

**Item 1. Cover Page**

# **PART 2A FORM ADV FIRM BROCHURE**

## **HARBINGER CAPITAL PARTNERS® LLC**

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**March 25, 2021**

**This brochure (“Brochure”) provides information about the qualifications and business practices of Harbinger Capital Partners LLC. If you have any questions about the contents of this Brochure, please contact us at 212-339-5888 and/or [clientservice@harbingercapital.com](mailto:clientservice@harbingercapital.com)**

**The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

**Additional information about Harbinger Capital Partners LLC also is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**Being a “registered investment adviser” or describing ourselves as being “registered” does not imply a certain level of skill or training.**

**THIS BROCHURE SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITY.**

## **Item 2. Material Changes**

There have been no material changes since the most recently filed Brochure, which was filed on March 30, 2020.

As required by the SEC, in future updates to this Brochure, this Item 2 will contain a summary of specific material changes that are made to this Brochure. We may, from time to time, further provide additional disclosure information about material changes, by amending this Brochure or through additional documents or other communications.

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## Item 4. Advisory Business

Harbinger Capital Partners LLC, a Delaware limited liability company, is an investment adviser located in New York City. Harbinger Capital Partners LLC and an affiliate, Harbinger Capital Partners II LP (collectively, “Harbinger” or “we”), a Delaware limited partnership, provide advice on a discretionary basis to privately-offered funds. You are receiving this Brochure from Harbinger Capital Partners LLC for itself as “filing adviser” and on behalf of Harbinger Capital Partners II LP as “relying adviser”.

Although Harbinger does consider requests by the investors in the Harbinger Funds (as defined below) for potential transfers of their interests in the Harbinger Funds (including, without limitation, transfers to new beneficial owners of such interests), none of the Harbinger Funds are currently offering their interests to new investors.

Philip A. Falcone, as the managing member of both (1) Harbinger Holdings, LLC, the manager of Harbinger Capital Partners LLC and (2) Harbinger Capital Partners II GP LLC, the general partner of Harbinger Capital Partners II LP, which controls Harbinger and is the principal beneficial owner of Harbinger. Mr. Falcone is also Harbinger’s Senior Managing Director, Chief Executive Officer and Chief Investment Officer (“CIO”) and serves as the primary portfolio manager of all of the private investment funds to which Harbinger entities serve as discretionary investment adviser.

Harbinger Capital Partners LLC was founded in 2001 with Mr. Falcone as its CIO. Mr. Falcone formed and began operating Harbinger Capital Partners II LP in 2009.

Harbinger seeks to invest in alpha-generating ideas that are uncorrelated to investment cycles. To that end, Harbinger seeks investments that typically fall into the following categories:

- Special Situations and Event Driven – investments in companies where the Harbinger team identifies a significant opportunity to actively engage with a company to unlock value;
- Distressed/Bankruptcy – investments in companies that are already in default, in bankruptcy, or in some other stage of financial failure or distress;
- Value – passive investments in securities where Harbinger believes a positive catalyst for value realization is already present; and
- Corporate Shorts – passive investments where Harbinger views the security to be overvalued or believes weakening fundamental trends or identifiable negative catalysts are apparent.

Philip A. Falcone is responsible for leading the investment function at Harbinger.

Harbinger’s primary investment advisory service is to provide discretionary investment advice to a number of private investment funds (collectively, the “Harbinger Funds” or “clients”). Some of these funds are feeder and intermediate funds to, or subsidiaries of, master funds. As of December 31, 2020, the main investing funds that Harbinger advises are (i) Harbinger Capital Partners Master Fund I, Ltd., (ii) Harbinger Capital Partners Special Situations Fund, L.P., (iii) Credit Distressed Blue Line Master Fund, Ltd., (iv) Global Opportunities Breakaway L.P., and (v) Harbinger Dedicated Investor Intermediate Fund L.P.. Certain of the feeder and intermediate fund entities may also make direct investments under certain circumstances. Certain of the Harbinger Funds are in liquidation, have

suspended voluntary withdrawals by investors or are otherwise in the process of an orderly reduction of their assets to cash.

Prospective investors in any Harbinger Fund are advised to review the fund's private placement memorandum, explanatory memorandum, confidential offering circular or similar document for a more in-depth description of that fund's investment strategy and objectives and related risk factors.

As described above, we currently provide advisory services to private investment funds. In the future, we may provide advisory services to one or more separately managed accounts for institutional investors.

The investment strategies Harbinger employs on behalf of the Harbinger Funds are described below in Item 8. The investment strategies employed by Harbinger may be modified from time to time, and the description herein is not exhaustive.

Harbinger manages the Harbinger Funds' assets on a discretionary basis. As of December 31, 2020, the total amount of client assets managed by Harbinger was \$336,390,003, which was computed using the same method as was used in responding to Item 5.F of Part 1A of the Form ADV.

This Brochure generally includes information about Harbinger and its relationships with its clients and affiliates. While much of this Brochure applies to all such clients and affiliates, certain information included herein applies to specific clients or affiliates only.

This Brochure does not constitute an offer to sell or solicitation of an offer to buy any securities. If offered, the securities of the Harbinger Funds are offered and sold on a private placement basis under exemptions promulgated under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and other exemptions of similar import under U.S. state laws and the laws of other jurisdictions where any offering may be made. Investors in the Harbinger Funds generally must be both "accredited investors", as defined in Regulation D promulgated under the Securities Act and "qualified purchasers", as defined in the U.S. Investment Company Act of 1940, as amended (the "Investment Company Act"). Persons reviewing this Brochure should not construe this as an offer to sell or solicitation of an offer to buy the securities of any of the Harbinger Funds described herein. Any such offer or solicitation will be made only by means of a confidential private placement memorandum or similar offering document.

Harbinger's investment decisions and advice with respect to each Harbinger Fund are subject to each fund's investment objectives and guidelines, as set forth in its offering documents.

## **Item 5. Fees and Compensation**

### **Management Fees**

Management fees payable to Harbinger vary by client and are established pursuant to the Harbinger Funds' respective constituent documents. Management fees charged to the clients typically are calculated as a percentage of net asset value (except with respect to certain Harbinger Funds where management fees are based on invested capital), generally range from 1.0% to 1.5% *per annum*, and typically are payable and deducted from the assets of each such Harbinger Fund quarterly in advance or in arrears, as applicable, pursuant to the constituent documents of each Harbinger Fund.

Management fees are generally pro-rated for any subscriptions or contributions by an investor in a Harbinger Fund that are effective other than as of the first day of the quarter. In the event of a distribution or withdrawal prior to the end of a quarter, Harbinger will reimburse to the respective client a *pro rata* share of the management fee charged with respect to the distributed or withdrawn amount with respect to management fees paid in advance.

Harbinger formed certain special purpose vehicles (“SPVs”) for the purpose of segregating (i) the exposure that certain Harbinger Funds have to the ongoing administration and bankruptcy proceedings of Lehman Brothers International (Europe) and certain of its affiliates, (ii) certain less liquid investments (such special purpose vehicles, the “PE SPVs”), and (iii) the exposure indirect investors in Harbinger Capital Partners Master Fund I, Ltd. have to such fund’s investment in Ligado Networks, LLC formally known as LightSquared Inc. Management fees are not charged on the value of interests in the SPVs held directly by investors (and, with respect to the PE SPVs, no management fees are charged on the value of interests in such SPVs held indirectly by investors), provided that certain transferees of interests in the SPVs (as well as certain SPVs specifically formed in connection with transfers of SPV interests) are subject to management fees on the value of interests in such SPVs.

Management fees are no longer charged on the value of the interests held by investors in the feeder funds to Credit Distressed Blue Line Master Fund, Ltd. (these funds had a preset term and have begun their scheduled liquidation), though Harbinger does charge fees to certain transferees of such interests.

Harbinger may waive or reduce management fees for certain classes or investors, including, without limitation, employees and affiliates of Harbinger, in its discretion.

### **Incentive Allocations**

Incentive allocations allocable to Harbinger (or an affiliate of Harbinger) vary by client and are established pursuant to the Harbinger Funds’ respective constituent documents. With respect to funds structured as hedge funds, incentive allocations generally are allocated at year-end at a rate ranging between 15% and 20% of net realized and unrealized capital appreciation in each series of shares or capital account, as applicable, subject to a loss carryforward. A portion of each client’s assets may be invested in securities and instruments Harbinger determines to be illiquid and lacking a readily assessable market value or should be held until the resolution of a special event or circumstance (each, a “Special Investment”), and with respect to certain Harbinger Funds such investments may be maintained in side pockets, in which case they are not subject to any performance-based compensation until a gain is realized or deemed realized. Such illiquid investments are usually subject to the management fees described above and are generally valued at fair value for the period that they are maintained in a side pocket.

With respect to a client structured as a private equity fund, Harbinger (or an affiliate of Harbinger) is generally entitled to receive a 20% carried interest from such client, which is calculated after limited partners of such client receive a return of their total capital contributions to such client.

Incentive allocation is not charged with respect to interests in the SPVs held directly by investors, and with respect to the PE SPVs, no incentive allocation is charged with respect to interests in the PE SPVs held indirectly by investors. However, realized and unrealized net profits and net losses attributable to the interests in the PE SPVs held indirectly by investors will continue to reduce or increase, as applicable, the loss carryforward amount for such investors. Notwithstanding the above,

certain transferees of interests in the SPVs (as well as certain SPVs formed specifically in connection with transfers of SPV interests) are subject to incentive allocation on the value of interests in such SPVs (or, alternatively, such transferred interests are subject to carried interest due to Harbinger, which is calculated after the applicable transferees receive a specific dollar amount equal to the net asset value of such transferred interests as of a specified date).

Incentive allocation is no longer charged with respect to interests held by investors in the feeder funds to Credit Distressed Blue Line Master Fund, Ltd., though Harbinger does charge performance-based compensation with respect to certain transferees of such interests.

Harbinger may waive or reduce incentive allocations for certain classes or investors, including, without limitation, employees and affiliates of Harbinger, in its discretion.

### **Payment of Fees**

Management fees typically are payable and deducted from the assets of a client quarterly in advance or in arrears, pursuant to the constituent documents of each Harbinger Fund, as described more fully above. Since each Harbinger Fund is invested in illiquid investments and the ability to generate cash may be limited, the Harbinger Funds may not have sufficient cash to pay management fees. The non-payment of management fees could have a material impact on the operations of Harbinger.

Incentive allocations are generally deducted from the assets of the client annually or made as a distribution of proceeds, as applicable, pursuant to the constituent documents of each Harbinger Fund or SPV, as applicable.

### **Additional Fees and Expenses**

To the extent permitted under a Harbinger Fund's constituent documents, the Harbinger Funds are generally obligated to pay for:

- legal, auditing and accounting fees;
- tax preparation expenses; and
- investment expenses (incurred in connection with the making, holding, financing management, monitoring, hedging, sale or proposed sale of any investment (including any temporary investment) whether such investments are consummated or unconsummated) and all other expenses of each respective fund

Other expenses generally include, without limitation:

- borrowing charges on securities sold short;
- custodial and bank service fees;
- spreads;
- mark-ups;
- clearing and settlement charges;
- financing costs;
- interest expense;

- costs and fees of servicing assets (*e.g.*, loans or real estate related assets);
- investment-related travel and lodging expenses, transaction charges, fees and other costs;
- research/information-related expenses, including, without limitation, news and quotation equipment and services;
- legal and due diligence expenses (including, without limitation, in-house legal counsel, travel and litigation-related expenses and any legal expenses related to serving on a creditor or similar committee);
- investment banking fees;
- short dividends;
- commitment fees;
- the cost of financing (including interest expenses);
- broken deal expenses and other transactional charges;
- professional fees (including, without limitation, expenses of consultants and experts, including third-party valuation firms);
- the costs of organizing and maintaining any subsidiaries or other transaction vehicles; costs relating to swaps (and similar agreements);
- auditing and tax compliance expenses;
- accounting expenses and the costs and expenses of accounting systems, databases and software packages;
- costs of printing and mailing reports and notices;
- market data costs;
- costs of any third-party administrators;
- the costs and expenses of third-party risk management products and services (including, without limitation, the costs of computer and/or risk management software, database packages or financial modeling services);
- fees of pricing services;
- organizational expenses;
- expenses related to the offering of shares or interests;
- insurance costs (including, without limitation, directors' and officers' insurance, errors and omissions insurance and other similar policies);
- directors' fees;
- management fees;
- general legal fees;
- filing and registration fees;
- taxes;



- other fees and governmental levies;
- litigation-related and indemnification expenses;
- withholding and transfer fees;
- trademarks;
- other expenses related to the purchase, monitoring, hedging, sale, settlement, custody or transmittal of assets; wind-up and liquidation expenses; and extraordinary expenses; and
- expenses comparable to the foregoing.

