

MHR Fund Management LLC

- 1345 Avenue of the Americas, 42nd Floor

New York, NY 10105

(212) 262-0005

May 1, 2015

MHR Fund Management LLC is an investment adviser that is registered with the U.S. Securities and Exchange Commission. Registration with the U.S. Securities and Exchange Commission does not imply a certain level of skill or training.

This brochure provides information about the qualifications and business practices of MHR Fund Management LLC. If you have any questions about the contents of this brochure, please contact us at (212) 262-0005. The information in this brochure has not been approved or verified by the U.S. Securities and Exchange Commission or by any state securities authority.

Additional information about MHR Fund Management LLC is also available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 Material Changes

This is an annual update of our Brochure. There have been no material changes since our last filing aside from our change of address from 40 West 57th Street, 24th Floor, New York, New York 10019 to 1345 Avenue of the Americas, 42nd floor, New York, NY 10105.

Item 3 Table of Contents

		Page
Item 1	Cover Page.....	1
Item 2	Material Changes	2
Item 3	Table of Contents	3
Item 4	Advisory Business	4
Item 5	Fees and Compensation.....	4
Item 6	Performance-Based Fees and Side-By-Side Management.....	6
Item 7	Types of Clients	6
Item 8	Methods of Analysis, Investment Strategies and Risk of Loss	6
Item 9	Disciplinary Information	10
Item 10	Other Financial Industry Activities and Affiliations	11
Item 11	Code of Ethics, Participation or Interests in Client Transactions and Personal Trading	13
Item 12	Brokerage Practices.....	15
Item 13	Review of Accounts	17
Item 14	Client Referrals and Other Compensation.....	18
Item 15	Custody.....	18
Item 16	Investment Discretion	19
Item 17	Voting Client Securities.....	19
Item 18	Financial Information.....	20

Item 4 Advisory Business

- A. MHR Fund Management LLC (also referred to as “we”, the “Firm” or “MHR”) is a leading New York-based private investment firm, founded in 1996 by Mark H. Rachesky, M.D., that focuses on investing in distressed middle-market companies and assets for a variety of private fund clients. Mark H. Rachesky is the Firm’s President and indirect principal owner through MHR Holdings LLC.
- B. MHR specializes in offering investment management services to private investment funds. We invest in distressed middle-market companies and assets with a focus on sourcing through our industry and portfolio company relationships. MHR is a hands-on investor that seeks to leverage its control or significant influence to work collaboratively with its portfolio companies, which we believe is essential to preserving and creating value. MHR also forms partnerships for its funds with specialized management teams to exploit distressed opportunities it identifies in certain industries. We employ a rigorous, due diligence-focused investment process with a strong emphasis on downside protection that capitalizes on our deep industry knowledge and analytical capabilities. MHR may utilize the bankruptcy or restructuring process to improve both the capital structure and the cost structure of portfolio companies. In addition, the Firm may seek to create long-term value beyond the turnaround process by continuing to improve operations, growing companies and effectuating successful exits. MHR believes that its focus on both restructuring and growing companies is differentiated and serves to generate attractive returns for its investors across various investing environments.
- C. The Firm tailors advisory services to the individual needs and specified investment mandates of its client funds. We adhere to the investment strategy set forth in our clients’ private placement memoranda and operating agreements, including any concentration limits and other applicable guidelines. These types of terms are all arranged on a case-by-case basis.
- D. MHR does not participate in wrap fee programs.
- E. As of December 31, 2014, MHR managed approximately \$6,099,265,716, which includes each fund’s gross asset value (including, with respect to the private equity funds, the unfunded capital commitments). MHR’s private equity funds represent approximately 93.82% of the total assets managed by the Firm. We manage clients’ assets only on a discretionary basis.

Item 5 Fees and Compensation

- A. The Firm, or an affiliate, typically receives compensation from each of our clients based on both the percentage of assets or commitments managed and on performance achieved for each client’s account. Detailed information concerning our compensation and fees is contained in the private placement memorandum and governing documents and agreements of each client fund. Our fees are

generally not negotiable; however, we have the discretion to agree to different fees with investors in the funds and may also waive fees, including for investors that are our affiliates or employees or forego fees in exchange for priority profits interest in the relevant funds.

- B. We deduct the asset-based fee from our hedge fund clients quarterly in advance. Any performance-based compensation with respect to the hedge funds is deducted annually, as of the end of each calendar year, or as of an earlier withdrawal date with respect to withdrawn capital.

