

**Item 1.       Cover Page**

**MHR Fund Management LLC**

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March 28, 2024

MHR Fund Management LLC is an investment adviser that is registered with the U.S. Securities and Exchange Commission (the “SEC”). Registration with the SEC 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 SEC 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](http://www.adviserinfo.sec.gov).**

**Item 2.       Material Changes**

This is an annual update of our Form ADV. This brochure contains routine updates and clarifications. While we do not believe these updates and clarifications constitute material changes, we encourage readers to review this brochure carefully.

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**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 or undervalued middle-market companies and assets for a variety of private fund clients. Mark H. Rachesky is the Firm’s Chief Investment Officer and indirect principal owner through MHR Holdings LLC.
- B. MHR specializes in offering investment management services to private investment funds. MHR invests in middle-market companies primarily through distressed debt and bespoke structured financings, and forms specialized platforms to capitalize on mispriced assets in niche industries. MHR’s value-oriented approach focuses on sourcing through our established industry 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 or undervalued 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 its advisory services to the individual needs and specified investment mandates of its client funds. We adhere to the investment strategy set forth in our client funds’ private placement memoranda and operating agreements, including 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, 2023, MHR managed \$5,343,310,835, which includes each fund’s gross asset value (including, with respect to the private equity funds, the unfunded capital commitments). As of December 31, 2023, MHR’s private equity funds represent approximately 89.50% 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 (other than with respect to certain legacy funds pursuant to the terms of their partnership

agreements) 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 fund. Our fees are generally not negotiable; however, we have the discretion to agree to different fees with investors in the funds (and have done so in some of our hedge funds) and waive fees (and have done so for certain of the Firm's employees and their affiliates). In our private equity funds, we elect to forego a portion of our fees in exchange for priority profits interest.

- B. We deduct the asset-based fee from our hedge funds 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 generally determined semi-annually in advance and deducted quarterly. Management fees for MHR Longevity Partners LP are determined and deducted quarterly. 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, including all costs and expenses incurred in connection with the identification, structuring, evaluation, diligence, acquisition, consummation, maintaining, holding, insuring, administration, management, sale or proposed sale, disposal, financing or refinancing of such investment (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 or services 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 domestic or foreign regulatory reports and filings containing fund information regardless of the identity of the filer and any programs and software expenses related to such reporting or filings), costs of holding any meetings of investors or the funds' advisory committees, borrowing

costs in connection with the fund's credit facility (if any), costs of any liability insurance (including cyber liability insurance and fiduciary bonds) obtained on behalf of the funds, MHR or its affiliates, any legal fees and costs (including settlement costs) of any litigation or regulatory 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 their allocable share of cost of the positions being acquired, held or sold, and shared expenses not directly related to a specific investment based on the available capital and/or net assets of client accounts. However, we can 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 of our advisory clients are directly or indirectly 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, as amended. 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 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 while mitigating risk. The Firm utilizes a disciplined investment process based upon fundamental valuation and comprehensive due diligence, seeking to ensure that investments adhere to the Firm's investment criteria and 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/or significant influence; (v) creating value utilizing multiple entry points; and (vi) driving hands-on value creation.

Unlike a private equity firm that evaluates an investment opportunity through an auction process, MHR rarely participates in auctions. As a result, MHR has significant experience 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 offering memorandums, 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 can be misunderstood by the market, including environmental liabilities, tax and regulatory issues or specific industry complexities.

- B. See Item 8.C. below.
- C. Our risk management approach 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 security instrument, and/or asset 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 or he 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 illiquid, very illiquid or become either. 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.

Debt Investing. Debt investing, especially distressed debt securities and assets, is 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 of the capital structure of an issuer, such investments, especially in the distressed context, subject the 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 Strategies. 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.