Certain Harbinger Funds cap certain of the foregoing expenses, pursuant to the constituent documents of such funds. Certain funds exercise certain executive management oversight over certain portfolio companies which, in turn, pay (either directly or through affiliated entities) substantial bonuses and equity incentives to their senior officers and certain other employees. These senior officers have in the past, and may be employees of Harbinger. In addition, in certain cases, these portfolio companies may also pay Harbinger for providing personnel who perform legal, accounting, consulting and other services to such companies at arm's-length rates. Such arrangements are pursuant to service agreements between the parties. Such bonuses, incentives and payments do not reduce the management fees paid to Harbinger or the incentive allocations allocable to Harbinger. See Item 12 for further discussion with respect to fees associated with brokerage practices. Please see the Harbinger Fund's constituent documents for a complete list of expenses borne by the Harbinger Fund's.

### **Prepayment of Fees**

Please see response to Items 5A and 5B above.

### **Additional Compensation**

Not applicable.

## **Item 6. Performance-Based Fees and Side-by-Side Management**

Harbinger and its affiliates accept performance-based compensation from every client, except with respect to certain of the SPVs and with respect to the feeder funds to Credit Distressed Blue Line Master Fund, Ltd., as described in Item 5 above. The fact that performance-based compensation is not charged with respect to such Harbinger Funds could be viewed as potentially creating conflicts of interests in connection with opportunities to divest of assets held by such Harbinger Funds as well as Harbinger Funds with respect to which performance-based compensation is charged. As described in Item 11, Harbinger has policies and procedures in place to allocate divestment opportunities on a fair and equitable basis.

## **Item 7. Types of Clients**

Harbinger currently provides investment advice to private investment funds (*i.e.*, pooled investment vehicles that are not required to register with the SEC as investment companies by virtue of Section 3(c)(7) of the Investment Company Act). The Harbinger Funds generally have a minimum initial investment amount of \$5,000,000. This minimum may be reduced or waived by the general partners of the funds that are partnerships or the board of directors of the funds that are companies, subject

in certain cases to applicable statutory minimums. Harbinger is not currently marketing any of the Harbinger Funds or accepting new investors, though transfers of interests in the Harbinger Funds are considered for approval by the general partners of the Harbinger Funds that are partnerships or the board of directors of the Harbinger Funds that are companies (or, with respect to those SPVs organized as trusts or limited liability companies, by Harbinger or the Harbinger affiliate managing such SPV).

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

Investment strategies for the Harbinger Funds, include, but are not limited to, the core strategies described below, depending on each Harbinger Fund's investment mandate set forth in its constituent documents. The Harbinger Funds' investment portfolios differ based on whether they concentrate their investments in one or more of these strategies and based on geographical focus, liquidity needs and other consideration. Harbinger generally pursues investments in the following categories: (i) special situations and event driven; (ii) distressed/bankruptcy; (iii) value and (iv) corporate shorts. Investments may be passive, active and control investments in a wide range of industries and countries. As mentioned in Item 4 above, certain of the Harbinger Funds are in liquidation or are otherwise in the process of an orderly reduction of their assets to cash.

While Harbinger has invested, and it is anticipated that Harbinger will continue to invest, in the strategies and securities discussed above, Harbinger has broad and flexible investment authority. Accordingly, a Harbinger Fund's assets may at any time include, without limitation: credit default protection and other over the counter or synthetic products; trade claims; common stock, preferred stock, and stock warrants and rights; shares of beneficial interest; busted convertibles; hung loans; mezzanine securities; when issued securities; stub equity; ADRs, PIPEs, partnership interests and similar financial instruments; bonds, notes, bills, debentures (whether subordinated, convertible or otherwise); loans including without limitation bridge loans (funded or unfunded); currencies; commodities; interest rate, currency, commodity, credit, equity and other derivative products, including, without limitation, (i) forwards and futures contracts (and options thereon) relating to stock indices, currencies, United States Government securities and securities of foreign governments, other financial instruments and all other commodities; (ii) swaps, options, warrants, caps, collars, floors and forward rate agreements; (iii) spot and forward currency transactions; (iv) collateralized loan obligations, collateralized bond obligations and collateralized debt obligations; and (v) agreements relating to or securing such transactions; accounts and notes receivable and payable held by trade or other creditors; trade acceptances; contract and other claims; executory contracts; participations therein; mutual funds; money market funds; obligations of the United States, any state thereof, foreign governments and instrumentalities of any of them; real estate, including fee interests, leaseholds, mortgage loans, mortgage-backed securities or other real estate or real estate-related assets; commercial paper; certificates of deposit; bankers' acceptances; trust receipts; any type of financial claim; and other obligations and instruments or evidences of indebtedness of whatever kind or nature of any person, corporation, government or entity whatsoever, whether or not publicly traded or readily marketable. A portion of each Harbinger Fund may be invested in securities and instruments that Harbinger determines to be illiquid and lacking a readily assessable market value or should be held until the resolution of a special event or circumstance (*i.e.*, Special Investments), and such investments may be maintained in side pockets. Harbinger may also sell securities short, as a means of generating returns on a specific position, and as a means of hedging individual long positions or overall long portfolio value. Harbinger may at times add macro hedges to the portfolio in order to protect the portfolio against macro-related volatility and tail risks.

In pursuing the foregoing strategies, Harbinger combines a flexible, innovative approach to uncovering opportunity with a detailed investment process, which emphasizes rigorous fundamental research and thorough vetting of each prospective investment, as well as the identification of catalysts for value realization where applicable. Harbinger also regards risk monitoring as a critical component of the investment process and actively monitors risk at multiple levels, including portfolio, position, operational and market.

*The descriptions set forth in this Brochure of specific advisory services that Harbinger offers to the Harbinger Funds, and investment strategies pursued, and investments made by Harbinger on behalf of the Harbinger Funds should not be understood to limit in any way Harbinger's investment activities. Harbinger may offer any advisory services, engage in any investment strategy and make any investment, including any not described in this Brochure, that Harbinger considers appropriate, subject to each Harbinger Fund's investment objectives and guidelines set forth in their respective constituent documents. The investment strategies Harbinger pursues are speculative and entails substantial risks. Accordingly, such activities could result in a substantial loss of capital. There can be no assurance that the investment objectives of any Harbinger Fund will be achieved.*

**Risk of Loss.** An investment in the Harbinger Funds involves a high degree of risk, including the risk that the entire amount invested may be lost.

**Concentration.** In the normal course of making investments on behalf of certain Harbinger Funds, Harbinger will attempt to diversify their investments. However, certain Harbinger Funds are permitted to, and do, concentrate their investments in a single portfolio company and invest a significant amount of their assets in any one issuer, industry, sector, strategy, country or geographic region. As a consequence, the aggregate return of the applicable Harbinger Fund will be affected by the performance of a single investment and the overall adverse impact on such Harbinger Fund of adverse movements in the value of the securities of a single issuer or industry will be considerably greater than if such Harbinger Fund did not concentrate its investment to such an extent. In addition, certain Harbinger Funds are permitted to, and do, select investments that are concentrated in a limited number or types of financial instruments. This limited diversity could expose such Harbinger Fund to losses disproportionate to market movements in general if there are disproportionately greater adverse price movements in those financial instruments.

**Economic Dilution: Fair Value vs. Actual or Realizable Value.** Certain Harbinger Funds hold certain significant large and illiquid positions. These positions are generally intended to profit from "catalytic" events — bankruptcies, mergers, etc. — which could cause the value of the positions to change suddenly and materially. Consequently, at any point in time there may be a material disparity between the fair value of the Harbinger Funds' portfolio, and the ultimate actual or realizable value of such portfolio.

**Illiquid Investments.** The Harbinger Funds may invest (and certain Harbinger Funds have invested) in securities, bank debt and other claims, and other assets, which are subject to legal or other restrictions on transfer or for which no liquid market exists. The market prices, if any, for such investments tend to be volatile and may not be readily ascertainable, and the Harbinger Funds may not be able to sell them when they desire to do so or to realize what they perceive to be their fair value in the event of a sale. The sale of restricted and illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. The Harbinger Funds may not be able to readily dispose of such illiquid investments and, in some

cases, may be contractually prohibited from disposing of such investments for a specified period of time. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale. An investment in the Harbinger Funds is suitable only for certain sophisticated investors who do not require immediate liquidity for their investments.

**Regulatory Risk.** Certain sectors that the Harbinger Funds invest in, including the telecommunications sector and wireless industries, are subject to extensive regulatory oversight and approval rights from the Federal Communications Commission under the Communications Act of 1934, as amended (the “Communications Act”), and other authorities at the U.S. federal, state and local levels, as well as authorities in certain non-U.S. jurisdictions. The costs of complying with these regulations, any delays or failures to receive required regulatory approvals or otherwise comply with the regulations, or the enactment of new, adverse regulatory requirements may adversely affect the business of telecommunications companies. These regulations could also cause the Harbinger Funds’ investments in the telecommunications sector and wireless industry to incur substantial additional costs or lengthy delays in connection with any realization event.

**Dependence on Key Individual.** The success of the Harbinger Funds depends upon the ability of Philip A. Falcone to develop and implement investment strategies that achieve the Harbinger Funds’ respective investment objectives. If Harbinger were to lose the services of Philip A. Falcone, the consequences to the Harbinger Funds would be material and adverse and could lead to premature termination of the Harbinger Funds.

**Cybersecurity Risks.** Harbinger, the clients and their respective service providers are susceptible to cybersecurity risks that include, among other things, theft, unauthorized monitoring, release, misuse, loss, destruction or corruption of confidential and highly restricted data; denial of service attacks; unauthorized access to relevant systems, compromises to networks or devices that Harbinger, the clients and their service providers use to service the clients’ operations; or operational disruption or failures in the physical infrastructure or operating systems that support Harbinger, the clients and their service providers. Cyber-attacks against or security breakdowns of Harbinger, the clients or their service providers may adversely impact the clients and their investors, potentially resulting in, among other things, financial losses; the inability of Harbinger or the investors to transact business and the clients to process transactions; violations of applicable privacy and other laws; regulatory fines, penalties, reputational damage, reimbursement or other compensation costs; and/or additional compliance costs. Harbinger and the clients may incur additional costs for cybersecurity risk management and remediation purposes. In addition, cybersecurity risks may also affect issuers of securities in which the clients invest, which may cause a client’s investment in such issuers to lose value. There can be no assurance that Harbinger, a client or its service providers will not suffer losses relating to cyber-attacks or other information security breaches in the future.

**Epidemic or Pandemic Considerations.** As of the date of this Brochure, COVID-19 is an ongoing international epidemic. This, or some future epidemic or pandemic, may have a negative impact on economic fundamentals including disruption of global supply chains, consumer confidence, tourism and/or the performance of essential government services. There is a risk that an investment could be, directly or indirectly, affected by one or more outbreaks of disease and its subsequent negative impact. Specifically, the effects of a pandemic such as COVID-19 may materially and adversely impact the liquidity, value and performance of any of the Funds and their investment objectives.

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

The investment programs for each of the Harbinger Funds involve a substantial degree of risk. The following risk factors do not purport to be a complete list or explanation of the risks involved with the activities of Harbinger and the Harbinger Funds. These risk factors include only risks Harbinger believes to be material, significant, or unusual based on information currently available, and relate to particular investment strategies employed by Harbinger and investments made pursuant thereto, and do not address material, significant, or unusual risks associated with other factors, including, without limitation, certain structural, regulatory and market risks. Some or all of these risks may be applicable to the Harbinger Funds depending on their investment mandate.