The management fees for our private equity funds are determined semi-annually in advance and deducted quarterly in two equal installments. Any performance-based compensation for our private equity funds is, subject to applicable provisions of such funds' governing documents, deducted upon the liquidation or other disposition of assets held by these funds.

- C. Our client funds bear organizational and offering expenses, in certain instances subject to limitation. To the extent the funds pay any placement agent fees, our management fees are offset by the same amount. The funds bear all costs and expenses directly related to portfolio investments or prospective investments in portfolio companies (whether or not consummated). The funds also bear all costs and expenses relating to their activities, including legal, accounting and other professional or third-party costs, brokerage commissions and other transaction costs, custody fees, borrowing costs, fees and/or profit-sharing arrangements of advisors or consultants relating to portfolio investments and prospective investments, travel (which may include non-commercial flights), specific expenses incurred in obtaining systems, research and other information utilized with respect to the funds' investment program, including valuations and accounting (e.g., costs of statistics or pricing services, contracts for quotation equipment and related hardware and software), and any withholding or transfer taxes imposed on the funds. The funds also bear in accordance with the relevant funds' governing documents all out-of-pocket costs of their administration (as well as their pro rata share of such expenses incurred by the relevant master account or other operating subsidiaries in which multiple clients participate), including accounting, audit, administration, legal and compliance expenses (including preparation of regulatory reports containing fund information regardless of the identity of the filer and any programs and software expenses related to any reporting or filings), costs of holding any meetings of investors or the funds' advisory committees, costs of any liability insurance obtained on behalf of the funds, MHR or its affiliates, costs of any litigation or investigation involving fund activities, and costs associated with reporting and providing information to existing and prospective investors in the funds, including travel (which may include non-commercial flights) in connection with providing such information. We typically allocate expenses directly related to a specific investment among all participating accounts based on the cost of the positions being acquired, held or sold, and shared expenses not directly related to a specific investment based on the available capital of client accounts. However, we may

apply other expense allocation formulas and methods at our discretion. We cannot guarantee the accuracy of all expense allocations and are not financially responsible for incorrect allocations in the absence of a breach of the standard of care set forth in the clients' governing documents.

Please refer to the funds' offering documents or other governing agreements for further information regarding the fees and expenses of MHR and the relevant funds. Also, Item 12 details our broker selection and compensation policies.

- D. As noted in Item 5.A. and B., the funds pay management fees quarterly in advance. Since investors in our private equity funds may not withdraw their capital and investors in the hedge funds generally may not make intra-quarter withdrawals of their capital, fund investors do not pay management fees in excess of what they owe for the entire period. In the event any management agreement is terminated prior to termination of the relevant fund, we will refund a pro rata portion of the management fees paid by the fund as of the beginning of the relevant period.
- E. Neither the Firm nor any of its principals or employees receives any transaction-based compensation for the sale of client securities in the funds or other Firm investment products.

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

All our clients are subject to performance-based compensation payable to MHR affiliated entities.

Item 7 Types of Clients

All of our advisory clients are private investment funds that are exempt from registration under the Investment Company Act of 1940. Our client funds have a diverse group of global investors, including leading pension funds, sovereign wealth funds, endowments, foundations, financial institutions, insurance companies, funds of funds and high-net-worth individuals. MHR generally requires U.S. investors in the funds to be "accredited investors", "qualified clients" and/or "qualified purchasers", as applicable, (as defined in relevant federal securities laws and regulations).

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

- A. MHR seeks to fundamentally alter the risk/reward profile of an investment in order to provide attractive returns with mitigated risk to its investors. The Firm utilizes a disciplined investment process based upon fundamental valuation and comprehensive due diligence, which seeks to ensure that investments adhere to the Firm's stringent investment criteria and serves to minimize losses. Key elements of MHR's investment approach include: (i) proprietary sourcing through industry and portfolio company relationships; (ii) performing rigorous non-traditional due diligence; (iii) focusing on inefficient markets; (iv) achieving

control and creating value utilizing multiple entry points; and (v) driving hands-on value creation.

Unlike a private equity firm evaluating an investment opportunity through an auction process, MHR is rarely initially provided with sufficient information with which to evaluate a potential investment. Accordingly, MHR has developed expertise in conducting intensive non-traditional due diligence as a basis for the fundamental valuation of a prospective investment. The due diligence process may include a thorough examination of the company's assets and liabilities (both on and off balance sheet), cash flows, strategic direction, competitive position and prospects within its industry, suppliers, distribution network and management team, as applicable. In addition, intensive legal due diligence is a critical part of MHR's investment process. MHR closely reviews the legal documents applicable to a potential investment, including prospectuses, indentures, credit agreements, shareholder agreements and major contracts, including customer and management agreements, prior to making an investment. At times, MHR utilizes outside advisors to assist in analyzing areas that are often misunderstood by the market, including environmental liabilities, tax and regulatory issues or specific industry complexities.

