such as litigation, if any).

Costs relating to an investment in which the Funds co-invest with other investment vehicles (other than costs associated with the use of leverage by the other investment vehicles) are shared between the Funds and the other investment vehicles to each fund's participation in the investment.

From time to time, investors may be required to make capital contributions to the Funds for their share of any Fund Expenses if the Fund has insufficient cash to pay these expenses. Investors are not required to make an additional capital contribution for Fund Expenses to the extent the contribution would exceed the unused portion of the investor's commitment except to the extent that these amounts constitute the return of distributions previously made to investors. A capital contribution by an investor to pay Fund Expenses (other than returned amounts) reduces that investor's commitment.

D. **Advance Payment of Management Fee.** The Management Fee is typically paid quarterly in advance, but in no event will be paid more than five months in advance.

If the Funds do not have sufficient cash to pay the applicable Management Fee, the investors are required to contribute an amount equal to their share of the applicable Management Fee, which contributed amount is in addition to the commitment of that investor.

- E. **No Compensation For Sales of Securities.** Neither Chatham Credit Management III, LLC, nor any of its supervised persons accepts compensation for the sale of securities or other investment products.

Item 6

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

Chatham Credit Management III, LLC is entitled to a performance based fee under the documents governing the Funds.

**Carried Interest**

In general, Chatham Credit Management III, LLC is entitled to a 20% allocation of profits. This allocation is calculated after an 8% per year preferred return to the investors, and after the allocation of a catch-up amount to Chatham Credit Management III, LLC is assessed. We refer to this 20% allocation of profits as the Carried Interest in this Brochure.

The following describes the Carried Interest in more detail.

The following concepts are used in the more detailed explanation of the Carried Interest.

**Available Amounts**

Chatham Credit Management III, LLC determines the cash (or other assets) available for distribution to investors after:

- paying or providing for the current obligations of the Funds; and
- setting aside reasonable reserves for anticipated obligations or losses of the Funds, for permitted reinvestment or for amounts due in respect of the Management Fees or Fund Expenses.

We refer to this cash (or other assets) as Available Funds in this Brochure.

**Current Net Revenue**

Chatham Credit Management III, LLC also determines with respect to any period, cash (or other assets) received by the Funds that:

- was received as interest, fees or other amounts;

- was not received as a return of principal or other return of capital to the Funds; and
- was allocated to revenue for the period in question.

Chatham Credit Management III, LLC then deducts current expenses for the period in question.

We refer to this cash (or other assets) as Current Net Revenue in this Brochure.

### **Unreturned Contributed Capital**

In this Brochure, we refer to the aggregate amount of capital that an investor has contributed to the Funds that has not previously been returned to that investor as Unreturned Contributed Capital.

### **Preferred Return**

In this Brochure, we refer to an 8% per year return on the average Unreturned Contributed Capital as the Preferred Return.

### **Detailed Description of Carried Interest**

The following is a more detailed description of the calculation of the Carried Interest using the terms just discussed.

Chatham Credit Management III, LLC distributes Available Amounts that are Current Net Revenue as follows:

1. first, 100% to the investors until the investors have received aggregate distributions of Unreturned Contributed Capital with respect to Management Fees and losses of capital incurred as a result of dispositions and write-downs of investments;

2. second, 100% to the investors until the investors have received aggregate distributions equal to their Preferred Return;
3. third, 100% to Chatham Credit Management III, LLC until Chatham Credit Management III, LLC (or its affiliate) has received (after giving effect to this distribution and all prior similar distributions) distributions equal to 25% of the aggregate amount of all distributions to investors with respect to the Preferred Return made on or before this distribution; and
4. thereafter, 80% to investors and 20% to Chatham Credit Management III, LLC (or its affiliate).

Chatham Credit Management III, LLC makes these distributions on a quarterly basis within 45 days of the end of the quarter in question.

**Payment of Carried Interest**

Chatham Credit Management III, LLC has assigned its right to receive the Carried Interest to Chatham Carried Interest III, LLC.

Item 7

**Types of Clients**

Chatham Credit Management III, LLC acts as fund manager for the Funds.

Chatham Credit Management III, LLC also is fund manager for Chatham Cascade Fund III, LLC and Chatham Cascade Fund QP III, LLC. We refer to Chatham Cascade Fund III, LLC and Chatham Cascade Fund QP III, LLC as Cascade in this Brochure.

Chatham Credit Management III, LLC does not have any clients other than the Funds and Cascade.

Accordingly, all the clients of Chatham Credit Management III, LLC are private funds managed by Chatham Credit Management III, LLC.



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

A.      **Methods of Analysis and Investment Strategies.** The Funds focus on small and middle-market companies.

The Funds invest in junior debt, as well as provide senior debt in the small and middle markets. The Funds also occasionally make opportunistic investments in syndicated debt in the primary and secondary markets.