### **Special Situations and Event Driven**

**Activist Investments.** The Harbinger Funds may invest in debt and equity securities of companies that Harbinger believes are undervalued by the marketplace and are likely to appreciate, including as a result of a change in ownership, corporate direction or management, or as a result of operational improvements. In making such investments, a Harbinger Fund may act alone or together with one or more other investors or investment managers acting as a group. In order to implement any actions deemed necessary to maximize value, Harbinger, or other members of the investing group, may work with the management team of the target company to design an alternate strategic plan and assist them in its execution and may secure the appointment of persons selected by Harbinger or other members of the group to the company's management team or board of directors. Harbinger, either alone or as part of a group, may also initiate investor actions (including those that may be opposed by company management). Such investor actions may include, among other things, re orienting management's operational focus, initiating the sale of the company (or one or more of its divisions) to a third party, or an acquisition by the Harbinger Funds or other members of the investing group. Such an acquisition may be accomplished either by the Harbinger Funds (or the members of the investing group) acting alone, or acting in conjunction with management through a leveraged buyout. In order to accomplish the foregoing, Harbinger may cause a Harbinger Fund, either, alone or together with other members of a group, to acquire a "control" position in the company's securities.

This activist investment strategy may require, among other things: (i) that Harbinger properly identifies portfolio companies whose securities prices can be improved through corporate and/or strategic action; (ii) that the Harbinger Funds acquire sufficient securities of such portfolio companies at a sufficiently attractive price; (iii) that the Harbinger Funds avoid triggering antitakeover and regulatory obstacles while aggregating its position; (iv) that management of portfolio companies and other security holders respond positively to Harbinger's proposals; and (v) that the market price of a portfolio company's securities increases in response to any actions taken by portfolio companies. There can be no assurance that any of the foregoing will succeed.

Corporate governance strategies may prove ineffective for a variety of reasons, including: (i) opposition of the management or investors of the subject company, which may result in litigation and may erode, rather than increase, the value of the securities the Harbinger Funds hold in such subject company; (ii) intervention of a governmental agency; (iii) efforts by the subject company to pursue a "defensive" strategy, including a merger with, or a friendly tender offer by, a company other than the offeror; (iv) market conditions resulting in material changes in securities prices; (v) the presence of corporate governance mechanisms such as staggered boards, poison pills and classes of stock with increased voting rights; and (vi) the necessity for compliance with applicable securities laws. In addition, opponents of a proposed corporate governance change may seek to involve regulatory

agencies in investigating the transaction or the Harbinger Funds and such regulatory agencies may independently investigate the participants in a transaction, including the Harbinger Funds, as to compliance with securities or other law. Furthermore, successful execution of a corporate governance strategy may depend on the active cooperation of investors and others with an interest in the subject company. Some investors may have interests that diverge significantly from those of the Harbinger Funds, and some of those parties may be indifferent to the proposed changes. Moreover, securities that Harbinger believes are fundamentally undervalued or incorrectly valued may not ultimately be valued in the capital markets at prices and/or within the timeframe Harbinger anticipates, even if a corporate governance strategy is successfully implemented. Even if the prices for a portfolio company's securities have increased, no guarantee can be made that there will be sufficient liquidity in the markets to allow the Harbinger Funds to dispose of all or any of their securities therein or to realize any increase in the price of such securities.

**Special Situations and Event Driven.** Pursuant to the special situations and event driven strategy, Harbinger seeks to make investments in order to take advantage of special situations affecting both distressed and non-distressed companies. These investment positions may also be event-driven, where the Harbinger expects the securities to appreciate if an anticipated "event" occurs. Such events may include, without limitation, spin-offs, recapitalizations, bankruptcies or reorganizations, liquidations, management changes, fundamental industry changes, balance sheet restructurings and company restructurings. In addition, the Fund may invest in companies that Harbinger believes offer the prospect of capital appreciation resulting from an operational turnaround or are otherwise undervalued relative to their intrinsic or fundamental asset value or oversold or out of favor for various reasons. Such approach often involves accumulating a significant position in an underlying company's securities, followed by cooperating with such company's management and other shareholders in order to affect change and create a catalyst for value realization. Harbinger may also take positions in equity, bonds, or bank debt for event investments.

### **Distressed/Bankruptcy**

**Distressed/Bankruptcy.** Pursuant to the distressed/bankruptcy strategy, Harbinger may acquire debt securities of issuers that have either defaulted on their debt obligations, have filed for bankruptcy or are selling at what Harbinger believes to be sufficiently discounted prices. Harbinger may also acquire debt securities of issuers that have a rating below investment grade and which are selling at a discount/yield greater than what is typical for issuers in similar positions. Market inefficiency may be due to, among other factors, lack of financial market following, misunderstanding of particular industries or issuers, or industries that for one reason or another may be out of favor with the investor community. Harbinger may seek to control the bankruptcy process involving certain issuers by: (i) obtaining board seats, voting control or a "blocking position"; (ii) seeking committee membership; and/or (iii) retaining equity distributed to claim holders.

**Distressed Securities.** The Harbinger Funds may invest in "below investment grade" securities and obligations of issuers in weak financial condition, experiencing poor operating results, having substantial capital needs or negative net worth, facing special competitive or product obsolescence problems, including companies involved in bankruptcy or other reorganization and liquidation proceedings. These securities are likely to be particularly risky investments although they also may offer the potential for correspondingly high returns. Among the risks inherent in investments in troubled entities is the fact that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments may also be adversely affected by laws relating to, among

other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate or disenfranchise particular claims. Such companies' securities may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to the Harbinger Funds' investment in any instrument, and a significant portion of the obligations and securities in which the Harbinger Funds invest may be less than investment grade. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that Harbinger will correctly evaluate the value of the assets underlying the Harbinger Funds' investments or the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which the Harbinger Funds invest, the Harbinger Funds may lose their entire investment, may be required to accept cash or securities with a value less than the Harbinger Funds' original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the Harbinger Funds' investments may not compensate the investors in the Harbinger Funds adequately for the risks assumed.

In liquidation (both in and out of bankruptcy) and other forms of corporate reorganization, there exists the risk that the reorganization either will be unsuccessful (due to, for example, failure to obtain requisite approvals), will be delayed (for example, until various liabilities, actual or contingent, have been satisfied) or will result in a distribution of cash or a new security the value of which will be less than the purchase price to the Harbinger Funds of the security in respect to which such distribution was made.

In certain transactions, the Harbinger Funds may not be "hedged" against market fluctuations, or, in liquidation situations, may not accurately value the assets of the company being liquidated. This can result in losses, even if the proposed transaction is consummated.

**Stressed Debt.** The Harbinger Funds are authorized to invest in securities and other obligations of stressed issuers. Stressed issuers are issuers that are not yet deemed distressed or bankrupt and whose debt securities are trading at a discount to par, but not yet at distressed levels. An example would be an issuer that is in technical default of its credit agreement, or undergoing strategic or operational changes, which results in market pricing uncertainty.

**High Yield Securities.** The Harbinger Funds may invest in bonds or other fixed income securities, including without limitation "higher yielding" (including non-investment grade) debt securities. Such securities are generally not exchange traded and, as a result, these financial instruments trade in the over-the-counter marketplace, which is less transparent and has wider bid/ask spreads than the exchange-traded marketplace. In addition, the Harbinger Funds may invest in bonds of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments. Also, the market for credit spreads is often inefficient and illiquid, making it difficult to accurately calculate discounting spreads for valuing financial instruments. High yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. High yield securities are generally more volatile and may or may not be subordinated to certain other outstanding securities and obligations of the issuer, which may be secured by substantially all of the issuer's assets. High yield securities may also not be protected by financial covenants or limitations

on additional indebtedness.

The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities that react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities are often highly leveraged and may not have available to them more traditional methods of financing. It is possible that a major economic recession could severely disrupt the market for such securities and may have an adverse impact on the value of such securities. In addition, it is possible that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default of such securities.

**Non-Performing Nature of Debt.** It is anticipated that certain debt instruments purchased by Harbinger for the Harbinger Funds will be non-performing and possibly in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to the loans.

**Risks Associated with Bankruptcy Cases.** Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to object to significant actions, there can be no assurance that a bankruptcy court would not approve actions that may be contrary to the interests of the Harbinger Funds. Furthermore, there are instances where creditors and equity holders lose their ranking and priority as such if they are considered to have taken over management and functional operating control of a debtor.

Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and the Harbinger Funds; it is subject to unpredictable and lengthy delays; and during the process the company's competitive position may erode, key management may depart and the company may not be able to invest adequately. In some cases, the company may not be able to reorganize and may be required to liquidate assets. The debt of companies in financial reorganization will, in most cases, not pay current interest, may not accrue interest during reorganization and may be adversely affected by an erosion of the issuer's fundamental value. Such investments can result in a total loss of principal.

U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that the Harbinger Funds' influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in, or other gerrymandering of, the class. In addition, certain administrative costs and claims that have priority by law over the claims of certain creditors (for example, claims for taxes) may be quite high.

Furthermore, there are instances where creditors and equity holders lose their ranking and priority as such when they take over management and functional operating control of a debtor. In those cases where a Harbinger Fund, by virtue of such action, is found to exercise "domination and control" of a debtor, the Harbinger Fund may lose its priority if the debtor can demonstrate that its business was adversely impacted or other creditors and equity holders were harmed by such Harbinger Fund.

Harbinger may invest the Harbinger Funds' assets in securities and other financial instruments of



other issuers domiciled, or assets located outside the United States. Investment in the debt of financially distressed companies domiciled outside the United States involves additional risks. Bankruptcy law and process may differ substantially from that in the United States, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain developing countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain.

Harbinger, on behalf of the Harbinger Funds, may elect to serve on creditors' committees, official or unofficial, equity holders' committees or other groups to ensure preservation or enhancement of the Harbinger Funds' position as a creditor or equity holder. A member of any such committee or group may owe certain obligations generally to all parties similarly situated that the committee represents. If Harbinger concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to the Harbinger Funds, it will resign from that committee or group, and the Harbinger Funds may not realize the benefits, if any, of participation on the committee or group. In addition, and also as discussed above, if a Harbinger Fund is represented on a committee or group, it may be restricted or prohibited under applicable law from disposing of or increasing its investments in such company while it continues to be represented on such committee or group.

The Harbinger Funds may purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser.

**Bankruptcy Claims.** The Harbinger Funds may invest in bankruptcy claims, which are amounts owed to creditors of companies in financial difficulty. Bankruptcy claims are illiquid and generally do not pay interest and there can be no guarantee that the debtor will ever be able to satisfy the obligation on the bankruptcy claim. The markets in bankruptcy claims are not generally regulated by Federal securities laws or the Securities and Exchange Commission. Because bankruptcy claims are frequently unsecured, holders of such claims may have a lower priority in terms of payment than certain other creditors in a bankruptcy proceeding. In addition, under certain circumstances, payments and distributions may be reclaimed if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

**Equitable Subordination.** Under common law principles that in some cases form the basis for lender liability claims, if a lender: (a) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer; (b) engages in other inequitable conduct to the detriment of such other creditors; (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors; or (d) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called "equitable subordination"). The Harbinger Funds do not intend to engage in conduct that would form the basis for a successful cause of action based upon the equitable subordination doctrine; however, because of the nature of the debt obligations, the Harbinger Funds may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the issuer should be equitably subordinated.

**Use of When-Issued and Forward Commitment Securities.** The Harbinger Funds may purchase

securities on a "when-issued" basis. These transactions involve a commitment by the Harbinger Funds to purchase or sell securities at a future date (typically one or two months later). No income accrues on securities that have been purchased on a when-issued basis prior to delivery to the Harbinger Funds. When-issued securities may be sold prior to the settlement date. If the Harbinger Funds dispose of the right to acquire a when-issued security prior to its acquisition, it may incur a gain or loss. In addition, there is a risk that securities purchased on a when-issued basis may not be delivered to the Harbinger Funds. In such cases, the Harbinger Funds may incur a loss.

**Financial Transactions.** The Harbinger Funds may engage in certain financial transactions, including providing funding to distressed companies or companies that are in bankruptcy. The value of these investments may be detrimentally affected to the extent a borrower defaults on its obligations. While the Harbinger Funds may in certain instances attempt to minimize this risk by obtaining collateral, there can be no assurance that the value assigned by the Harbinger Funds to collateral underlying a debt obligation held by the Harbinger Funds can be realized upon liquidation, nor can there be any assurance that any such collateral will retain its value. The amount realizable with respect to a debt instrument may be detrimentally affected if a guarantor, if any, fails to meet its obligations under a guarantee. Moreover, debt may also be supported by collateral whose value may fluctuate or be unsecured. Finally, there may be a monetary, as well as a time cost involved in collecting on defaulted debt obligations and, if applicable, taking possession of various types of collateral.