- B. See Item 8.C. below.
- C. Our dedication to risk management is designed to identify and appropriately address the sorts of risk inherent in the types of transactions in which we participate. However, despite our risk management process, investing in any securities and instruments involves a risk of loss that any of our clients and any of the investors in our clients must be prepared to bear.

Examples of potential areas of risk associated with the types of investment strategies in which we engage are:

General Investment Risk. All fund investments risk the loss of capital. There can be no assurance that the funds' investment program will be successful or that investments purchased by the funds will increase in value or not decrease in value. In addition, there will be competition for investment opportunities by investment vehicles and others with investment objectives and strategies similar to those of MHR. There can be no assurance that we will be able to locate and complete investments which satisfy the funds' objectives. Returns generated from the funds' investments may not adequately compensate investors in the funds for the business and financial risks assumed. An investor should be aware that it may lose all or part of its or his investment in a fund.

Lack of Liquidity of Investments. The investments made by a fund can be very illiquid or become illiquid. Illiquidity may result from the absence of an established market for the investments as well as legal, contractual or other restrictions on their resale by a fund and other factors. This could make it difficult to realize the value MHR ascribes to an investment if we are forced to

dispose of it in an inactive market. It is also important to note that the nature of a fund's investments, especially those in financially distressed companies or with respect to undervalued assets, may require a long holding period prior to profitability.

Distressed Investments. Distressed debt securities and assets are subject to the significant risk of an issuer's inability to meet principal and interest payments on the obligations and also may be subject to price volatility due to factors such as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity. The funds can also invest in distressed equity securities and assets. Because equity securities rank at the bottom on the capital structure of an issuer, such investments, especially in the distressed context, subject funds to additional risks of a complete loss in value. A fund can invest in the securities or debt of companies involved in bankruptcy proceedings, reorganizations or financial or debt restructurings and can have a more active participation in the affairs of the issuer than is generally assumed by an investor. This may subject a fund to litigation risks or prevent a fund from disposing of securities. In a bankruptcy or other proceeding, a fund as a creditor may be unable to enforce its rights in any collateral or may have its security interest in any collateral challenged, disallowed or subordinated to the claims of other creditors.

Investment Strategy. Our strategies often call for us to invest in debt of companies experiencing financial distress or stress or in a variety of assets that are undervalued, and our credit investments may be unsecured or subordinated. Our funds may also purchase equity, either distressed equity or equity tangentially related to prior distressed debt investments. Our strategies and the success of our funds depend upon our ability to gather all relevant information about each investment and to assess it accurately, not only at the time of investment but through our holding period until our disposition of the investment. Our expectations regarding the favorable outcome of any investment can be adversely affected by numerous factors beyond our control, including our receipt of incomplete or inaccurate data, our failure to assess it accurately, and unpredictable changes in circumstances, including unforeseeable macroeconomic circumstances unrelated to our analysis of the specific investment. The industries in which the funds invest may be subject to rules and regulations limiting the funds' rights or otherwise impacting their risk profile. With respect to certain assets, MHR enters into arrangements with industry specialized management or advisory teams to acquire, manage and dispose of these assets. The failure on the part of MHR to select the right management or advisory team for an asset class, and/or to establish a governance and compensation structure that provides for the appropriate balance of economic incentives to the team and oversight by MHR can have a material adverse effect on the clients' investments.

Control Positions; Non-Public Information. As a result of our control-focused, private equity approach to distressed investing, we may accumulate large positions, have our personnel sit on the boards of portfolio companies in which the funds have invested, and may also participate or lead official or unofficial

committees of creditors. Serving in these positions is expected to give MHR access to material non-public information from time to time. Such access may also arise as a result of making or participating in senior loan facilities and in other circumstances. Such access, however derived, may result in the imposition of legal restrictions on the funds' ability to purchase or sell portfolio investments. In addition to legal restrictions arising from access to material non-public information, the Firm may also become subject to trading restrictions arising by contract (for example, in connection with a confidentiality agreement) or from an issuer's policies relating to trading by directors, officers and affiliates thereof. The size of the Firm's investment position may also make it more difficult to dispose of its holdings without impacting the price of its securities or otherwise limit the manner in which MHR may seek to effect disposition. The existence of these various restrictions could have an adverse effect on the funds. The activities engaged in by MHR in connection with its investment strategies, including active participation by MHR personnel on boards and creditors' committees, may also expose the funds and MHR to litigation, including to claims by investors or other stakeholders advocating opposing positions. The funds are required to indemnify MHR and its affiliates for claims arising in these circumstances.