The Investment Period ended on December 31, 2011.

The investments the Funds have made involve a risk of loss. The Funds, and investors in the Funds, should be prepared to bear that loss.

**Investment Approach**

The Funds made opportunistic investments in lower and middle-market companies and selective purchases of syndicated loans. The Funds also invested in convertible debt.

Chatham Credit Management III, LLC has used a disciplined underwriting approach to identify opportunities to produce an attractive risk/return profile on senior loans and on junior debt financing. Chatham Credit Management III, LLC has emphasized a user-friendly, adaptable approach in making its investments. Chatham Credit Management III, LLC has been flexible as to the form in which capital is invested, so long as the needs of the target portfolio companies can be met using our underwriting criteria.

Chatham Credit Management III, LLC has focused on proven management teams in niche-oriented manufacturing, distribution, technology, service, retail, restaurant and health care businesses.

The Funds have invested primarily in established companies. The Funds have concentrated on private transactions, but in some circumstances have purchased securities of publicly held companies.

Without the approval of the Board of Advisors of the Funds (see Item 11 and Item 16 of this Brochure), each Fund may not invest more than 20% of its aggregate commitments in equity securities. The Funds have made very limited investments in equity securities. Most of the investments by the Funds have involved leveraged buy-outs or acquisition financing.

### **Investment Process**

Chatham Credit Management III, LLC has used a disciplined underwriting process to perform credit underwriting, including financial modeling and comprehensive operational, industry and management analysis. Chatham Credit Management III, LLC structured and documented investments taking this analysis into account.

### **Monitoring Investments**

Chatham Credit Management III, LLC monitors the performance of Portfolio Companies of the Funds using techniques similar to those used by large financial institutions. Representatives of Chatham Credit Management III, LLC receive and analyze detailed periodic financial reports, and conduct regular meetings and discussions regarding Portfolio Company financial and operating performance in the context of industry developments, as well as other factors such as the general state of the economy. Regular discussions with Portfolio Company management, as appropriate, also occur. In most cases, the transaction documentation contains

financial covenant tests to provide an early warning of performance problems. Chatham Credit Management III, LLC has audits and consultant reviews conducted where applicable.

See Item 13A of this Brochure for a discussion of the investment review process of Chatham Credit Management III, LLC. See Item 13B of this Brochure for a discussion of the review process for specific Portfolio Investments.

### **Use of Leverage**

The Funds use leverage to enhance returns to investors.

The governing documents of the Funds permit the Funds to incur indebtedness. Not more than 70% of total capital deployed by the Funds, including indebtedness, may be indebtedness incurred by the Funds.

The Funds maintained a capital call line of credit during the Investment Period. This capital call line of credit was secured by unfunded investor commitments, but has been terminated.

The Funds also maintain a warehouse facility which previously provided up to \$100 million of financing as of December 31, 2012. This credit facility is secured by the investments of the Funds. The facility ended the revolving period on December 31, 2012 and availability was capped at the current loan balance of \$47MM. The facility was reduced to a balance of approximately \$2MM as of December 31, 2013 and was fully repaid on January 10, 2014.

- B. **Investment Strategy Risks.** The risks relating to the Funds, including risks relating to their investment strategy, are explained in the Confidential Private Placement Memorandum, dated January, 2007, with respect to the Funds.
- C. **Specific Security Risks.** The risks relating to the Funds, including risks relating to securities which are the investments of the Funds, are explained in the Confidential Private Placement Memorandum, dated January, 2007, with respect to the Funds.

Item 9

**Disciplinary Information**

There are no reportable events under this Item.

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

- A.    **No Broker-Dealer Registration.** Neither Chatham Credit Management III, LLC nor any of its supervised persons are registered, or have an application pending to register, as a broker-dealer, or a registered representative of a broker-dealer.
- B.    **No CFTC Registration.** Neither Chatham Credit Management III, LLC nor any of its supervised persons are registered, or have an application pending to register, as a futures commission merchant, a commodity pool operator, a commodity trading adviser, or an associated person of any of these entities.
- C.    **Relationships with Related Persons.** Chatham Credit Management III, LLC also manages Cascade. Cascade has invested in investments also made by the Funds. These investments have been on the same terms for the Funds as for Cascade.
- Affiliates of Chatham Credit Management III, LLC have also sponsored, and will sponsor, other private investment vehicles.
- The Funds have invested in several portfolio companies of other investment vehicles sponsored by affiliates of Chatham Credit Management III, LLC. See Item 11 of this Brochure under Conflicts of Interest and Rollover Investments.
- These investments were approved by the Board of Advisors of the Funds.
- The Investment Period of the Funds has terminated. The Funds will not be making further investments, except for Follow-On Investments in existing Portfolio Companies if needed.
- D.    **No Recommendation of Other Advisors.** Chatham Credit Management III, LLC does not recommend or select other investment advisors for the Funds.