#### **Private Investments**

**Private Investments.** Pursuant to its private investment strategy, Harbinger may also acquire loans from banks, insurance companies or other financial institutions and claims held by trade or other creditors, as well as loans to distressed borrowers. Further, to the extent legally permissible, Harbinger may directly invest in entire loans or participate in loans with other parties, and, either directly or indirectly through separate investment vehicles, may also originate loans, provide debtor-in-possession financing or extend other forms of credit. With respect to certain Harbinger Funds, investments made pursuant to the private investments strategy will also include pre-IPO equity infusions, private convertible bonds, loans or preferred securities. Harbinger may play an active role in such private investments, for example, by seeking to finance growth through private investments in both established industries and innovative new industries such as solar or wind turbine power generation.

**Bank Loans.** The Harbinger Funds' investment program may include investments in significant amounts of bank loans and participations. These obligations are subject to unique risks, including, without limitation: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of the Harbinger Funds to directly enforce their rights with respect to participations. In analyzing each bank loan or participation, Harbinger will attempt to compare the relative significance of the risks against the expected benefits of the investment. Successful claims by third parties arising from these and other risks will be borne by the Harbinger Funds.

**Second Lien Loans.** The Harbinger Funds may invest in loans that are secured by a second lien on assets. Second lien loans have been a developed market for a relatively short period of time, and there is limited historical data on the performance of second lien loans in adverse economic circumstances. In addition, second lien loan products are subject to intercreditor arrangements with the holders of

first lien indebtedness, pursuant to which the second lien holders have waived many of the rights of a secured creditor, and some rights of unsecured creditors, including rights in bankruptcy, which can materially affect recoveries. While there is broad market acceptance of some second lien intercreditor terms, no clear market standard has developed for certain other material intercreditor terms for second lien loan products. This variation in key intercreditor terms may result in dissimilar recoveries across otherwise similarly situated second lien loans in insolvency or distressed situations. While uncertainty of recovery in an insolvency or distressed situation is inherent in all debt instruments, second lien loan products carry more risks than certain other debt products.

**Loan Origination.** The Harbinger Funds may participate in the origination of loans. From time to time, a Harbinger Fund, directly or through a subsidiary or other affiliate, may offer to its subsidiaries or other affiliates, and other funds or accounts managed by Harbinger, its affiliates or third-party investment managers, participations in and/or assignments or sales of loans (or interests therein) that such Harbinger Fund or a subsidiary or other affiliates thereof has originated or purchased. Such offer and sale will usually be made after such Harbinger Fund or a subsidiary or other affiliate thereof will have held such investment (including the portion offered) for a period of time and will typically be reviewed by at least one independent party. In determining the target amount to allocate to a particular loan origination, the Harbinger Fund or the applicable affiliate may take into consideration the fact that it anticipates selling, assigning or offering participations in such investment to third parties as described above. If the Harbinger Fund or the applicable affiliate is not successful in offering such participations, assignments or sales to other affiliated funds or accounts or third parties, the Harbinger Funds or the applicable affiliate will be forced to hold such excess until such time as it can be disposed. This may result in the Harbinger Fund being "overweighted" with respect to a particular borrower.

**Fraud.** Of paramount concern in investments in loans is the possibility of material misrepresentation or omission on the part of the borrower. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the loans or may adversely affect the ability of the Harbinger Funds to perfect or effectuate a lien on the collateral securing the loan. The Harbinger Funds will rely upon the accuracy and completeness of representations made by borrowers to the extent reasonable when they make their investments, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to the Harbinger Funds may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

**Inability to Make Follow-On Investments.** Following its initial investment in portfolio companies, the Harbinger Funds may be called upon to provide additional funds to portfolio companies or may have the opportunity to increase their investment in successful operations. There can be no assurance that the Harbinger Funds will be able to make follow-on investments or that the Harbinger Funds will have sufficient resources to make such investments. Any decision by the Harbinger Funds not to make follow-on investments or their inability to make them may have a substantial negative impact on portfolio companies in need of such an investment or may result in missed opportunities for the Harbinger Funds to increase their participation in successful operations.

**Public Growth Equity.** Pursuant to the public growth equity strategy, Harbinger will typically make investments in companies that it believes are attractively priced and focus on areas of dependable growth in China. Particular areas of focus may include power generation, infrastructure development, energy production, chemicals, industrials, financials, real-estate and consumer-related companies. Harbinger will seek to identify opportunities that span the value chain in each of these particular sectors and, thus, will seek to benefit from price appreciation as growth in China continues to put

pressure on supply/demand dynamics in these sectors. Harbinger may play a passive role in these investments or may take a proactive role in these investments. Active engagement may involve accumulating a significant position in an underlying company's securities, followed by cooperating with such company's management and other shareholders in order to affect change and create a catalyst for value realization. In particular, Harbinger may take an active role in working with management on strategic initiatives that help to finance the growth of the company.

## **General Risk Factors**

**Equity and Equity-Related Securities and Instruments.** The Harbinger Funds may invest in equity securities and equity derivatives. The value of these financial instruments generally will vary with the performance of the issuer and movements in the equity markets. As a result, the Harbinger Funds may suffer losses if they invest in equity instruments of issuers whose performance diverges from Harbinger's expectations or if equity markets generally move in a single direction and the Harbinger Funds have not hedged against such a general move. The Harbinger Funds also may be exposed to risks that issuers will not fulfill contractual obligations such as, in the case of convertible securities or private placements, delivering marketable common stock upon conversions of convertible securities and registering restricted securities for public resale.

**Small to Medium Cap Stocks.** At any given time, the Harbinger Funds may invest in the securities of smaller- to medium-sized companies with market capitalizations of less than \$1 billion. These securities may involve greater risks than the securities of larger, better-known companies due to limited liquidity, relatively greater volatility and the smaller size of the issuing company.

**Debt Securities Generally.** The Harbinger Funds expect to invest in private and government debt securities and instruments. The Harbinger Funds may invest in debt instruments that are unrated, and whether or not rated, the debt instruments may have speculative characteristics. The issuers of such instruments (including sovereign issuers) may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal. Such instruments are regarded as predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligations and involve major risk exposure to adverse conditions. Such issuers are subject to, among other things, price volatility due to such factors such as interest rate sensitivity, market perception of the creditworthiness of the issuer and general market liquidity (market risk).

**Valuation.** Securities that Harbinger believes are fundamentally undervalued or overvalued may not ultimately be valued in the capital markets at prices and/or within the time frame Harbinger anticipates. In particular, purchasing securities at prices that Harbinger believes to be distressed or below fair value is no guarantee that the price of such securities will not decline even further.

**Control Positions.** If the Harbinger Funds own a controlling stake in or are deemed affiliates of a particular company, they may be subject to certain additional securities laws restrictions, which could affect both the liquidity of the Harbinger Funds' interest and the Harbinger Funds' ability to liquidate their interest without adversely impacting the stock price, including insider trading restrictions, the affiliate sale restrictions of Rule 144 of the Securities Act and the disclosure requirements of Sections 13 and 16 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). In addition, to the extent that affiliates of the Harbinger Funds or Harbinger are subject to such restrictions, the Harbinger Funds, by virtue of their affiliation with such entities, may be similarly restricted, regardless of whether the Harbinger Funds stand to benefit from such affiliate's stock ownership.

From time to time, the Harbinger Funds, acting alone or as part of a group, may acquire beneficial ownership of more than 10% of a certain class of securities of a public company, or may place a director on the board of directors of such a company. As a result, under Section 16 of the Exchange Act, as amended, the Harbinger Funds may be subject to certain additional reporting requirements and may be required to disgorge certain short-swing profits arising from purchases and sales of such securities. In addition, in such circumstances the Harbinger Funds will be prohibited from entering into a short position in such issuer's securities, and therefore limited in their ability to hedge such investments. In addition, certain states may have legislation relating to control share type acquisitions or other anti-takeover considerations that may potentially impact the ability of the Harbinger Funds to enter into certain types of transactions or in certain circumstances vote securities or be subject to possible redemption, disgorgement or other adverse consequences.

**Leverage Risks.** Depending on the constituent documents of the applicable Harbinger Fund, there may be no restriction on the amount of leverage the Harbinger Funds may utilize for their investment program. Leverage is a fundamental component to the Harbinger Funds' investment strategies, and certain such strategies cannot be successful without the use of a substantial amount of leverage. The use of leverage will, in many instances, enable the Harbinger Funds to achieve a higher rate of return than would be otherwise possible. Accordingly, certain Harbinger Funds are expected to employ a substantial amount of leverage in order to obtain investment returns. Generally, with respect to the overall Harbinger Funds, Harbinger generally will seek an inverse correlation between the amount of leverage to be employed by the Harbinger Funds and the estimated long-term volatility of the Harbinger Funds. The Harbinger Funds' perception of any strategy's volatility is expected to change from time to time and the market for leverage is expected to be dynamic. Accordingly, the amount, kinds and pricing of leverage utilized with respect to such strategy will also change. An inability of the Harbinger Funds to obtain a desired amount of leverage, however, may limit the Harbinger Funds' overall investment exposure and/or inhibit inverse correlation, thereby reducing the Harbinger Funds' performance. Leverage may take the form of, without limitation, any of the financial instruments described herein, including derivative instruments, which are inherently leveraged and trading in products with embedded leverage such as options, short sales, swaps and forwards. The instruments and borrowings utilized by the Harbinger Funds to leverage investments may be collateralized by the Harbinger Funds' portfolio. Accordingly, the Harbinger Funds may pledge their financial instruments in order to borrow additional funds or otherwise obtain leverage for investment or other purposes. The amount of borrowings which each Harbinger Fund may have outstanding at any time may be substantial in relation to its capital.

The use of leverage will allow the Harbinger Funds to borrow in order to make additional investments, thereby increasing their exposure to assets, such that their total assets are greater than their capital and any capital commitments. The use of leverage will magnify the volatility of changes in the value of the investments of the Harbinger Funds. Accordingly, any event that adversely affects the value of an investment would be magnified to the extent the investment is leveraged. The cumulative effect of the use of leverage by the Harbinger Funds in a market that moves adversely to their investments could result in substantial losses to the Harbinger Funds, which would be greater than if the Harbinger Funds were not leveraged.

While leverage increases the buying power of the Harbinger Funds and presents opportunities for increasing total returns, it has the effect of potentially increasing losses as well. For example, funds borrowed for leveraging will be subject to interest, transaction and other costs, and other types of leverage also involve transaction and other costs. Any such costs may or may not be recovered by the return on the Harbinger Funds' portfolio. Leverage will increase the investment return of the

Harbinger Funds if an investment purchased with or utilizing leverage earns a greater return than the cost to the Harbinger Funds of such leverage. The use of leverage will decrease the investment return if the Harbinger Funds fail to recover the cost of such leverage. The rights of the lenders to the Harbinger Funds to be repaid the amounts borrowed as well as interests and other charges and their rights to collateral will have priority over the rights of holders of equity interests in the Harbinger Fund. In general, the use of short-term margin borrowings results in certain additional risks to the Harbinger Funds. For example, should the securities pledged to brokers to secure the Harbinger Funds' margin accounts decline in value, the Harbinger Funds could be subject to a "margin call", pursuant to which the Harbinger Funds must either deposit additional funds or securities with the broker, or suffer mandatory liquidation of the pledged securities to compensate for the decline in value. In the event of a sudden drop in the value of the Harbinger Funds' assets, the Harbinger Funds might not be able to liquidate assets quickly enough to satisfy their margin requirements.

**Highly Volatile Markets.** The prices of financial instruments in which the Harbinger Funds may invest can be highly volatile. Price movements of forward and other derivative contracts in which the Harbinger Funds' assets may be invested are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The Harbinger Funds are subject to the risk of failure of any of the exchanges on which their positions trade or of their clearinghouses.

**Currency Risks.** The Harbinger Funds' investments that are denominated in a foreign currency are subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. Harbinger may try to hedge these risks by investing directly in foreign currencies, buying and selling forward foreign currency exchange contracts and buying and selling options on foreign currencies, but there can be no assurance such strategies will be effective.