Hedge Fund Valuation. Investors in MHR's hedge funds purchase and redeem interests based on a determination of the fair value of the assets and liabilities of these funds. In addition, our management and incentive fees for these funds are determined by reference to these valuations. Another area of risk involves the purchasing of investments that are difficult to value due to the absence of quoted prices for identical assets in an active market. Investors exposed to these valuation issues could be adversely affected if the valuations of assets or liabilities are inaccurate.

Leverage. MHR generally has the discretion to use borrowing and other forms of leverage in its strategies. Historically, MHR's private equity funds generally have not used leverage (other than short-term borrowing pending receipt of capital contributions), though their portfolio companies do on occasion use leverage. While the use of leverage can amplify the profit on successful investments, it can also amplify the losses incurred on unsuccessful investments.

Derivative Instruments. A fund may use various derivative instruments, which may be volatile and speculative, and which may be subject to wide and sudden fluctuations in market value, with a resulting fluctuation in the amount of profits and losses. The parties with which a fund enters in such derivatives are expected to be banks, broker dealers and other financial institutions. Except for foreign currency derivatives entered into to hedge against currency fluctuations of an investment denominated in a currency other than in U.S. dollars, the funds' derivative transactions have historically been limited.

Conflicts of Interest. As described elsewhere in this brochure, MHR is subject to various conflicts of interest as a result of our management of multiple clients (including clients in which MHR related persons may own significant interests),

the nature of our compensation arrangements and the use of our fund structure. The existence of these conflicts of interest may influence the independence of MHR's judgment. This brochure contains information about how MHR manages these conflicts.

Limited Liability and Indemnification. Each client's operating agreements limit the instances in which MHR and its affiliates may be held liable and generally provide that in the absence of bad faith, gross negligence, willful misconduct or in some instances, intentional and/or material breaches of the relevant operating agreement, none of MHR or its affiliates will be liable unless otherwise required by law. In addition, MHR and its affiliates are entitled to full indemnification by each client with respect to their services in the absence of a breach of their standard of care which can result in significant financial burden borne by the clients.

Dependence on Mark H. Rachesky. The success of the funds is dependent on the investment expertise of Mark H. Rachesky. The loss of his services would have a material negative impact on the performance of the funds. Additionally, Mark H. Rachesky is not required to devote all of his time to the affairs of any one fund, and he may invest in other business ventures of any nature and may trade for his own account (subject to compliance with the Firm's policies and procedures on personal trading).

The private placement memorandum for each client contains a discussion of various risk considerations that is more extensive in scope and depth than the foregoing summary.

Item 9 Disciplinary Information

In the past ten years, there have been no legal or disciplinary events involving either MHR or any of its management persons that are material to a current investor's or prospective investor's evaluation of MHR's advisory business.

Item 10 Other Financial Industry Activities and Affiliations

- A. Neither MHR nor any of its management persons is registered, or has an application pending to register, as a broker-dealer or a registered representative of a broker-dealer.
- B. Neither MHR nor any of its management persons is registered, or has an application pending to register, as a futures commission merchant, commodity pool operator, a commodity trading advisor, or an associated person of the foregoing entities.
- C. Relationship with MHR Funds. In addition to serving as a discretionary investment manager to each of our client funds, we (or our affiliates) manage each of the funds either as the general partner (in the case of funds formed as partnerships) or by designating principals of our Firm to serve on the board of

directors (in the case of the fund formed as a corporation). The funds do not have independent management or independent board of directors. Our principal funds include:

- MHR Institutional Partners LP
- MHR Institutional Partners II LP
- MHR Institutional Partners IIA LP
- MHR Institutional Partners III LP
- MHR Institutional Associates III (Offshore) LP
- MHR Institutional Partners IV LP
- MHR Institutional Associates IV (Offshore) LP
- MHR Capital Partners (500) LP
- MHR Capital Partners LP
- MHR Capital Partners (100) LP
- MHR Capital Partners Offshore Ltd.

Since we have more than one client, our personnel cannot devote their exclusive attention to any single client.

On occasion, the interests of one client may conflict with those of another. For example, a conflict may arise due to the fact that our clients have similar investment mandates. As a result, it is sometimes necessary for us to allocate investment opportunities among them rather than allocating the entire opportunity to any one client. The Firm has adopted an allocation policy (as further described in Item 11.D) to ensure fair allocation among clients. If an investment is appropriate for more than one client, and there is sufficient capacity and no restrictions imposed by the funds' operating agreements or MHR's policies, the funds co-invest in the same investment opportunity. Our policy prevents us from taking into account differences in compensation structures and investment by related persons in any fund in allocating an investment opportunity.