Platform Investing. We have developed and in the future could continue to develop investment platforms in niche industries and/or assets, including to invest in



undervalued assets. Platform investing typically involves partnering with a leading management or advisory team with respect to such industries or assets and creating a platform, owned by one or more advisory clients of the Firm with a specialized investment focus, to acquire, manage and dispose of these assets. To the extent the Firm advances the initial costs and expenses with respect to a platform, it will be entitled to reimbursement by the participating advisory clients. In addition, the compensation and fees paid to the management and/or advisory teams typically include fixed payments and/or profits sharing arrangements (which are in addition to our management fees and performance compensation) as well as reimbursement of costs and expenses incurred. These costs are directly or indirectly borne by our advisory clients. There can be no guarantee that the Firm will be successful in selecting and retaining any suitable personnel or that any platforms would be launched and operated successfully. Our failure 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 the Firm would have a material adverse effect on our advisory clients' investments in platforms.

Position Size; Non-Public Information. As a result of our investment strategy, we may accumulate large positions, have our personnel sit on the boards of portfolio companies in which the funds are invested, and may also participate in 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 can also arise as a result of making or participating in senior loan facilities and in other circumstances. Such access, however derived, can 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. The use of leverage can amplify the profit on successful investments, but it can also amplify the losses incurred on unsuccessful investments. MHR generally has the discretion to use borrowing and other forms of leverage in its strategies, and utilizes borrowing for its hedge funds. Historically, MHR's private equity funds generally have not used leverage, though many of their portfolio companies do. MHR's private equity funds, however, can and have utilized credit facilities for borrowing pending receipt of capital contributions. These facilities, in addition to other risks, may expose MHR to potential conflicts of interest. While credit lines can enable funds to generate returns without the use of investor capital contributions, all costs of a credit facility are borne by the funds and can exceed such returns. MHR can benefit from the enhanced internal rates of return of its private equity funds as a result of the use of a credit facility, since preferred returns generally would not commence until capital is actually called. Management fees for the private equity funds are generally based on capital commitments which accrue even when no capital is called, and the credit facility can be used to pay for management fees and other expenses. The private equity funds, however, have historically used the credit facility generally for short-term capital bridge purposes, and historically such credit facilities have provisions limiting the scope and amount of capital that can be drawn and the timing for repayment of any borrowing thereunder.

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 its management of multiple clients (including clients in which MHR related persons can own significant interests), the nature of its compensation arrangements and the use of our fund structure. The existence of these conflicts of interest can 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).

Increased Regulatory Risk. Increased regulation and regulatory oversight of private investment funds and their managers may impose administrative burdens on the Firm, including, without limitation, responding to examinations and other regulatory inquiries and implementing policies and procedures. Such administrative burdens may divert our time, attention and resources from portfolio management activities. Regulatory inquiries are generally confidential in nature, may involve a review of an individual's or a firm's activities or may involve studies of the industry or industry practices, as well as the practices of a particular institution.

In August 2023, the SEC adopted new rules and rule amendments under the Advisers Act (collectively, the "Private Fund Advisers Rules") that significantly expand the regulatory compliance requirements for investment advisers of private investment funds. The rules are being challenged in court, but the outcome of that litigation remains unclear.

If the Private Fund Advisers Rules are not overturned or limited by the pending legal challenge, they will impose additional requirements on the Firm, the implementation of which could result in material alterations to the operations of the funds, and impact the investment strategies of the funds. Such requirements include, but are not limited to: additional reporting and disclosure obligations, limitations with respect to the expenses to be borne by the funds, and consent requirements with respect to certain actions by MHR. Certain incremental costs and expenses of compliance with the Private Fund Advisers Rules, to the extent permitted under the governing documents of the funds and consistent with applicable law, would be borne by the Funds, and could be significant. The implementation of the Private Fund Advisers Rules could require the Firm to allocate additional resources to compliance with the rule, which could impact the availability of these resources for other aspects of the management of the funds. There can be no assurance that such alterations made pursuant to the Private Fund Advisers Rules will not have a material adverse effect on the Firm or the funds or their investments.