**Global and Emerging Markets Investments.** The Harbinger Funds may invest in debt, other securities and instruments of issuers or portfolio companies that are organized or operating outside of the United States, including in markets regarded as emerging or developing markets. Such investments may be subject to certain risks not usually associated with investing in securities of United States companies including, but not limited to, political and economic considerations, such as greater risks of expropriation and nationalization, confiscatory taxation, the potential difficulty of repatriating funds, general social, political and economic instability and adverse diplomatic developments; the possibility of imposition of withholding or other taxes on dividends, interest, capital gain or other income; the small size of the securities markets in such countries and the low volume of trading, resulting in potential lack of liquidity and in price volatility; fluctuations in the rate of exchange between currencies and costs associated with currency conversion. In addition, accounting and financial reporting standards that prevail in such countries generally are not equivalent to United States standards and, consequently, less information is available to investors in companies located in such countries than is available to investors in companies located in the United States.

An issuer of securities may be domiciled in a country other than the country in whose currency the instrument is denominated. The values and relative yields of investments in the securities markets of different countries, and their associated risks, are expected to change independently of each other.

Income received by the Harbinger Funds from sources within some countries may be reduced by withholding and other taxes imposed by such countries.

Some of the financial instruments the Harbinger Funds invest in may be subject to brokerage taxes levied by governments, which has the effect of increasing the cost of such investment and reducing the realized gain or increasing the realized loss on such securities at the time of sale. Income received by the Harbinger Funds from sources within some countries may be reduced by withholding and other taxes imposed by such countries. Any such taxes paid by the Harbinger Funds will reduce their net income or return from such investments.

Additionally, in emerging and developing markets, there is often less government supervision and regulation of business and industry practices, stock exchanges, over-the-counter markets, brokers, dealers, counterparties and issuers than in other more established markets. Any regulatory supervision that is in place may be subject to manipulation or control. Some emerging and developing market countries do not have mature legal systems comparable to those of more developed countries. Moreover, the process of legal and regulatory reform may not be proceeding at the same pace as market developments, which could result in investment risk. Legislation to safeguard the rights of private ownership may not yet be in place in certain areas, and there may be the risk of conflict among local, regional and national requirements. In certain cases, the laws and regulations governing investments in financial instruments may not exist or may be subject to inconsistent or arbitrary appreciation or interpretation. Both the independence of judicial systems and their immunity from economic, political or nationalistic influences remain largely untested in many countries. The Harbinger Funds may also encounter difficulties in pursuing legal remedies or in obtaining and enforcing judgments in non-U.S. courts. Due to the foregoing risks and complications, the costs associated with investments in emerging market securities generally are higher than for securities of issuers based in developed countries.

The economies of non-U.S. countries may differ favorably or unfavorably from the U.S. economy in such respects as growth of gross domestic product, rate of inflation, currency depreciation, asset reinvestment, resource self-sufficiency and balance of payments position. Further, certain non-U.S. economies are heavily dependent upon international trade and, accordingly, have been and may continue to be adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. The economies of certain non-U.S. countries may be based, predominantly, on only a few industries and may be vulnerable to changes in trade conditions and may have higher levels of debt or inflation.

**Contingent Liabilities.** From time to time, the Harbinger Funds may incur contingent liabilities in connection with an investment. For example, the Harbinger Funds may enter into agreements pursuant to which they agree to assume responsibility for default risk presented by a third party, and may, on the other hand, enter into agreements through which third parties offer default protection to the Harbinger Funds.

**Litigation.** Because of the Harbinger Funds' investment strategy and the possibility that the Harbinger Funds may participate in restructuring or similar activities, it is possible that the Harbinger Funds will become involved in litigation (as either plaintiff or defendant). Reorganizations can be contentious and adversarial. It is by no means unusual for participants to use the threat of, as well as actual, litigation as a negotiating technique. Harbinger anticipates that during the term of the Harbinger Funds, Harbinger, the Harbinger Funds and perhaps certain of their larger investors may

be named as defendants in civil proceedings. The expense of defending against claims by third-parties and paying any amounts pursuant to settlements or judgments would generally be borne by the Harbinger Funds and would reduce net assets or could require investors to return to the Harbinger Funds distributed capital and earnings. Judgments may be rendered against the Harbinger Funds for which the Harbinger Funds may not carry insurance.

**Special Investments.** The Harbinger Funds may invest part of their assets in investments that Harbinger believes either lack a readily assessable and/or observable fair value or should be held until the resolution of a special event or circumstances (*i.e.*, Special Investments). The Harbinger Funds may not be able to readily dispose of Special Investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time.

Special Investments and other assets and liabilities for which no such market prices are available will be carried on the books of the Harbinger Funds at fair value as reasonably determined by Harbinger. There is no guarantee that fair value will represent the value that will be realized by the Harbinger Funds on the eventual disposition of the investment or that would, in fact, be realized upon an immediate disposition of the investment.

**Uncertain Exit Strategies.** Due to the illiquid nature of many of the positions which the Harbinger Funds are expected to acquire, as well as the uncertainties of the reorganization and active management process, Harbinger is unable to predict with confidence what the exit strategy will ultimately be for certain positions, or that one will definitely be available. Exit strategies that appear to be viable when an investment is initiated may be precluded by the time the investment is ready to be realized due to economic, legal, political or other factors.

**Preferred Stock.** Preferred stock generally has a preference as to dividends and upon the event of liquidation over an issuer's common stock, but it ranks junior to debt securities in an issuer's capital structure. Preferred stock generally pays dividends in cash (or additional shares of preferred stock) at a defined rate, but unlike interest payments on debt securities, preferred stock dividends are payable only if declared by the issuer's board of directors. Dividends on preferred stock may be cumulative, meaning that, in the event the issuer fails to make one or more dividend payments on the preferred stock, no dividends may be paid on the issuer's common stock until all unpaid preferred stock dividends have been paid. Preferred stock may also be subject to optional or mandatory withdrawal provisions.

**Convertible Securities.** Convertible securities are bonds, debentures, notes, preferred stocks or other securities that may be converted into or exchanged for a specified amount of common stock of the same or different issuer within a particular period of time at a specified price or formula. A convertible security entitles its holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred stock until the convertible security matures or is redeemed, converted or exchanged. Convertible securities have unique investment characteristics in that they generally (i) have higher yields than common stocks, but lower yields than comparable non-convertible securities, (ii) are less subject to fluctuation in value than the underlying common stock due to their fixed-income characteristics and (iii) provide the potential for capital appreciation if the market price of the underlying common stock increases.

The value of a convertible security is a function of its "investment value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its "conversion value" (the security's worth, at market value, if



converted into the underlying common stock). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security's investment value. The conversion value of a convertible security is determined by the market price of the underlying common stock. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common stock approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common stock while holding a fixed-income security. Generally, the amount of the premium decreases as the convertible security approaches maturity.

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument. If a convertible security held by the Harbinger Funds is called for redemption, the Harbinger Funds will be required to permit the issuer to redeem the security, convert it into the underlying common stock or sell it to a third-party. Any of these actions could have an adverse effect on the Harbinger Funds' ability to achieve their investment objective.

**Warrants.** The Harbinger Funds may invest in warrants. The value of these warrants will vary with the movements in the equity market and the performance of the underlying common stock, and may be affected by adverse issuer or market information. With respect to warrants, their value may decrease or may be zero and thus not be exercised if the market price of the underlying securities remains lower than the specified price at which holders of warrants are entitled to buy such securities, resulting in a loss of the purchase price of the warrant (or the embedded warrant price in the case of securities issued with warrants attached).

**Swap Agreements.** The Harbinger Funds may enter into swap agreements and options on swap agreements ("swaptions"). These agreements can be individually negotiated and structured to include exposure to a variety of different types of investments, asset classes or market factors. The Harbinger Funds, for instance, may enter into swap agreements with respect to interest rates, credit defaults, currencies, securities, indexes of securities and other assets or other measures of risk or return. Depending on their structure, swap agreements may increase or decrease the Harbinger Funds' exposure to, for example, equity securities, long-term or short-term interest rates, foreign currency values, credit spreads or other factors. Swap agreements can take many different forms and are known by a variety of names. The Harbinger Funds are not limited to any particular form of swap agreement if consistent with the Harbinger Funds' investment objective.

Whether the Harbinger Funds' use of swap agreements or swaptions will be successful will depend on Harbinger's ability to select appropriate transactions for the Harbinger Funds. Swap transactions may be highly illiquid and may increase or decrease the volatility of the Harbinger Funds' portfolios. Moreover, the Harbinger Funds bear the risk of loss of the amount expected to be received under a swap agreement in the event of the default or insolvency of its counterparty. The Harbinger Funds will also bear the risk of loss related to swap agreements, for example, for breaches of such agreements or the failure of the Harbinger Funds to post or maintain required collateral. Many swap markets are relatively new and still developing. It is possible that developments in the swap markets, including potential government regulation, could adversely affect the Harbinger Funds' ability to

terminate existing swap transactions or to realize amounts to be received under such transactions.

**Commodities and Derivative Investments.** The prices of commodities contracts and derivative instruments, including futures and options, are highly volatile. Payments made pursuant to swap agreements may also be highly volatile. Price movements of commodities, futures and options contracts and payments pursuant to swap agreements are influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. The value of futures, options and swap agreements also depends upon the price of the commodities underlying them. In addition, the Harbinger Funds' assets are subject to the risk of the failure of any of the exchanges on which their positions trade or of their clearinghouses or counterparties.

The Harbinger Funds may buy or sell (write) both call options and put options, and when they write options, they may do so on a "covered" or an "uncovered" basis. A call option is "covered" when the writer owns securities of the same class and amount as those to which the call option applies. A put option is covered when the writer has an open short position in securities of the relevant class and amount. The Harbinger Funds' option transactions may be part of a hedging strategy (*i.e.*, offsetting the risk involved in another securities position) or a form of leverage, in which the Harbinger Funds have the right to benefit from price movements in a large number of securities with a small commitment of capital. These activities involve risks that can be substantial, depending on the circumstances.

In general, without taking into account other positions or transactions the Harbinger Funds may enter into, the principal risks involved in options trading can be described as follows: When the Harbinger Funds buy an option, a decrease (or inadequate increase) in the price of the underlying security in the case of a call, or an increase (or inadequate decrease) in the price of the underlying security in the case of a put, could result in a total loss of the Harbinger Funds' investments in the option (including commissions). The Harbinger Funds could mitigate those losses by selling short, or buying puts on, the securities for which they hold call options, or by taking a long position (*e.g.*, by buying the securities or buying calls on them) in securities for which they hold put options. When the Harbinger Funds sell (writes) an option, the risk can be substantially greater than when they buy an option. The seller of an uncovered call option bears the risk of an increase in the market price of the underlying security above the exercise price. The risk is theoretically unlimited unless the option is "covered". If it were covered, the Harbinger Funds would forego the opportunity for profit on the underlying security should the market price of the security rise above the exercise price. If the price of the underlying security were to drop below the exercise price, the premium received on the option (after transaction costs) would provide profit that would reduce or offset any loss the Harbinger Funds might suffer as a result of owning the security.

Swaps and certain options and other customized instruments are subject to the risk of nonperformance by the swap counterparty, including risks relating to the creditworthiness of the swap counterparty, market risk, liquidity risk and operations risk.

**Short Selling.** Short selling involves selling securities that are not owned by the short seller and borrowing them for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Short selling allows the investor to profit from a decline in market price to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. The extent to which the Harbinger Funds engage in short sales will depend upon Harbinger's investment strategy

and opportunities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost to the Harbinger Funds of buying those securities to cover the short position. There can be no assurance that the Harbinger Funds will be able to maintain the ability to borrow securities sold short. In such cases, the Harbinger Funds can be "bought in" (*i.e.*, forced to repurchase securities in the open market to return to the lender). There also can be no assurance that the securities necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing securities to close out a short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

**Futures Contracts.** The value of futures depends upon the price of the financial instruments, such as commodities, underlying them. The prices of futures are highly volatile, and price movements of futures contracts can be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments, and national and international political and economic events and policies. In addition, investments in futures are also subject to the risk of the failure of any of the exchanges on which the Harbinger Funds' positions trade or of their clearing houses or counterparties.