The potential to earn performance-based compensation could give MHR an incentive to invest client assets in an aggressive or speculative manner. We seek to minimize this conflict by taking a disciplined approach to portfolio risk management and by maintaining a significant investment in each of the funds we manage.

Since performance compensation for our hedge funds is based in part on unrealized gains and losses, we may theoretically have an incentive to inflate the value of client assets through fair valuation determinations. We have policies in place to ensure consistent valuation methodologies for all of our funds and believe this conflict is further mitigated by the fact that many of the funds' investments have historically involved publicly listed equity securities or debt securities for which independent broker quotes are readily available.

On rare occasions, we may cause a client to buy positions from or to sell positions to another client in re-balancing transactions resulting from subscriptions or redemptions or in other circumstances where the Firm considers cross transactions advisable for both parties. All cross transactions will be effected in accordance with all applicable laws, rules and regulations and subject to any requirements set forth in our client funds' operating agreements. In certain situations, the approval by the relevant client may be required under the Investment Advisers Act of 1940, as amended. A client's investor advisory committee may consider conflicts and provide consent on behalf of the client.

Our employees sit on the boards of directors of our portfolio companies. These employees could have a conflict of interest with respect to decisions made by the board as the interests of our clients and the companies may differ. Our employees may also serve as a committee representative in a bankruptcy proceeding. As a result of such board or committee participation or another relationship, we may receive material non-public information about a company on behalf of one client, which restricts us from trading in the securities of the company not only for that client but for all other clients, some or all of which could be disadvantaged by the trading restriction. In determining whether to serve on the portfolio companies' boards or creditor committee, we weigh the benefit of such appointments with the conflicts presented.

- D. MHR does not recommend or select other investment advisers for its clients.

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

- A. Pursuant to Rule 204A-1 of the Advisers Act, MHR adopted a Code of Ethics (also known, together with any amendments we may adopt in the future, as the “Code”) which sets forth standards of business and personal conduct for members, principals and employees of the Firm (collectively referred to as “MHR employees”) and addresses conflicts that arise from personal trading by MHR employees. The Code is predicated on the basic principle that MHR employees will adhere to high ethical standards and fiduciary principles, and must (i) place client and Firm interests first; and (ii) engage in personal securities transactions only when consistent with the Code, avoid any abuse of position of trust and responsibility and address actual or potential conflicts of interest. MHR employees must also comply with applicable provisions of federal securities laws and make prompt reports of any actual or suspected violations of laws by MHR or its employees. The Code requires that MHR employees pre-clear most personal securities transactions, report all personal securities transactions on at least a quarterly basis and submit reports to MHR regarding personal accounts and reportable securities holdings at least annually. The Code also addresses outside activities of employees and conflicts of interest, contains policies and procedures concerning the prevention of insider trading and the use of experts, including the prohibition on the misuse of material non-public information and maintenance of a restricted list of securities that warrant a special scrutiny in connection with purchases and sales by MHR employees for their own accounts or for client accounts of such positions because of the actual or possible possession of material non-public information. The Code includes restrictions on the acceptance of gifts and the reporting of gifts and business entertainment items in excess of established threshold amounts, as well as the pre-clearance and reporting of political contributions. MHR employees receive a copy of the Code at the time of hire and must provide a written certification to MHR as to their compliance with the Code on an annual basis. This paragraph only represents a summary of certain provisions in our Code. We provide a copy of our Code to any client or prospective client upon request.
- B. MHR may recommend to the funds, or buy or sell for the funds, securities in which an MHR related person has a material financial interest. A potential conflict of interest may arise in that the interested MHR related person could benefit from a purchase or sale of the applicable security by a fund. Consistent with a fund’s investment objectives and subject to satisfaction of the policies and procedures in the Code and the funds’ governing documents, MHR may on rare occasions recommend that a fund acquire or sell securities from or to an MHR related person. For example, because MHR’s President owns a substantial interest in the hedge funds, transactions involving these hedge funds and our other funds may be deemed principal transactions and could theoretically pose a conflict of interest with our other clients. Any principal transaction shall be subject to compliance with legal requirements as well the requirements in the funds’ governing documents. The Code contains procedures to identify and

manage these types of conflicts of interest to the extent they arise and to ensure that the Firm and MHR employees fulfill their fiduciary obligations. An affiliate of MHR acts as a general partner of master accounts and special purpose vehicles through which other funds invest; however, MHR does not collect any additional compensation in connection with these arrangements.

