

## Item 1 – Cover Page

### Mohican Financial Management, LLC

21 River Road, Suite 2100

Wilton, CT 06897

203-423-8029

March 1, 2017

This brochure provides information about the qualifications and business practices of Mohican Financial Management, LLC. If you have any questions about the contents of this brochure, please contact us at 203-423-8029 or [rgardner@mohicanfinancial.com](mailto:rgardner@mohicanfinancial.com). 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.

Mohican Financial Management, LLC is a registered investment adviser. Registration with the SEC does not imply a certain level of skill or training.

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

## Item 2 – Material Changes

Since the last Annual Update on March 10, 2016, the following material changes occurred:

1. Mohican's Chief Compliance Officer, Charles Hage, retired and was replaced with Rebecca Gardner.

Pursuant to current SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

A copy of the firm's brochure may be requested by contacting Rebecca Gardner, Chief Compliance Officer, at 203-423-8029 or [rgardner@mohicanfinancial.com](mailto:rgardner@mohicanfinancial.com).

# Item 3 -Table of Contents

Item 1 – Cover Page .....	i
Item 2 – Material Changes.....	ii
Item 3 – Table of Contents.....	iii
Item 4 – Advisory Business .....	1
Item 5 – Fees and Compensation .....	2
Item 6 – Performance-Based Fees and Side-By-Side Management .....	3
Item 7 – Types of Clients.....	4
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss.....	5
Item 9 – Disciplinary Information .....	7
Item 10 – Other Financial Industry Activities and Affiliations .....	8
Item 11 – Code of Ethics .....	9
Item 12 – Brokerage Practices .....	10
Item 13 – Review of Accounts.....	12
Item 14 – Client Referrals and Other Compensation.....	12
Item 15 – Custody .....	14
Item 16 – Investment Discretion .....	15
Item 17 – Voting Client Securities.....	16
Item 18 – Financial Information.....	17
Item 19 – Requirements for State-Registered Advisers.....	18

## Item 4 – Advisory Business

Mohican Financial Management, LLC (“the firm” or “Mohican”), a Delaware limited liability company established in 2002 by Eric C. Hage and Daniel C. Hage, provides investment management services on a discretionary basis to private funds and registered investment companies (mutual funds).

Eric Hage and Dan Hage are equal owners of Mohican, each owning 50%.

Mohican is the investment manager of Mohican VCA Fund, LP, a Delaware limited partnership. Mohican Capital Management, LLC, an affiliate, is the general partner of the private fund.

Mohican has full discretionary authority with respect to investment decisions, and its advice is made in accordance with the investment objectives and guidelines set forth in the fund’s offering memorandum. Similarly, Mohican’s investment decisions and advice with respect to the mutual funds it subadvises are in accordance with their prospectus and the objectives and guidelines detailed in the Client’s investment management agreement. Mohican requires an investment management agreement be executed for each client account detailing their investment authority over the account and any investment guidelines or restrictions.

The firm offers investment advice limited to convertible securities. Subject to investing restrictions contained in offering memoranda or managed account agreements, client accounts are managed on a discretionary basis by the portfolio management team..

As of January 1, 2017, discretionary assets under management were approximately \$117.3 million.

## Item 5 – Fees and Compensation

Fees are non-negotiable and are established in written agreements with clients.

Mohican receives a management fee at an annual rate of 1.0% from the private fund. The fee is paid quarterly in arrears in accordance with the terms outline in the private fund offering memorandum. Management fees are calculated by the third-party administrator and deducted from each investor's capital account.

The private fund bears all costs and expenses directly or indirectly related to their investments and operations, including, but not limited to, the management fee, legal, audit and account expenses (including third party accounting services), administrator fees and expenses, investment expenses such as commissions, custodial fees and any other reasonable expenses related to the purchase, sale or transmittal of fund assets. Investors/shareholders should refer to the fund offering documents for a complete description of fees and compensation.