Futures positions may be illiquid because certain commodity exchanges limit fluctuations in certain futures contract prices during a single day by regulations referred to as "daily price fluctuation limits" or "daily limits". Under such daily limits, during a single trading day no trades may be executed at prices beyond the daily limits. Once the price of a particular futures contract has increased or decreased by an amount equal to the daily limit, positions in that contract can neither be taken nor liquidated unless traders are willing to effect trades at or within the limit. This could prevent the Harbinger Funds from promptly liquidating unfavorable positions and subject the Harbinger Funds to substantial losses or prevent them from entering into desired trades. In extraordinary circumstances, a futures exchange or the U.S. Commodity Futures Trading Commission could suspend trading in a particular futures contract, or order liquidation or settlement of all open positions in such contract.

**Interest Rate Fluctuations.** General interest rate fluctuations may have a substantial negative impact on the Harbinger Funds' investments and investment opportunities and accordingly may have a material adverse effect on the Harbinger Funds' investment objectives and the rate of return on invested capital. In addition, an increase in interest rates would make it more expensive to utilize leverage in making investments. The Harbinger Funds will likely be subject to additional risks associated with changes in prevailing interest rates because the Harbinger Funds may invest in companies whose capital structures have a significant degree of indebtedness.

**Hedging Transactions.** The Harbinger Funds may utilize financial instruments, both for investment purposes and for risk management purposes in order to (i) protect against possible changes in the market value of the Harbinger Funds' investment portfolios resulting from fluctuations in the securities markets and changes in interest rates; (ii) protect the Harbinger Funds' unrealized gains in the value of the Harbinger Funds' investment portfolio; (iii) facilitate the sale of any such investments; (iv) enhance or preserve returns, spreads or gains on any investment in the Harbinger Funds' portfolio; (v) hedge the interest rate or currency exchange rate on any of the Harbinger Funds' liabilities or assets; (vi) protect against any increase in the price of any securities the Harbinger Funds anticipate purchasing at a later date; or (vii) for any other reason that Harbinger deems appropriate.

The success of the Harbinger Funds' hedging strategy will depend, in part, upon Harbinger's ability to

correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the portfolio investments being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the Harbinger Funds' hedging strategy will also be subject to Harbinger's ability to continually recalculate, readjust and execute hedges in an efficient and timely manner. While the Harbinger Funds may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Harbinger Funds than if they had not engaged in such hedging transactions. For a variety of reasons, Harbinger may not seek to establish a perfect correlation between the hedging instruments utilized and the portfolio holdings being hedged. Such an imperfect correlation may prevent the Harbinger Funds from achieving the intended hedge or expose the Harbinger Funds to risk of loss. Harbinger may not hedge against a particular risk because it does not regard the probability of the risk occurring to be sufficiently high as to justify the cost of the hedge, or because it does not foresee the occurrence of the risk. The successful utilization of hedging and risk management transactions requires skills complementary to those needed in the selection of the Harbinger Funds' portfolio holdings.

**Counterparty Risk.** Some of the markets in which the Harbinger Funds may affect their transactions are "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to credit evaluation and regulatory oversight as are members of "exchange-based" markets. This exposes the Harbinger Funds to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Harbinger Funds to suffer a loss. In addition, in the case of a default, the Harbinger Funds could become subject to adverse market movements while replacement transactions are executed. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Harbinger Funds have concentrated their transactions with a single counterparty or small group of counterparties.

There can be no assurance that the Harbinger Funds will be able to maintain existing relationships with counterparties or establish additional relationships. An inability to establish or maintain such relationships would limit the Harbinger Funds' trading activities and could create losses, preclude the Harbinger Funds from engaging in certain transactions or obtaining certain services and prevent the Harbinger Funds from trading at optimal rates and terms. Moreover, a disruption in the services provided by any such relationships before the Harbinger Funds establish additional relationships could have a significant impact on the Harbinger Funds' business due to the Harbinger Funds' reliance on such counterparties.

Furthermore, there is a risk that any of the Harbinger Funds' counterparties could become insolvent and/or the subject of insolvency proceedings. If one or more of the Harbinger Funds' counterparties were to become insolvent or the subject of insolvency proceedings in the United States (either under the Securities Investor Protection Act or the United States Bankruptcy Code), it is likely that the Harbinger Funds' operational capabilities may be impaired and there exists the risk that the recovery of the Harbinger Funds' securities and other assets from the Harbinger Funds' prime brokers or broker-dealers will be delayed or be of a value less than the value of the securities or assets originally entrusted to such prime broker or broker-dealer.

In addition, the Harbinger Funds may use counterparties located in jurisdictions outside the United States. Such local counterparties are subject to the laws and regulations in foreign jurisdictions that are designed to protect their customers in the event of their insolvency. However, the practical effect

of these laws and their application to the Harbinger Funds' assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a counterparty, it is impossible to generalize about the effect of their insolvency on the Harbinger Funds and their assets. It should be assumed that the insolvency of any counterparty would result in a loss to the Harbinger Funds, which could be material.

The Harbinger Funds are not restricted from dealing with any particular counterparty or from concentrating any or all of their transactions with one counterparty. The ability of the Harbinger Funds to transact business with any one or more counterparties, the lack of complete and "foolproof" evaluation of the financial capabilities of the Harbinger Funds' counterparties and the absence of a regulated market to facilitate settlement may increase the potential for losses by the Harbinger Funds.

**General Private Equity Risks.** The Harbinger Funds may invest in private equity investments, particularly those that may relate to companies undergoing debt restructurings and recapitalized companies, which involve a high degree of business and financial risk. Such companies may require substantial additional capital to support expansion or to achieve or maintain a competitive position, may produce substantial variations in operating results from period to period or may operate at a loss. Such companies may also face intense competition, including competition from companies with greater financial resources, more extensive development, better marketing and service capabilities and a larger number of qualified management and technical personnel. Such risks may adversely affect the performance of such investments and result in substantial losses.

Although Harbinger may seek protective provisions, including, possibly, board representation, in connection with certain of its private equity investments, to the extent the Harbinger Funds take minority positions in companies in which they invest, Harbinger may not be in a position to exercise control over the management of such companies, and, accordingly, may have a limited ability to protect their position in such companies.

Investments in private equity of highly-leveraged companies involve a high degree of risk. The Harbinger Funds' investments in private equity companies may involve leverage, which in turn will increase the exposure of such companies to adverse economic factors such as downturns in the economy or deterioration in the conditions of such companies or their respective industries. In the event any such company cannot generate adequate cash flow to meet debt service, the Harbinger Funds may suffer a partial or total loss of capital invested in the company, which, depending on the size of the Harbinger Funds' investments, could adversely affect the return on the capital of the Harbinger Funds.

**Mezzanine Debt Securities.** One of the fundamental risks associated with the Harbinger Funds' investments is credit risk, which is the risk that an issuer will be unable to make principal and interest payments when due. Companies in which the Harbinger Funds invest could deteriorate as a result of, among other factors, an adverse development in their business, a change in the competitive environment or an economic downturn. As a result, companies that the Harbinger Funds expected to be stable may operate, or expect to operate, at a loss or have significant variations in operating results, may require substantial additional capital to support their operations or to maintain their competitive position, or may otherwise have a weak financial condition or be experiencing financial distress.

The companies in which the Harbinger Funds invest may be highly leveraged. Leverage may have important consequences to these companies and the Harbinger Funds as an investor. These companies may be subject to restrictive financial and operating covenants. Leverage may impair the ability of these companies to finance their future operations and capital needs. In addition, although these companies may incur leverage, including from the Harbinger Funds, proceeds of this debt may be paid as a dividend to stockholders and not invested in operating or financial assets, or otherwise retained by the company. As a result, the flexibility in these companies to respond to changing business and economic conditions and to business opportunities may be limited. A leveraged company's income and net assets will tend to increase or decrease at a greater rate than if borrowed money were not used. In addition, a company with a leveraged capital structure will be subject to increased exposure to adverse economic factors, such as a significant rise in interest rates, a severe downturn in the economy or deterioration in the condition of that company or its industry. In the event that a company is unable to generate sufficient cash flow to meet principal and interest payments on its indebtedness, the value of the Harbinger Funds' investment in such company could be significantly reduced or even eliminated.

Mezzanine debt is typically junior to the obligations of a company to senior creditors, trade creditors and employees. The ability of the Harbinger Funds to influence a company's affairs, especially during periods of financial distress or following an insolvency, will be substantially less than that of senior creditors.

Mezzanine debt securities are often issued in connection with leveraged acquisitions or recapitalizations in which the issuers incur a substantially higher amount of indebtedness than the level at which they had previously operated. Default rates for mezzanine debt securities have historically been higher than for investment grade securities. In the event of the insolvency of a company in which the Harbinger Funds have invested, or a similar event, the Harbinger Funds' investment therein will be subject to fraudulent conveyance, subordination and preference laws.

The Harbinger Funds' investments may be subject to early withdrawal features, refinancing options, prepayment options or similar provisions that, in each case, could result in the issuer repaying the principal on an obligation held by the Harbinger Funds earlier than expected. This may happen when there is a decline in interest rates, or when such company's performance allows the refinancing of mezzanine debt with lower cost debt. Early prepayments may have a material adverse effect on the Harbinger Funds' investment objectives and the profits on capital invested in fixed income securities.

Securities in which the Harbinger Funds will invest may not be rated by a credit rating agency. Moreover, companies may face intense competition, including competition from companies with greater financial resources, more extensive development, manufacturing, marketing and other capabilities, and a larger number of qualified managerial and technical personnel.

**Hung Loans.** In addition to the risks attributable generally to fixed income products, the Harbinger Funds may face additional risks in connection with their purchases of "Hung loans". Hung loans are illiquid and lack readily ascertainable market values. There is no assurance that the price to be paid for them by the Harbinger Funds will reflect a discounted price that should allow the Harbinger Funds to achieve a positive return on such loans or avoid losses. The price of the loans to be purchased may be significantly impacted by, in addition to the specific circumstances relating to each loan (*e.g.*, in the case of a loan relating to a leveraged buyout, the financial condition of the target), global and

macro-economic conditions (e.g., monetary policy, changes to currency exchange rates, governmental intervention or changes to existing laws, international geo-political events, etc.) as well as other systemic factors, and it is possible that loans purchased by the Harbinger Funds will suffer significant impairments in value as a result of events not predicted by the Harbinger Funds. The Harbinger Funds may also face difficulties in disposing or leveraging such loans, or in doing so without incurring losses. The fixed income markets, including the markets in which these loans are purchased and sold, have been extremely volatile and may continue to be volatile in the future.

**Collateralized Debt Obligations.** The Harbinger Funds may invest in collateralized debt obligations ("CDOs") and similar structured debt products (collectively, "CDO Securities") including securities issued by CDOs that are structured, managed and/or advised by the Harbinger or its affiliates. CDO Securities in which the Harbinger Funds invest will be backed by certain fixed income securities, such as asset-backed securities, CDO Securities, corporate leveraged loans, credit default swaps and other derivatives. CDO Securities are instruments representing interests in pools, the underlying asset classes of which include bonds, debentures, syndicated loans, and private placement debt and are limited-recourse obligations of the issuer thereof payable solely from the underlying securities in the portfolio of such issuer. CDO Securities are subject to various risks including the following credit, liquidity, interest rate and other risks:

- (i) **Limited Diversification.** CDOs may invest in concentrated portfolios of assets. The concentration of an underlying portfolio in any one obligor would subject the holder of the related CDO Securities to a greater degree of risk with respect to defaults by such obligor and the concentration of a portfolio in any one industry would subject the holder of the related CDOs to a greater degree of risk with respect to economic downturns relating to such industry or region.
- (ii) **Leverage Risk.** The Harbinger Funds' investment in CDOs involves significant leverage. Leverage is embedded in all classes of a CDO other than the most senior tranche. While the leverage presents opportunities for increasing the Harbinger Funds' total return, it has the effect of potentially increasing losses as well.
- (iii) **Risks of Investment Focus.** The value of the CDO Securities owned by the Harbinger Funds generally will fluctuate with, among other things, the financial condition of the obligors or issuers of the underlying portfolio of assets of the related CDO ("CDO Collateral"), general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates.
- (iv) **Interest Rate Mismatch.** CDOs are subject to significant interest rate risk. Some of the CDO Collateral of an issuer of a CDO bears interest at a fixed rate, while the CDO Security typically bears interest at a floating rate. As a result, there could be a floating/fixed rate mismatch between such CDO Security and the CDO Collateral.
- (v) **Lower Credit Quality Securities.** There are no restrictions on the credit quality of the investments of the Harbinger Funds. CDO Securities in which the Harbinger Funds may invest may be deemed by rating agencies to have substantial vulnerability to default in payment of interest and/or principal. In general, the ratings of nationally recognized rating organizations represent the opinions of such agencies as to the quality of securities that they rate. Such ratings are relative and subjective; they are not guarantees of performance or absolute standards of credit quality and do not evaluate the

market value risk of the securities. It is also possible that a rating agency will not change its rating of a particular issue on a timely basis to reflect subsequent events.