- C. The Code provides that all MHR employees must notify MHR of all relevant existing personal accounts and obtain approval from the Chief Compliance Officer prior to the opening of each new personal account. MHR employees must arrange for information reflecting personal transactional activity to be sent to MHR or its designee on a regular basis. All proposed discretionary personal transactions in covered securities, as defined in the Code, other than for client accounts, are subject to pre-approval by the Chief Compliance Officer. If there is any finding that personal trading activity is inconsistent with the Firm's policy, MHR will investigate and, as with any breach of the Firm's policies, a violation is subject to disciplinary action, which may include dismissal.
- D. MHR's policy requires us to allocate investment opportunities among all clients fairly, in accordance with each client's applicable investment strategies. As such, the Firm generally allocates investment opportunities among all applicable funds based on a pre-determined allocation methodology, as modified from time to time, which mitigates conflicts that may arise from co-investments or side-by-side investments by the funds. MHR determines to invest in a particular opportunity on behalf of any one or several of its clients based on a variety of relevant factors, including those outlined below. All of the participating clients generally receive a pro rata provisional allocation based on available capital and commitments as periodically determined. MHR may adjust this provisional allocation in its discretion based on a number of relevant circumstances, including: anticipated subscriptions to and redemptions from the hedge funds and capital commitments to the private equity fund during its investment period; the finite term of the private equity funds and the open-ended nature of the hedge funds; the relative maturity of the portfolio company in which investment is being made; the speculative nature of the investment; anticipated realizations of other investments; other existing funding commitments or prospective investments under consideration; the size of the investment in light of concentration and diversification restrictions and guidelines; availability of margin credit for the hedge funds (which is generally not considered appropriate for the private equity funds) and the effect of the investment on such availability; MHR's determination that a client already has sufficient exposure to securities, issuer or market in question (including in light of investment guidelines set forth in the operating agreements); relative risk and value-at-risk profiles of participating clients; tax considerations; minimum investment criteria; and investment time horizon. The Firm typically reduces positions across all participating funds pro rata on the basis of the relative size of the position held by each fund, provided that the Firm may deviate from the above reduction methodology, including as a result of the clients' different liquidity needs and sources, disparities in the life cycle (including the finite nature of the private equity funds' terms), as well as other investment

opportunities then under consideration. The Firm may cause liquidation of an investment for one client while retaining or increasing the position held by another client in the same investment based on disparities in the liquidity and life cycle of the relevant funds.

In appropriate circumstances and subject to satisfaction of MHR's policies and procedures and the participating funds' governing documents, MHR related persons, including client funds in which MHR related persons may own significant interests or in limited instances, their personal accounts, may co-invest with other MHR funds at the same time and on a side-by-side basis. The Firm has adopted a policy relating to co-investments by MHR employees' personal accounts in order to address a potential conflict of interest created by these transactions. In particular, the Chief Compliance Officer generally will not approve personal transactions in any security (other than through a client account) if an order for a client in the same security, same way, at the same price (whether limit or market order) remains unexecuted.

Where appropriate based on the size of the opportunity and other factors, MHR is authorized, in its discretion, to offer co-investment opportunities to third parties (including current, former or prospective investors in the funds). MHR will not offer co-investment opportunities before the funds' capacity for a particular investment is filled as determined by it in good faith based on a variety of relevant factors at the time. The Firm can be subject to a potential conflict of interest in determining such capacity. Co-investors will be required to bear their pro rata portion of expenses incurred directly in connection with a portfolio investment but may not be required to bear indirect expenses (e.g. "broken deal" expenses).

Item 12 Brokerage Practices

- A. MHR's investment strategies generally do not call for frequent trading of securities. Most trades are expected to be placed through the clients' executing brokers but settled through its prime brokers. MHR considers financial strength and integrity to be essential factors in selecting and monitoring prime brokers. Part of the selection process includes making judgments on a prime broker's financial substance, while realizing that financial strength is subject to many unpredictable factors and sudden shocks. The Firm will also evaluate whether the prime broker and its employees have sufficient capability to fairly and appropriately transact business based upon sound business practices.

In addition, MHR assesses its executing brokers to ensure "best execution." Brokers are evaluated on the overall value and quality of the brokerage services provided by such firms to clients. Factors considered include:

- the ability to effect prompt and reliable executions at favorable prices (including the applicable dealer spread or commission, if any);

- the operational efficiency with which transactions are effected, taking into account the size of the order and difficulty of execution;
- the financial strength, integrity and stability of the broker;
- the broker firm's risk in positioning a block of securities;
- the quality, comprehensiveness and frequency of available research services considered to be of value; and
- the competitiveness of commission rates in comparison with other brokers satisfying the Firm's other selection criteria.