Cybersecurity. We have established a business continuity plan and a cybersecurity response plan and, in addition, the computer systems, networks and devices used by us and service providers to us and a client to carry out routine business

operations employ a variety of protections designed to prevent damage or interruption from computer viruses, network failures, computer and telecommunication failures, infiltration by unauthorized persons and security breaches. Despite such plans and the various protections utilized, there are inherent limitations and therefore, systems, networks or devices potentially can be breached. Our private funds and their investors could be negatively impacted as a result of a cybersecurity breach. Cybersecurity breaches can include unauthorized access to systems, networks or devices; infection from computer viruses or other malicious software code; and attacks that shut down, disable, slow or otherwise disrupt operations, business processes or website access or functionality. Cybersecurity breaches may cause disruptions and impact business operations, potentially resulting in financial losses to a client; interfere with our ability to calculate the value of an investment in a client; impede trading; interfere with our and our service providers' ability to transact business; violate applicable privacy and other laws; result in regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, or additional compliance costs; and result in any other outcomes that have not been identified given the evolving nature of cybersecurity threats, as well as the inadvertent release of confidential information.

Inflation. As an aftermath of the COVID-19 global pandemic, countries around the world have significantly loosened monetary policy and injected trillions of dollars into the global economy in an effort to prevent more severe economic turbulence. Current and future disruption in supply of goods, combined with loose monetary policy and unprecedented levels of government spending, have resulted in a material increase in inflation. Inflation and rapid fluctuations in inflation rates have had in the past, and in the future may have, negative effects on economies and financial markets, which may consequently have a materially adverse impact on the investment performance of the client funds or their relationships with counterparties, including as a result of bank failures. There can be no guarantee that our client funds will not transact with banks or other counterparties that would subsequently become insolvent and such insolvency can have a material negative impact on our client funds and their performance.

Conflict in the Middle East. As of the date hereof, there is an active armed conflict in the Middle East. There are speculations that other powers outside the area may get involved, which could cause a possible risk of escalation of the dispute. The rapidly evolving conflict could be expected to have a negative impact on the economy and business activity globally and therefore could adversely affect the performance of the investments of the client funds. The severity and duration of the conflict and its impact on global economic and market conditions are impossible to predict and, as a result, present material uncertainty and risk.

Volatile Markets. The client funds' portfolio investments may be adversely affected by changes in economic conditions or political events that are beyond our control. Continued threats of terrorism, the escalation of war in Ukraine, the imposition of sanctions and countersanctions and credit rating downgrades result in extreme

market volatility and limited liquidity. These market conditions may present the risk of large losses. Price movements are influenced by many unpredictable factors, such as market sentiment, inflation rates, political events, interest rate movements, natural disasters, epidemics and general economic conditions. Any of these factors can have a material adverse effect on our portfolio companies and as a result our client funds.

Tax Audit Risk. The tax treatment of client funds and investment portfolios is complex. There is no assurance that the tax positions taken by the Firm will be accurate.

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 as its general partner. 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 Longevity Partners LP
- MHR Capital Partners (500) LP
- MHR Capital Partners LP
- MHR Capital Partners (100) LP

Since we have more than one client, our personnel cannot devote their exclusive attention to any single client. However, the operating agreements of our private equity funds generally contain requirements with respect to the working time Mark H. Rachesky dedicates to such funds.

On occasion, the interests of one client may conflict with those of another. For example, due to the fact that our clients have similar investment mandates, 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 in light of its investment strategy, liquidity and other relevant considerations, and there is sufficient capacity and no restrictions imposed by the funds' operating agreements or MHR's policies, the funds can co-invest in the same investment opportunity. The Firm can also determine to offer co-investment opportunities to third parties (as further described in Item 11.D). Our policies prevent us from taking into account differences in compensation structures and investment by related persons in any fund when 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, in most cases, by maintaining a significant investment in the funds we manage.

Since performance-based 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 for our earlier private equity funds have historically involved publicly listed equity securities or debt securities for which independent broker quotes are readily available. It is also our practice in MHR Institutional Partners IV LP to obtain valuation of significant private positions by an independent third party valuation firm; however, MHR is not generally bound to utilize such valuations. MHR is also subject to a conflict of interest with respect to side pocket investments of certain MHR hedge fund clients, including, in some cases, with respect to the timing of payout and valuations of such investments. This conflict of interest is set forth in

detail in the private placement memorandum and governing documents of the applicable MHR client.