(vi) **Liquidity of Markets.** At times, the fixed income markets have in the past experienced significant falloffs in liquidity. While such events may sometimes be attributable to changes in interest rates or other factors, the cause is not always apparent. During such periods of market illiquidity, a CDO may not be able to sell assets in its portfolio or may only be able to do so at unfavorable prices. Such "liquidity risk" could adversely impact the value of the Harbinger Funds' portfolio, and may be difficult or impossible to hedge against.

**Structured Finance Securities Generally.** A portion of the collateral debt obligations may consist of equipment trust certificates, collateralized mortgage obligations, collateralized bond obligations, collateralized loan obligations or similar instruments. Structured finance securities may present risks similar to those of the other types of collateral debt obligations in which the Harbinger Funds may invest and, in fact, such risks may be of greater significance in the case of structured finance securities. Moreover, investing in structured finance securities may entail a variety of unique risks. Among other risks, structured finance securities may be subject to prepayment risk. In addition, the performance of a structured finance security will be affected by a variety of factors, including its priority in the capital structure of the issuer thereof, the availability of any credit enhancement, the level and timing of payments and recoveries on and the characteristics of the underlying receivables, loans or other assets that are being securitized, remoteness of those assets from the originator or transferor, the adequacy of and ability to realize upon any related collateral and the capability of the servicer of the securitized assets.

**Asset-Backed Securities.** Asset-Backed Securities ("ABS") generally refer to securities backed by assets other than mortgages, mortgage-backed securities or other mortgage-related assets. The Harbinger Funds will be exposed to the risk of ABS both indirectly through investment in CDO Securities that are backed by ABS and directly through investment in ABS. The investment characteristics of ABS differ from those of traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that principal may be prepaid at any time because the underlying assets generally may be prepaid at any time. Credit card receivables, automobile, boat and recreational vehicle installment sales contracts, commercial and industrial bank loans, home equity loans and lines of credit, manufactured housing loans, corporate debt securities and various types of accounts receivable commonly support ABS. However, there can be no assurance that innovation in the relevant markets will not transform ABS by adding new classes of assets, new structures or other features not now familiar in the asset-backed markets. ABS securities present certain risks that are not presented by mortgage-backed securities. Primarily, ABS securities are often backed by unsecured receivables. Credit card receivables, for example, are generally unsecured and the debtors are entitled to the protection of a number of U.S. state and federal consumer loan laws, many of which give such debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. Most issuers of automobile receivables permit the servicers to retain possession of the underlying obligations. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the related automobile receivables. In addition, because of the large number of vehicles involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the automobile receivables may not have a proper security interest in all of the obligations backing such receivables. Therefore, there is a possibility that recoveries on



repossessed collateral may not, in some cases, be available to support payments on these securities. The risk of investing in ABS is ultimately dependent upon payment of consumer loans by the debtor.

The collateral supporting ABS is generally of shorter maturity than mortgage loans. ABS are often backed by a pool of assets representing the obligations of a number of different parties and may use credit enhancement techniques such as letters of credit, guarantees or preference rights. The value of an asset-backed security is affected by changes in the market's perception of the assets backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or termination of any credit enhancement. The frequency at which prepayments (including voluntary prepayments by the obligors and liquidations due to defaults and foreclosures) occur on loans underlying ABS will be affected by a variety of factors including the prevailing level of interest rates as well as economic, demographic, tax, social, legal and other factors.

In general, "premium" securities (securities whose market values exceed their principal or par amounts) are adversely affected by faster than anticipated prepayments, and "discount" securities (securities whose principal or par amounts exceed their market values) are adversely affected by slower than anticipated prepayments. Since many ABS will be discount securities when interest rates are high, and will be premium securities when interest rates are low, these ABS may be adversely affected by changes in prepayments in any interest rate environment. The adverse effects of prepayments may impact the Harbinger Funds' portfolio in two ways. First, particular investments may experience outright losses, as in the case of an interest-only security in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to hedges that Harbinger may have constructed for these investments, resulting in a loss to the Harbinger Funds' overall portfolio. In particular, prepayments (at par) may limit the potential upside of many ABS to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss.

Structural and legal risks of ABS include the possibility that, in a bankruptcy or similar proceeding involving the originator or the servicer (often the same entity or affiliates), a court having jurisdiction over the proceeding could determine that, because of the degree to which cash flows on the assets of the issuing vehicle may have been commingled with cash flows on the originator's other assets (or similar reasons), (i) the assets of the issuing vehicle could be treated as never having been truly sold by the originator to the issuing vehicle and could be substantively consolidated with those of the originator, or (ii) the transfer of such assets to the issuer could be voided as a fraudulent transfer. The time and expense related to a challenge of such determinations also could result in losses and/or delayed cash flows.

In addition to traditional ABS, the Harbinger Funds may invest in non-traditional asset-backed investments, including portfolios of receivables, mezzanine and equity investments in esoteric securitizations and special situation financing. Due to their non-traditional and complex nature, investment in such securities includes additional risks not mentioned above, such as increased illiquidity and volatility. In addition, the risks involved in an investment in ABS described above, including structural and legal risks, will be intensified with respect to such assets.

**ABS and MBS Subordinated Securities.** Investments in subordinated MBS and ABS involve greater credit risk of default than the senior classes of the issue or series. Default risks may be further

pronounced in the case of MBS and ABS secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying assets. Certain subordinated securities absorb all losses from default before any other class of securities is at risk, particularly if such securities have been issued with little or no credit enhancement or equity. Such securities, therefore, possess some of the risks and attributes typically associated with equity investments without certain of the benefits.

## **Item 9. Disciplinary Information**

As previously disclosed to investors in funds managed by Harbinger and in public filings by entities affiliated with Harbinger, on June 27, 2012, the SEC filed two civil actions in the United States District Court for the Southern District of New York against Harbinger and certain of its current and former affiliated entities and persons, including Philip A. Falcone, Harbinger Capital Partners Offshore Manager, L.L.C. and Harbinger Capital Partners Special Situations GP, L.L.C. As previously disclosed, Harbinger and certain of its affiliates received “Wells Notices” in December 2011 with respect to the matters addressed by these actions.

One civil action alleged that the defendants violated the anti-fraud provisions of the federal securities laws by engaging in market manipulation in connection with the trading of the debt securities of a particular issuer from 2006 to 2008. The other civil action alleged that the defendants violated the anti-fraud provisions of the federal securities laws in connection with a loan made by Harbinger Capital Partners Special Situations Fund, L.P., to Mr. Falcone in October 2009 and the circumstances and disclosure regarding alleged preferential treatment of, and agreements with, certain fund investors.

On September 16, 2013, the United States District Court for the Southern District of New York approved a settlement of the two civil actions. In connection with that settlement, Mr. Falcone, Harbinger Capital Partners Offshore Manager, LLC, Harbinger Capital Partners Special Situations GP, LLC and Harbinger Capital Partners LLC admitted certain facts and consented to entry of a final judgment which, among other things: (a) enjoined Mr. Falcone from acting as or associating with any broker, dealer, investment adviser, municipal securities dealer, municipal adviser, transfer agent, or nationally recognized statistical rating organization (subject to certain exceptions); (b) ordered the appointment of an Independent Monitor; (c) ordered payment of disgorgement in the amount of \$6,507,574, plus prejudgment interest thereof in the amount of \$1,013,140; and (d) ordered the payment of civil penalties in the amount of \$10,500,000 (the “Final Judgment”). The Final Judgment permits Mr. Falcone to apply for consent of the SEC after five years to associate with a registered entity. The Final Judgment also permits Mr. Falcone to remain an associated person of Harbinger Capital Partners LLC and specified related advisers subject to certain limitations set forth in the Final Judgment. Please consult the SEC’s website for a copy of the consent and the Final Judgment.

After cooperating with the SEC staff and voluntarily undertaking an internal investigation, Harbinger entered into a settlement with the SEC in connection with the SEC staff’s investigation of compliance with Rule 105 of Regulation M with respect to three offerings. On June 27, 2012, the SEC issued an Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934 and Section 203(e) of the Investment Advisers Act of 1940, as amended (the “Advisers Act”) Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order against Harbinger for three violations of Rule 105 of Regulation M. This order censures Harbinger and requires Harbinger to cease and desist from committing or causing any violations and

any future violations of Rule 105 of Regulation M. Harbinger has paid disgorgement of \$857,950, prejudgment interest of \$91,838, and a civil monetary penalty of \$428,975. Harbinger consented to the issuance of this order without admitting or denying any of the findings contained therein.

Following entry of the Final Judgment, on October 7, 2013 Mr. Falcone and entities then-owned by certain Harbinger Funds -- Harbinger Group Inc. ("HGI"), Fidelity & Guaranty Life Insurance Company of New York, a New York life insurance company ("FGLNY") and Fidelity & Guaranty Life Holdings, Inc., FGLNY's parent company ("FGLH") -- delivered a commitment letter to the New York State Department of Financial Services ("DFS") pursuant to which Mr. Falcone agreed for a period of up to seven years from the date hereof that he will not, directly or indirectly, individually or through any person or entity, exercise control, within the meaning of Insurance Law Section 1501(a)(2), over FGLNY or any other New York-licensed insurer. In connection with this commitment to DFS, neither Mr. Falcone nor any employee of Harbinger Capital Partners, LLC may (i) serve as a director or officer of Fidelity & Guaranty Life, FGLH's parent company, and its subsidiaries (collectively "FGL") or (ii) be involved in making investment decisions for FGL's portfolio of assets or any funds withheld account supporting credit for reinsurance for FGL. The commitment provides that (i) Mr. Falcone may continue to own any direct or indirect interest in HGI and serve as an officer or director of HGI and (ii) HGI may continue to own any direct or indirect interest in FGLNY and any other New York-licensed insurer. Any other activities related solely to FGL (other than FGLNY) are not prohibited and HGI executives other than Mr. Falcone may continue to serve on FGL's Board of Directors. The commitment also provides that FGLH will maintain or cause to be maintained FGLNY's Total Adjusted Capital at an amount no less than 225% of Company Action Level Risk-Based Capital (within the meaning of section 1322 of the Insurance Law) and to establish or cause FGLIC to establish a trust account for the sole use and benefit of FGLNY with cash and/or eligible securities having a fair market value of \$18.5 million. In the event of material changes or if compliance with the commitment letter proves impracticable (including in the context of merger, acquisition or similar transactions), the letter provides that application may be made to DFS to modify or withdraw the terms of such commitment.

Effective November 1, 2013, Fidelity & Guaranty Life Insurance Company ("FGLIC") was re-domesticated from Maryland to Iowa, and in connection with that re-domestication FGLIC delivered a commitment letter to the State of Iowa Commissioner of Insurance pursuant to which FGLIC agreed: (1) for a five-year period neither Mr. Falcone nor any employees of Harbinger Capital Partners will serve as an officer or director of FGLIC or Fidelity & Guaranty Life, and after that period FGLIC may request that Mr. Falcone or any employees of Harbinger Capital Partners be permitted to do so; (2) for a five-year period neither Mr. Falcone nor Harbinger Capital Partners shall be involved in investment decisions for FGLIC or any funds withheld account that supports credit for reinsurance for FGLIC; and (3) three months after the Initial Public Offering of Fidelity & Guaranty Life, FGLIC shall have an independent audit committee that complies with Iowa regulation 191-98.13(8).

As of the date of this Brochure, neither Harbinger nor any of its related persons are affiliated with HGI, FGLIC or FGLNY.

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

Neither Harbinger nor any of its management persons are registered, or have an application pending to register, as a broker-dealer or a registered representative of a broker-dealer; a futures commission merchant; commodity pool operator; commodity trading advisor; or an associated person of the foregoing.