Mohican receives a management fee at an annual rate of 1.0% from the mutual funds it subadvises. The fee is paid monthly in advance in accordance with the terms outlined in the prospectus. Management fees are calculated by the third-party administrator and deducted from the investment company's account.

Currently the firm manages three accounts having annual fees as follows:

<u>Account</u>	<u>Advisory Role</u>	<u>Management Fee</u>	<u>Performance Fee*</u>
Hedge Fund	Advisor	1.0% of assets (quarterly)	10% of gain
Mutual Funds (2)	Sub-advisor	1.0% of assets (monthly)  (Payable in arrears)	0

\*Payable annually in arrears subject to High Water Mark

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

For each fiscal year, 10% of each Limited Partner's share of net profits, if any, is paid from the capital account of each Limited Partner to the capital account of the General Partner, subject to a high water mark as outlined in the fund offering documents.

Mohican recognizes that such fee arrangements create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities and that such fee arrangements create an incentive to favor accounts for which the principals have a personal capital investment. In order to address these potential conflicts, Mohican has developed policies and procedures for treating all clients in a fair and equitable manner.

The Investment Management Team utilizes the Kynex software system to monitor and allocate trades in a manner which is fair and equitable over a significant period of time and addresses the significant differences in restrictions, needs and conditions among the three clients including, but not limited to:

- Leverage, leverage limits and cash balances;
- Current, pending and anticipated inflows and redemptions;
- Stability of investors in each account and different liquidity terms;
- The ability to invest in 144a securities or only registered securities;
- Liquidity requirements;
- Concentration limits;
- Prohibited securities;
- Delta equivalent exposure limits;
- Credit rating limits;
- Investment type – in the money, at the money, credit trades;
- Sensitivity to moves in credit spreads;
- Sensitivity to moves in interest rates;
- Sensitivity to moves in equity volatility;
- Duration relative to duration in each portfolio;
- General risk tolerance for each account;
- Industry and economic sector exposure in each account;
- Diversification in each account;
- Stock loan rates between prime brokers;
- Practical trading considerations such as odd lots, round lots and numbers of positions;
- Previous positions in each account that already offer similar trade profile;
- Cheapness of security relative to other securities in each account.

## Item 7 – Types of Clients

As disclosed in Item 4, Mohican provides investment management services to a private fund and registered investment companies. Generally, the minimum initial investment for the Mohican VCA Fund is \$1,000,000. However, Mohican or its affiliates reserve the right to accept lesser amounts as long as the investor qualifies to invest based on all other suitability and regulatory requirements.

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

**Investing in securities involves risk of loss that clients should be prepared to bear.**

The firm manages investments in a single strategy: arbitrage in liquid domestic corporate convertible bonds, with an emphasis on coupon bonds of small and mid-cap companies. The objective of portfolio management is to maintain moderate return and low risk performance by continually producing a combination of high alpha (manager value), low beta (market sensitivity), and high omega (return distribution).

Risks associated with individual positions in this investment strategy, and the methods of analysis used in managing those risks, are:

Credit Risk. Bottom-up independent research is done by the firm on the financial fundamentals and credit-worthiness of the issuing company, to determine the level and conditions of risk that company credit will deteriorate.

Adverse Events. Examination and understanding of protection clauses and indenture terms in the prospectus for the convertible bond that will mitigate the effect on convertible bond price of a company takeover or a raise in the stock dividend,

Vega Risk. Analysis of various scenarios for stock price volatility is done to estimate the potential upside and downside changes in price of the convertible bond.

Call Risk. Analysis of the “cushion” involved in redemption of the convertible bond by the company; i.e. the acceptable change in stock price during the window of time provided by notice of redemption.

Portfolio risks in this strategy, and the methods of analysis used in managing those risks, are:

Concentration. Strict limits are prescribed and monitored with each position change to maintain a portfolio with small position sizes, multiple industries, and many companies.

Correlation. Historical moves in equity prices, credit spreads, interest rates, and volatility are examined for correlation. Where possible, expected correlation for a new position is estimated using the most similar existing position.