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

A.      **Code of Ethics.** Chatham Credit Management III, LLC has a Code of Ethics, which provides, among other things:

- Chatham Credit Management III, LLC and its personnel comply with their fiduciary duties, and with applicable federal securities and other laws;
- the access persons of Chatham Credit Management III, LLC report their holdings of securities, as required by applicable regulations, and the Chief Compliance Officer of Chatham will review these reports; and
- all personnel of Chatham will report any violations of the code of ethics to the Chief Compliance Officer of Chatham Credit Management III, LLC.

The Funds have a copy of the Code of Ethics of Chatham Credit Management III.

The Code of Ethics is contained in the Compliance Manual for Chatham Credit Management III, LLC. Chatham Credit Management III, LLC and all advisors under common control with Chatham Credit Management III, LLC have a single Compliance Manual.

B.C.&D.      **Conflicts of Interest.** Affiliates of Chatham Credit Management III, LLC are engaged in a variety of activities within industries in which the Funds have invested. These affiliates engage in activities in the ordinary course of their respective businesses, which may conflict with the interests of the Funds.

These affiliates manage the activities of other investment vehicles they have sponsored, which may include significant involvement with the existing portfolio companies of those investment vehicles.

Chatham Credit Management III, LLC, on behalf of the Funds, has discretion in determining which investments will be made by the Funds.

The Funds and Cascade have co-invested in Portfolio Companies. These co-investments have been made on the same terms for the Funds and for Cascade. The Funds invested in several portfolio companies of other investment vehicles sponsored by affiliates of Chatham Credit Management III, LLC. These investments carried the risk that the capital of the Funds was used to satisfy the additional capital needs of portfolio companies into which other investment vehicles sponsored by affiliates of Chatham Credit Management III, LLC were unable or unwilling to invest further monies. The investment risk to those other investment vehicles in those circumstances was defrayed or ameliorated by capital from the Funds.

The documents governing the Funds provide that neither Chatham Credit Management III, LLC nor any of its affiliates will engage in, or cause or permit any other senior debt or mezzanine fund with a similar strategy organized by any of them, to engage in the business of the Funds before the earlier of:

- (i) the expiration of the Investment Period of the Funds; or
- (ii) such date upon which 60% of the aggregate investor commitments have been contributed to the Funds, including as contributed capital:
  - (A) the amount of any borrowings or other obligations that may be incurred with potential for recourse to the aggregate investor commitments,
  - (B) amounts set forth in call notices that have not yet been funded, and



(C) amounts the Funds are legally obligated to fund with respect to follow-on investments or the Fund Expenses, but have not yet been the subject of a call notice or otherwise committed for investment.

Cascade was formed after this 60% test was satisfied with respect to the Funds.

### **Rollover Investments**

A significant number of the investments of the Funds result from relationships that the principals of Chatham Credit Management III, LLC bring to the activities of the Funds, including those developed through previous investment vehicles they have sponsored. The Funds have invested in several companies that constitute portfolio companies of other investment vehicles sponsored by affiliates of Chatham Credit Management III, LLC. In addition, the Funds have refinanced or replaced investments by other investment vehicles sponsored by affiliates of Chatham Credit Management III, LLC.

The principals of Chatham Credit Management III, LLC recognize the potential for conflicts of interest in these types of investments. To protect against conflicts, the Funds did not make these types of investments unless they were approved by a majority of the members of the Board of Advisors.

### **Board of Advisors**

The Funds have a single board of advisors, which we refer to in this Brochure as the Board of Advisors, comprised of at least three but not more than nine individuals. The Board of Advisors will be responsible for determining the following matters:

- The appropriateness of any action or inaction that may constitute or result in a conflict of interest between the Funds, on the one hand, and Chatham Credit Management III, LLC and its affiliates, on the other, including rollover investments;
- The replacement of a principal of Chatham Credit Management III, LLC, provided that any replacement shall be nominated by the remaining principals of Chatham Credit Management III, LLC;
- The replacement of Chatham Credit Management III, LLC and/or all of the principals of Chatham Credit Management III, LLC if Chatham Credit Management III, LLC or all of the principals of Chatham Credit Management III, LLC resign; and
- Any other matter submitted to the Board of Advisors by Chatham Credit Management III, LLC.

The Board of Advisors acts by a majority vote. Determinations by the Board of Advisors are binding on the investors.

A determination by the Board of Advisors concerning a transaction involving a potential conflict of interest needs to be approved by a majority of the members of the Board of Advisors not having an interest in the transaction (other than their investment in the Funds).