On rare occasions, we may cause a transfer of an investment from one client to another for a variety of reasons, including for tax or liquidity purposes, to reduce transaction costs or in other circumstances where the Firm determines that cross transactions are in the best interests of both parties and the Firm has taken steps to ensure that the transaction is consistent with its duty to obtain best execution for each of those accounts. 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 (the "Advisers Act"). A client's investor advisory committee considers such conflicts and is authorized to provide consent on behalf of the client.

In order to get exposure to the underlying positions of the other funds, our hedge funds are permitted to invest in, and certain hedge funds have invested in, certain of our other funds. In such cases, the participating hedge funds bear their allocable portion of any fees payable to the Firm and/or its affiliates by such funds.

Relationships with Portfolio Companies. 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.

MHR can cause a client fund to provide (or reimburse and indemnify MHR or its affiliates for providing) bridge loans to and guarantee obligations of the portfolio companies in which other clients are also invested. MHR can become subject to a potential conflict of interest relating to enforcement and relative allocation of benefits and obligations among clients to the extent they own different types of interests in, or have different arrangements with, the relevant portfolio company. Furthermore, certain portfolio companies owned by our client funds and/or the Firm or its affiliates can provide services to other portfolio companies or the assets of such portfolio companies. Likewise, the Firm can utilize services of affiliated portfolio companies. The private equity funds' operating agreements generally require that any services provided by affiliated companies are comparable, in terms of quality and price, to those provided by third parties in arm's length transactions, however, we are subject to a conflict of interest with respect to pricing these services and determining whether any transaction is comparable to an arm's length transaction since we are benefitting from fees and track record directly or indirectly.

The affiliated service providers will be subject to the standard of care and indemnification provisions set out in their respective service contracts, and MHR will not be liable for any acts by such affiliated service providers selected by us with due care and in accordance with the foregoing requirements. Any income derived by our clients and their portfolio companies from servicing other portfolio companies or assets will not offset our management fees. In addition, if several clients and/or MHR affiliates co-invest in the same servicing entity, the fees will be earned by all of them on a pro rata basis, and MHR's management fees will not be reduced by any portion of such income. To the extent required by the operating agreements and applicable law, we will seek client consent with respect to material conflicts of interests between the Firm on the one hand and one or more of our client accounts on the other. There can be no assurances that all conflicts of interest will be presented for approval to the advisory committee of the relevant client.

A client fund can, from time to time, make an investment in a portfolio company in which another client fund invests in a different part of the capital structure, *i.e.* debt and equity securities, different tranches of debt securities and similar situations. If one client holds securities in a portfolio company with rights, preferences and privileges that are different than those held by another client in the same portfolio company, MHR may be presented with decisions when the clients' interests conflict. There may be instances where a portfolio company becomes insolvent or bankrupt, and where one client's interests in such portfolio company conflict with the interests of another client that invested in different types of securities of the issuer. It is possible that in a bankruptcy proceeding, certain clients' interests may be subordinated or otherwise adversely affected by virtue of MHR's involvement and actions relating to the investment by other clients.

Related Adviser. MHR is the sole owner of Miquelon Services SAS ("Miquelon"), a financial investment adviser (*conseiller en investissements financiers*) licensed by the Financial Markets Authority and registered with the French register of financial intermediaries (ORIAS) under number 20002405 in France. Miquelon provides certain research and advisory services to MHR but does not have any portfolio management authority and does not perform investment management functions with respect to MHR clients. MHR bears costs associated with Miquelon and treats it as a relying adviser.

- D. MHR does not recommend or select other investment advisers for its clients. However, we have in the past and expect in the future to partner with expert management or advisory teams with industry expertise in connection with our platform investing as described in Items 8.C and 10.C. MHR will continue exercise significant control over their platform arrangements and activities.