Stock Loan. Given that equity positions are short-only for hedging, detailed analysis of the portfolio borrow float is done and a close understanding of prime broker conditions is maintained to anticipate any change in stock loan rates.

Interest Rates. Economic, monetary and market trends are examined to anticipate changes in interest rates and calculate possible hedging actions with treasuries and options.

For more detailed information on the risks related to investing in a private fund, please refer to the private fund offering memorandum.

## Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to evaluation of the firm or the integrity of firm management. Mohican has no legal or disciplinary events to report that would impact the evaluation by a client, prospective client or investor, of our advisory business or the integrity of our management.

## Item 10 – Other Financial Industry Activities and Affiliations

The firm does not engage in any business or activity, related or otherwise, in any industry, including the financial industry, other than the business and activity of the firm as described herein. The firm has no financial industry activities or affiliations that are material to its advisory business, and is not registered as a securities broker-dealer or in relation to commodities or futures.

Neither the firm nor any personnel in the firm have any arrangements, oral or in writing, to receive any compensation or economic benefit from any non-client in connection with advice or referrals.

## Item 11 – Code of Ethics

Pursuant to SEC Rule 204A-1, the firm has adopted a Code of Ethics for all supervised persons describing its high standard of business conduct and fiduciary duty to its clients. The Code of Ethics includes provisions relating to the confidentiality of client information, a prohibition on insider trading, guidelines surrounding gifts and business entertainment items, personal securities trading procedures, and conflicts of interest. All supervised persons of the firm acknowledge the terms of the Code of Ethics annually, or as amended.

Officers and employees of the firm are required to follow policy and procedures contained in the firm's Code of Ethics. Subject to satisfying this policy and applicable laws, officers and employees of the firm may trade for their own accounts in securities which are recommended to and/or purchased for firm's clients. The Code of Ethics is designed to assure that the personal securities transactions, activities and interests of the employees of the firm will not interfere with (i) making decisions in the best interest of advisory clients and (ii) implementing such decisions while, at the same time, allowing employees to invest for their own accounts. Officers and Employees are restricted from trading in personal accounts in the securities of any company that has an outstanding convertible bond, without pre-clearance. In addition, Mohican requires all employees to obtain pre-approval for any investments in a fund in which Mohican acts as sub-adviser. Employee trading is monitored under the Code of Ethics, and to reasonably prevent conflicts of interest between the firm and its clients.

Mohican recognizes that performance fee arrangements create an incentive to favor higher fee paying accounts over other accounts in the allocation of investment opportunities and that such fee arrangements create an incentive to favor accounts for which the managing Partners have a personal capital investment. In order to address these potential conflicts, Mohican has developed policies and procedures for treating clients in a fair and equitable manner. Policies and procedures require that investment decisions be made based on the best interests of our clients, without consideration of firm or employee pecuniary interests.

The firm will not effect any principal or agency cross securities transactions for client accounts.

Clients or prospective clients of the firm may request a copy of the firm's Code of Ethics by contacting the firm's Chief Compliance Officer.

## Item 12 – Brokerage Practices

The firm has authority, without seeking specific consent from clients, to determine which broker or dealer will be used for a trade and what commission rate will be paid. The firm does not recommend brokers to clients. The firm is not required by clients to seek lowest commission and is authorized to include research benefits in commission rates. The Firm selects broker dealers on but not limited to the follow criteria: speed and efficiency, execution quality, natural flow, ability to handle our trading size, market making, creditworthiness, and the ability to prove timely reports.

Mohican understands that it has a fiduciary duty to clients to allocate securities involving more than one client in a fair and equitable manner. When investing in the same security in the same direction for more than one investment account, Mohican's policy is to place the orders simultaneously. If all orders are not executed at the same price, trades are allocated such that the order for each account is filled at the same average price. Similarly, if an order for more than one account cannot be fully executed under prevailing market conditions, trades will be allocated among the different accounts on a fair and equitable basis.