1. We Can Utilize Research and Other Soft Dollar Benefits. Soft dollar benefits include research and related services and products furnished by brokers, including written information and analyses (including specific market, financial and economic studies and forecasts), statistics and pricing services, third party research, trade execution services, discussions with research personnel and similar or other research services or products used in the investment and trading process, including those provided by third parties. We can pay a broker a commission in excess of that which another broker might have charged for effecting the same transaction, in recognition of the value of the brokerage or research services, or other services or facilities provided by the broker. Since commission rates in the U.S. as well as in certain other jurisdictions are negotiable, selecting brokers on the basis of considerations that are not limited to applicable commission rates may at times result in higher transaction costs than would otherwise be obtainable. To the extent we enter into soft dollar transactions, we will effect such transactions in compliance with the safe harbor provided by Section 28(e) of the U.S. Securities Exchange Act of 1934, as amended. If a product or service obtained with commission dollars provides both research and non-research assistance to us, we will make a reasonable allocation of the cost which may be paid for with commission dollars (thereby ensuring that soft dollars are only paying for research and research-related services). Any new soft dollar arrangement (i.e., an arrangement with an existing soft dollar broker to obtain a new product or service or an arrangement with a new soft dollar broker) is subject to approval by the Chief Compliance Officer.

2. The Use of Soft Dollars Can Create a Conflict of Interest. Using client transactions to obtain research and other benefits creates incentives that may result in conflicts of interest between advisers and their clients. The availability of these benefits may influence MHR to select one broker rather than another to perform services for clients, based on our interest in receiving the products and services instead of on our clients' interest in receiving the best execution prices. Obtaining these benefits may cause our clients to pay higher fees than those charged by other broker-dealers.

However, we will make a good faith determination that the amount of commission is reasonable in relation to the value of the research and other soft dollar benefits received, viewed in terms of either the specific transaction or our overall responsibility to our clients. We regularly evaluate the placement of brokerage and the reasonableness of commissions paid.

The use of soft dollars to obtain research services and to pay for other costs and investment expenses that the Firm might otherwise incur (such as third party research and investment information, investment execution services, research and financial newsletters) creates a conflict of interest between the Firm and our clients because our clients pay for products and services that are not exclusively for their benefit and that may be primarily or exclusively for the benefit of the Firm or other clients. To the extent that we are able to acquire these products and services without expending our own resources, our use of soft dollar benefits tends to increase our profitability.

3. We May Consider Referrals in the Selection of Brokers and Dealers. Subject to our requirement to seek best execution, we may consider referrals of potential investors to our clients as a factor in the selection of brokers. We may execute trades with brokers and dealers or utilize prime brokers with whom the Firm or the funds' portfolio companies have other business relationships, including credit relationships, capital introduction, investments by affiliates of the broker-dealers in our clients or investment banking or advisory relationships with our portfolio companies; however, we do not intend for these other relationships to influence the choice of brokers and dealers who execute trades for our clients or our choice of prime brokers.
4. Our Clients Do Not Direct Brokerage. The Firm does not recommend, request or require, nor do we permit a client to, direct us to execute transactions through a specified broker-dealer.

- B. MHR may determine to aggregate the purchase or sale orders for multiple clients, and average the prices paid or received in connection with such investments, with transaction costs shared pro rata based on each client's participation in the transaction. Such aggregation may occur in the event that MHR determines that an investment is appropriate for more than one client account and the funds' operating agreements permit co-investment.

Item 13 Review of Accounts

- A. Monitoring of Accounts. MHR's investment professionals review investments on an ongoing basis. MHR's senior investment professionals also monitor and review the funds' portfolios and analyze performance on a regular basis. Where appropriate, these reviews include an assessment of daily profit and loss reports

with respect to our clients' investment positions, participating in board meetings and management calls, reviewing annual and interim financial statements, and making ad hoc on-site visits.

- B. Review Triggers. MHR regularly supervises and monitors the activities of its client funds, as referenced above in Item 13.A. In addition, MHR's senior investment professionals meet upon the occurrence of certain significant events. A "significant event" is generally an event that may materially affect the value of a portfolio position.
- C. Reports. We provide investors in our funds with unaudited monthly account statements, which also include information on the investor's remaining capital commitment in our private equity funds. We generally provide the investors in our private equity funds with a quarterly investor letter. Additionally, we provide audited annual reports for each of our funds containing financial statements examined by our independent auditors as well as such tax information as is necessary for each investor in our funds to complete its U.S. federal and state income tax or information returns, along with any other tax information required by U.S. and international law.