**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; (ii) engage in personal securities transactions only when consistent with the Code; (iii) avoid any abuse of position of trust and responsibility; and (iv) 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 personal transactions in “covered securities” (as defined in the Code), 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 and pre-clearance 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 can 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 Mark H. Rachesky 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. In addition, a client fund can acquire certain investments to be warehoused by the Firm or its affiliates pending the fund’s launch. The acquisition of warehoused investments raises significant conflicts of interests in connection with the selection, negotiation and valuation of these investments. MHR will disclose the material terms of any warehouse transaction to prospective investors in connection with the fund’s closing but investors will not have the benefit of the same information as MHR. Any principal transaction shall be subject to compliance with legal requirements as well the requirements in the funds’

governing documents. The Code also 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. MHR employees must arrange for information reflecting personal transactional activity to be sent to MHR's Chief Compliance Officer or his or her 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 Firm's compliance department. 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 allocation policy generally seeks to allocate investment opportunities among all clients in a manner that is fair and equitable and subject to the considerations discussed herein. In connection with each new investment opportunity, MHR makes a threshold assessment of suitability and has wide latitude in connection with such determination. Pursuant to their governing documents, the private equity funds are contractually entitled to certain priority allocations with respect to certain opportunities, which may limit the amount available to be allocated to the hedge funds. If MHR determines that an opportunity is appropriate for the private equity funds, they are generally entitled to an allocation of not less than a pro rata portion of the aggregate amount to be allocated among all participating MHR clients, based on "available capital," which is generally measured by reference to the net assets of each participating MHR client, including leverage if MHR determines that current conditions would make the use of leverage advisable. Since the available capital of the private equity funds is substantially greater than that of the hedge funds, this allocation principle relating to the private equity funds will limit the amount of an overlapping opportunity available to the hedge funds. Similar priority considerations may apply for the benefit of any MHR client that has an investment mandate that is more narrowly focused than that of the other MHR clients in the case of an opportunity falling within the targeted mandate.

After giving effect to relevant priority considerations noted above, if the remaining amount of a new investment opportunity is considered suitable for multiple MHR clients, it will be provisionally allocated between them pro rata in accordance with available capital. However, this provisional allocation is subject to variation or adjustment based on MHR's judgments regarding a number of circumstances, which can result in an allocation that is disproportionate to available capital. In the case of an MHR client that has received or is expected to receive a contribution or commitment of new capital, MHR's allocation policy permits a disproportionate "ramp-up" allocation relative to other MHR clients that have lesser amounts of uninvested new capital, without regard to relative amounts of available capital.

Other circumstances that can result in allocations that are disproportionate to available capital or that can impact suitability considerations include: anticipated subscriptions to and redemptions from the hedge funds; the finite term of the private equity 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 (a subjective limit in addition to 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 (with short-term investments generally considered to be more appropriate for the hedge funds) or investment period. 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 can 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. Deviations from the Firm's standard allocation methodology are recorded in an allocation memorandum prepared by the Firm's compliance department.

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 own significant interests or in limited instances, their personal accounts, can 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 or his or her designee 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 unless the opportunity exceeds the maximum desired amount for the relevant funds, as determined by it in good faith based on a variety of relevant factors at the time. The Firm is subject to a potential conflict of interest in determining such capacity especially when co-investment opportunities are offered to prospective investors in the funds. Co-investors will be required to

bear their pro rata portion of expenses incurred directly in connection with a portfolio investment but may not, in certain circumstances, 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 or his or her designee.

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 Can Consider Referrals in the Selection of Brokers and Dealers. Subject to our requirement to seek best execution, we can consider referrals of potential investors to our clients as a factor in the selection of brokers. We can 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 can 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, as appropriate.
- 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 and generally provide the investors in our private equity funds with investor letters. 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. MHR and its related persons do not compensate any supervised person or any other person for client referrals. However, in the past we have entered into solicitation arrangements with unaffiliated third parties in connection with the offering of interests in some of our funds and can 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 Advisers Act (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 certificated 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 SEC's website or otherwise); (ii) all proxy votes that are made on behalf of the clients; (iii) 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) written requests from clients regarding voting history (to the extent such requests exist); and (v) 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 the clients' 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 to 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.