The soft dollar value received by the firm is restricted by the following practices: (1) services paid by the broker are limited to research received by the firm, (2) commissions are not higher than those obtainable from other brokers, and (3) research received by the firm with soft dollars supports all accounts managed by the firm. All soft dollar benefits are disclosed to clients.

Recent history shows that when the Firm accrues soft dollars, the average accrual rate is about \$25K, and that the continuing average expenditure rate is about \$23K. Accrual is initiated when the credit balance of soft dollars (accrued and not spent) falls below \$50K (2 quarters of expense) and is suspended when the balance rises above \$100K (4 quarters of expense).

Research received by the firm is produced both by the broker-dealer and a third party. Mohican receives a benefit from its soft-dollar arrangement since it does not need to produce research or directly pay for the research. Accordingly, an incentive may exist to select a broker-dealer based on receiving the research provided by the broker-dealer rather than receiving the most favorable execution.

The firm strives to execute each securities transaction in such a manner that the client's total cost or proceeds in each transaction is the most favorable under the circumstances.

The firm periodically reviews and negotiates commission rates paid, monitors service and attention from each broker-dealer, assesses order handling procedures, technology and efficiency and evaluates commission ranges in the marketplace.

The firm does not accept any client directed brokerage arrangements and does not engage in principal trading or agency cross transactions.

## Item 13 – Review of Accounts

For mutual funds subadvised by Mohican, a quarterly review is completed. This review includes a detailed checklist, completion of a questionnaire, and certifications to the client. In addition, an annual review is conducted resulting in an annual report to the client. Moreover, the principals of the client complete an onsite review every two years.

For private fund accounts, the CFO completes monthly reporting to the firm. In addition, a quarterly manager report is provided to clients, which includes performance and asset numbers.

In addition to periodic reviews, the prime broker may send the firm Corporate Action Notifications related to trading in securities that are held in client accounts. In the event that the subject of a notification could lead to a material effect on the value of the client account, the firm will review of the client account.

## Item 14 – Client Referrals and Other Compensation

The firm has no arrangement to receive any benefit from service to any party other than the clients and the firm does not compensate anyone who is not a supervised person for client referrals.



## Item 15 – Custody

Mohican does not maintain physical possession of client cash or securities; however, under Rule 206 (4)-2 of the Advisers Act, an adviser is deemed to have custody of client assets if the adviser has access to such funds in a legal capacity (e.g. as the general partner of a limited partnership). Consequently, the firm is deemed to have custody because it has access to the assets of the limited partners of the Mohican VCA Fund LP through Mohican Capital Management LLC, the fund's general partner.

Accordingly, client assets are held in accounts maintained with a Qualified Custodian. Clients have access to account statements through the account administrator/custodian and, as a result, neither the prime broker nor the firm need to provide regularly scheduled statements or reports to clients.

The private fund is audited annually, in accordance with GAAP, by an independent public accounting firm that is registered with, and subject to regular inspection by the Public Company Accounting Oversight Board (the PCAOB). Copies of the audited financial statements are independently distributed to each investor within 120 days of the firm's fiscal year end.

## Item 16 – Investment Discretion

The firm receives discretionary authority from clients at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, the firm observes the investment policies, limitations and restrictions of the clients for which it advises. These policies, limitations and restrictions are described in detail in advisory agreements between the clients and the firm.

## Item 17 – Voting Client Securities

The firm manages all client investments in the single strategy of convertible arbitrage, in which short equity positions are common but long equity positions are never taken. Long positions are taken by the firm in securities which do not have voting rights (e.g. corporate bonds, equity options, and treasury futures) and therefore the firm does not engage in any practice related to proxy voting of equity shares.

## Item 18 – Financial Information

Registered investment advisers are required in this Item to provide certain financial information or disclosures about their financial condition. Mohican has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

## Item 19 – Requirements for State-Registered Advisers

Not applicable.