Item 12      **Brokerage Practices**

A.      **No Broker Arrangements.** In general, Chatham Credit Management III, LLC structures loan packages as the investments by the Funds. Accordingly, neither the Funds nor Chatham Credit Management III, LLC use broker-dealers for client transactions. The Funds generally do not incur commissions or other payments to broker-dealers in connection with their investments.

1.      **No Soft Dollar Arrangements.** Chatham Credit Management III, LLC does not receive research or other products, other than execution, from a broker-dealer or a third party in connection with securities transactions by the Funds.

2.      **No Brokerage for Client Referrals.** In selecting or recommending broker-dealers, neither Chatham Credit Management III, LLC nor a related party of Chatham Credit Management III, LLC receives client referrals from a broker-dealer or third party.

3.      **No Directed Brokerage.** Chatham Credit Management III, LLC does not routinely recommend, request or require that the Funds execute transactions through a specified broker-dealer. Chatham Credit Management III, LLC does not permit the Funds to direct brokerage.

B.      **Aggregation Practices.** Chatham Credit Management III, LLC has operated the Funds as a single source of financing for investments, and caused the Funds to participate jointly in all investments in proportion to each Fund's respective capital commitments.

Cascade has co-invested with the Funds on a number of loan packages. The terms of these investments for the Funds were the same as for Cascade.

Item 13      **Review of Accounts**

- A.      **Review of Investments.** Each principal of Chatham Credit Management III, LLC is responsible for communication with and monitoring of a specific number of Portfolio Companies.
- Chatham Credit Management III, LLC reviews the investments of the Funds on a weekly basis. All principals of Chatham Credit Management III, LLC participate in these regular reviews.
- B.      **Review of Specific Investments.** Chatham Credit Management III, LLC conducts a rigorous review of Portfolio Companies once a month, and spends significantly more time on underperforming investments. Chatham Credit Management III, LLC reviews variances in cash flow, components of working capital and other items, and takes follow on actions as appropriate, including onsite meetings with Portfolio Company management and other measures.
- C.      **Reports to Investors.** The Funds intend to provide investors in the Funds audited annual financial statements within 120 days after the end of each fiscal year and quarterly investor reports within 60 days after the end of each quarter. These reports are provided in writing, in paper format and/or electronic format, in accordance with each investor's instructions.

Item 14      **Client Referrals and Other Compensation**

- A.      Chatham Credit Management III, LLC does not receive economic benefits from someone who is not a client for providing investment advice to the Funds.
- B.      Chatham Credit Management III, LLC does not directly or indirectly compensate any person who is not a supervised person of Chatham Credit Management III, LLC for client referrals.

Item 15

**Custody**

The Funds do not distribute notice of qualified custodians or account statements to limited partners as the Funds are limited partnerships subject to annual audits which distribute audited financials within 120 days of the end of their fiscal year. These audited financials are prepared in accordance with generally accepted accounting principles (GAAP). The Funds' independent auditor is registered with and is subject to regular inspection by the Public Accounting Oversight Board in accordance with its rules. Upon liquidation, the Funds will distribute audited financials, prepared in accordance with GAAP, promptly after the completion of such audit to all limited partners.

Item 16

**Investment Discretion**

In general, Chatham Credit Management III, LLC has discretionary authority over the assets of the Funds. However, in some cases, this discretionary authority is subject to limitations. Except to the extent approved by the Board of Advisors, the Funds cannot:

- (i) invest more than 25% of the aggregate investor commitments in any single Portfolio Company;
- (ii) invest more than 20% of the aggregate investor commitments in equity securities;
- (iii) make an investment with a stated maturity that exceeds eight years (exclusive of warrants, options or other equity interests in a Portfolio Company) after the date the Funds make that particular investment;
- (iv) invest more than 10% of aggregate committed capital to investments in any Portfolio Company not organized in the United States;
- (v) invest after the end of the Investment Period (except for Follow-On Investments); or
- (vi) participate in hostile takeovers of public companies.

To the extent the Funds hold monies pending investment, these amounts need to be placed in specified short-term investments.

In addition, some types of transactions that present conflicts of interest cannot be carried out by the Funds without approval by the Board of Advisors. See Item 11 of this Brochure under Conflicts of Interest.

Item 17      **Voting Client Securities**

- A.      In general, the Funds do not hold voting securities. Where the investments held by Funds are voting securities, Chatham Credit Management III, LLC will vote them in a manner it believes is in the best interest of the Funds.

The Funds have a copy of the voting policy of Chatham Credit Management III, LLC.

- B.      Not applicable.



Item 18      **Financial Information**

- A.      Not applicable.
- B.      Chatham Credit Management III, LLC is not aware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to the Funds.
- C.      Not applicable.