Item 14 Client Referrals and Other Compensation

- A. The Firm does not receive any economic benefit from non-clients for providing advisory services to the clients.
- B. Neither MHR nor its related persons compensate any person who is not a supervised person for client referrals. However, we have entered into solicitation arrangements with unaffiliated third parties in connection with the offering of interests in some of our funds and may enter into other such arrangements in the future.

Item 15 Custody

Due to our or our affiliates' access to client funds and securities as general partner or manager of our client funds and authority to deduct fees and other expenses from clients' accounts, we have constructive custody of our clients' funds and securities within the meaning of Rule 206(4)-2 of the Investment Advisers Act of 1940, as amended (the "Custody Rule").

We utilize the services of unrelated financial institutions or other qualified custodians (as defined in the Custody Rule) to hold substantially all of the funds and securities of our clients. We also ensure that the qualified custodian maintains such funds in accounts that contain only clients' funds and securities, which may be under our name as agent or trustee for the client.

All of our clients are collective investment funds or similar entities. Accordingly, we comply with the periodic reporting requirements of the Custody Rule by arranging for annual financial statements, prepared in accordance with generally accepted accounting principles and audited by an independent auditor that is registered with, and subject to regular inspection by, the Public

Company Accounting Oversight Board, to be delivered to each investor in our client funds within 120 days of the end of the relevant fund's fiscal year.

Item 16 Investment Discretion

All of the Firm's investment advisory services involve the management of client accounts on a fully discretionary basis. We have the authority to determine, without obtaining specific client consent, which securities to buy or sell and the amount of securities to buy or sell, the broker through which we effect trades, and the commission rates at which we effect trades. In exercising this authority, we adhere to the investment strategy and program set forth in each of the funds' private placement memorandum and operating agreement.

Investors in our client funds are required to complete our subscription documents to acquire an interest in the fund, which, among other things, confirm that the investor has reviewed the relevant disclosure document describing the scope of our authority and the inability of any investor to direct our trading activities.

Item 17 Voting Client Securities

Because clients have delegated to us the power to vote their securities, we have implemented proxy voting policies and procedures in accordance with securities laws and our fiduciary obligations to our clients. We always strive to vote proxies in a manner we believe reasonably advances the best interests of our clients and is consistent with the clients' investment philosophy as set forth in the relevant investment management documents. The major proxy-related issues generally fall within five categories: corporate governance, takeover defenses, compensation plans, capital structure, and social responsibility. MHR will cast votes for these matters on a case-by-case basis. MHR will generally vote in favor of matters which follow an agreeable corporate strategic direction, support an ownership structure that enhances shareholder value without diluting management's accountability to shareholders and/or present compensation plans that are commensurate with manager performance and market practices.

If a proxy vote creates a material conflict between the interests of MHR and a client, we will resolve the conflict before voting the proxies. We will either disclose the conflict to the client and obtain the client's consent or take other steps designed to ensure that a decision to vote the proxy was based on MHR's determination of the client's best interest and was not the product of the conflict.

MHR maintains records of (i) all proxy statements and materials the Firm receives on behalf of clients (with the exception of materials that are publicly available, through the Securities and Exchange Commission website or otherwise); (ii) all proxy votes that are made on behalf of the clients; (iii) all documents created by MHR that were material to MHR's decision as to how to vote or that memorializes the basis for that decision; (iv) all written requests from clients regarding voting history (to the extent such requests exist); and (v) all responses (written and oral) to clients' requests.

Upon request, any of our clients or any of the investors in our clients can obtain (i) a copy of our proxy voting policies and procedures and (ii) information concerning proxy voting on its behalf.

From time to time, MHR may receive notices regarding class action lawsuits involving securities that are or were held by the funds. MHR will generally only participate in a class action if it determines such participation is in the best interests of the funds. Historically, the Firm has not participated in class actions lawsuits. If MHR does participate in a class action lawsuit and ultimately receives proceeds from such participation, the proceeds typically will be credited the relevant client fund for the benefit of its current investors.

Item 18 Financial Information

- A. We do not require nor do we solicit prepayment of more than \$1,200 in fees per client, six months or more in advance.
- B. We are not aware of any financial condition that is likely to impair our ability to meet our contractual commitments to our clients.
- C. The Firm has never been the subject of a bankruptcy petition.