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

### **Code of Ethics**

Harbinger has adopted a Code of Ethics to assist Harbinger in meeting its obligations as a fiduciary and to comply with the Advisers Act. Harbinger's Code of Ethics establishes the following general principles and standards of business conduct which all of Harbinger's employees and full-time professional contractors are expected to uphold:

- Harbinger must at all times act in the best interests of its clients and place the interests of Harbinger's clients first.
- Harbinger must treat each client fairly.
- Harbinger has a duty to disclose all material facts that may affect the services provided to clients.
- All personal securities transactions must be conducted in a manner consistent with the Code of Ethics and in such a manner as to seek to avoid any actual or potential conflicts of interest, or any abuse of an employee's or independent contractor's position of trust and responsibility.
- Employees and independent contractors must not take any inappropriate advantage of their positions.
- Information concerning the identity of securities and financial circumstances of our clients (including funds and their investors) must be kept confidential.
- Independence in the investment decision-making process must be maintained at all times.

Harbinger's Code of Ethics deals with a range of topics including, without limitation, the following:

- Categories of persons related to Harbinger who are covered by the Code of Ethics.
- Compliance with applicable Federal securities laws.
- Opening of securities accounts by covered persons.
- Pre-approval requirement for personal securities transactions except for transactions in certain categories of securities such as mutual funds, money market funds and U.S. government securities.
- Submission to Harbinger of information concerning personal securities holdings and

transactions.

- Restrictions on trading in securities of particular issuers.
- Service on boards of directors and other outside activities.
- Gifts and entertainment.
- Political contributions and payments.
- Outside business activities.

The Code of Ethics contains information regarding how it is administered, how exceptions from the Code of Ethics may be granted by the Chief Compliance Officer (“CCO”), and how violations of the Code should be reported. Each covered person is required to acknowledge that he or she has received and reviewed and understands the Code of Ethics.

Harbinger will provide any client or prospective client with a copy of Harbinger’s Code of Ethics upon request.

#### Additional Advisory Accounts

Harbinger and its affiliates are not restricted from forming additional investment funds, from entering into other investment advisory relationships or from engaging in other business activities. These activities may be in competition with Harbinger’s existing accounts, and may involve substantial time and resources of Harbinger, because Harbinger’s affiliates generally do not have their own personnel separate and apart from the personnel of Harbinger.

These other activities could be viewed as creating a conflict of interest for Harbinger in that the time and effort of the members and partners of Harbinger and their officers and employees will not be devoted exclusively to the business of any one account but will be allocated among the management of the monies of all of the accounts that are advised by Harbinger and its affiliates. In addition, the various employees of Harbinger devote as much of their respective time to the activities of the firm and each fund, as they deem necessary and appropriate.

#### Common Investments Across Accounts

If Harbinger determines that it would be appropriate for a client and one or more other investment accounts it or its affiliates manages to participate in the same investment opportunity, Harbinger will seek to execute orders for all of the participating clients, on an equitable basis, taking into account such factors as the relative amounts of capital available for new investments and the investment programs and portfolio positions of the client and the other clients for which participation is appropriate. Orders may be combined for all such clients, and if any order is not filled at the same price, they may be allocated on an average price basis. Similarly, if an order on behalf of more than one client cannot be fully executed under prevailing market conditions, Harbinger will allocate securities among the different accounts on a basis that Harbinger considers fair and equitable. Harbinger will allocate such opportunities among those clients for which participation in the respective opportunity is considered appropriate, taking into account, among other considerations:

- whether the risk-return profile of the proposed investment is consistent with the client’s objectives, whether such objectives are considered (i) solely in light of the specific

- investment under consideration or (ii) in the context of the portfolio's overall holdings;
- the potential for the proposed investment to create an imbalance in the client's portfolio;
- liquidity requirements of the client;
- potentially adverse tax consequences;
- regulatory and/or contractual restrictions that would or could limit a client's ability to participate in a proposed investment; and
- the need to re-size risk in the client's portfolio.

These considerations may result in allocations among a client and one or more of the other clients on other than a *pari passu* basis. Harbinger also will allocate divestment opportunities on a fair and equitable basis for all client accounts taking the same considerations into account as appropriate.

Harbinger may purchase or sell securities on behalf of other clients it advises or controls which may differ from those purchased or sold for a particular client, even though the investment objectives of the client and the other clients may be the same or similar. A client, for example, may make an investment at the same time that one or more of the other clients is disposing of the same or a similar investment.

Likewise, a client may make an investment in a position that is already held by one or more of the other clients or a position that is subordinated or senior to, or otherwise adverse to, a position held by one of more of the other clients. For example, a client may own debt of a portfolio company while another client owns equity in the same portfolio company.

It is possible that the activities or strategies used for other clients could conflict with the activities and strategies employed in managing the assets of a client and affect the prices and availability of the securities and instruments in which a client invests. For example, in a situation where a client invests in debt securities of a company in which other clients hold or are contemporaneously acquiring equity securities, questions may arise as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be refinanced. Decisions about what action should be taken in a troubled situation, including whether or not to enforce claims, whether or not to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work-out or restructuring, raise conflicts of interest. If additional capital is necessary as a result of financial or other difficulties, Harbinger may or may not provide such additional capital on behalf of the other clients as Harbinger determines in its sole discretion.

A client may have an interest in structuring debt securities and instruments that have financial terms (such as interest rates, repayment terms, seniority, covenants and events of default) that are more restrictive than the terms that Harbinger would seek to negotiate on behalf of other clients. Harbinger will seek to resolve such conflicts of interest in a fair and equitable manner. Other clients may in some cases own a significant or controlling percentage of the common equity of portfolio companies, which, depending upon the amount of equity owned by them, any relevant contractual arrangements between such portfolio company and the participating clients, and other relevant factual circumstances, could result in an extension to one year of the 90-day bankruptcy preference period with respect to payments made to a client and/or subordination of its claims to other creditors and/or re-characterization of debt claims into equity claims.

In determining the target amount to allocate to a particular loan origination, the fund or the applicable

affiliate may take into consideration the fact that it anticipates selling, assigning or offering participations in such investment to third parties as described above. If the fund or the applicable affiliate is not successful in offering such participations, assignments or sales to other accounts or to third parties, the fund or the applicable affiliate will be forced to hold such excess until such time as it can be disposed. This may result in the fund being “overweighted” with respect to a particular borrower. Any such transactions will be conducted in accordance with, and subject to, Harbinger’s fiduciary obligations to the funds and the requirements of the Advisers Act.

#### Receipt of Material Non-Public Information

From time to time, Harbinger or one or more of its affiliates may come into possession of material, non-public information, and such information may limit the ability of a client to buy and sell investments, even if such information was obtained in the context of the investment activities of other accounts. Harbinger will not be free to act upon any such information. Due to these restrictions or contractual restrictions imposed on any of Harbinger’s affiliates in connection with the management of other clients, a client may not be able to initiate a transaction that it otherwise might have initiated and may not be able to sell an investment that it otherwise might have sold.

#### Cross Transactions

A situation may arise where certain assets held by one or more funds and investment accounts Harbinger manages are transferred to other funds and investment accounts Harbinger manages, including for the purpose of rebalancing the portfolios of such funds and investment accounts. For example, certain “cross” trades may occur between a fund and another account as may be necessary to rebalance cash or various portfolio positions.

In addition, from time to time, a fund, directly or through a subsidiary or other affiliate, may offer to an intermediate fund or its subsidiaries or other affiliates, and other funds or accounts managed by Harbinger, its affiliates or third-party investment managers, participations in and/or assignments or sales of loans (or interests therein) that the fund or a subsidiary or other affiliate thereof has originated or purchased. Such offer and sale will usually be made after the fund or a subsidiary or other affiliate thereof will have held such investment (including the portion offered) for a period of time and will typically be reviewed by at least one independent party. Further, the decision by other accounts to accept or reject the offer made by the fund or a subsidiary or other affiliate thereof may be made by parties or individuals not involved in the origination or purchase decision of the fund or the applicable affiliate. Such transactions may co-occur because one fund may have a need for funds due to redemptions and another fund has funds available.

### **Item 12. Brokerage Practices**

#### **Selection of Brokers**

Harbinger is authorized to determine the brokers or dealers to be used for each securities transaction for the Harbinger Funds. As noted above, certain of the Harbinger Funds are in liquidation and in the process of an orderly reduction of their assets to cash; therefore, Harbinger is not actively trading on behalf of the Harbinger Funds. However, to the extent Harbinger is required to select or engage in such trading, the following reflects the practices that would be employed. It is Harbinger’s policy to execute securities transactions in such a manner that the total cost or proceeds in each transaction are most favorable under the circumstances.

In seeking best execution, Harbinger considers a broker's full range of services, including, for example, the following:

- Quality of execution;
- Reputation, financial strength and stability;
- Block trading and block positioning capabilities;
- Willingness and ability to execute difficult transactions;
- Willingness and ability to commit capital;
- Access to underwritten offerings and secondary markets;
- Ongoing reliability;
- Overall costs of a trade;
- Nature of the security and the available market makers;
- Desired timing of the transaction and size of trade;
- Confidentiality of trading activity;
- Market intelligence regarding trading activity; and
- The receipt of brokerage or research services.

Although Harbinger seeks competitive spreads or commissions, Harbinger will not necessarily obtain the lowest spread or commission available.

### **Soft Dollars**

Harbinger does not utilize any soft-dollar arrangements or maintain commitments with any broker-dealers to obtain any research or research-related services or products on a soft-dollar basis. Harbinger may, however, receive research or brokerage services that are incidental to its trading activities on behalf of a Harbinger Fund. If at such time Harbinger determines to enter into soft dollar arrangements, the receipt will comply with Section 28(e) of the Securities Exchange Act.

### **Aggregation of Orders**

When appropriate, Harbinger may, but is not required to, aggregate client orders to achieve more efficient execution or to provide for equitable treatment among accounts. Harbinger will aggregate orders only when aggregation is consistent with its duty to obtain best execution and the terms of the investment guidelines and restrictions of each account for which trades are being aggregated. No account will be favored over any other account. Each account that participates in an aggregated order will participate at the average price for all of Harbinger's transactions in that security on a given day, with transaction costs shared *pro rata* based on each account's participation in the transaction.

### **Item 13. Review of Accounts**

Harbinger's CIO reviews the clients' portfolios on a continuous basis in the context of each client's stated investment objectives and guidelines.



Additional review of a client account may be triggered by any unusual activity or special circumstances, including, without limitation, changes in the financial markets, activity and trends in the political or economic environment, as well as the specific circumstances affecting each client.

Harbinger provides to investors in the Harbinger Funds audited financial statements on an annual basis generally within (and no later than) 120 days of the applicable fiscal year end. In addition, Harbinger provides unaudited quarterly performance data on the fund to investors in the applicable Harbinger Fund.

#### **Item 14. Client Referrals and Other Compensation**

Harbinger does not receive economic benefits from non-clients for providing investment advice and other advisory services. Neither Harbinger nor any related person directly or indirectly compensates any person who is not a supervised person, including placement agents, for client referrals.

From time to time Harbinger's employees may serve as directors or advisory board members of certain portfolio companies or other entities. In general, it is Harbinger's policy that employees do not receive any fees or other compensation for such services, but in the event that they do, fees and other compensation are returned to the applicable clients and in any event such amounts have not been, and are not expected to, be material.

#### **Item 15. Custody**

Harbinger is deemed to have custody of the majority of its client's funds and securities because, for such clients, it has the authority to obtain client funds or securities, for example, by deducting advisory fees from a client's account or otherwise withdrawing funds from a client's account. For those clients over which Harbinger is deemed to have custody, Harbinger has engaged third parties to serve as qualified custodian for its clients; account statements related to the clients are sent from such qualified custodians to Harbinger on a monthly basis. Such clients (generally within and no later than 120 days of the end of its fiscal year) circulates to its underlying investors audited annual financial reports prepared in accordance with U.S. generally accepted accounting principles.

#### **Item 16. Investment Discretion**

Item 4 includes a description of the investment discretion that Harbinger exercises with respect to its clients. Fund investors do not have any ability to restrict the investment of a Harbinger Fund except as may be agreed with any such investor in connection with such investor's investment in the Harbinger Fund.

Other than with respect to certain SPVs or feeder funds hardwired to invest in other Harbinger Funds, Harbinger serves as the management company with discretionary trading authority to each Harbinger Fund. Harbinger's investment decisions and advice with respect to each Harbinger Fund are subject to each Harbinger Fund's investment objectives and guidelines, as set for in its offering documents. Other than with respect to certain SPVs or feeder funds hardwired to invest in other Harbinger Funds, Harbinger or an affiliate of Harbinger entered into an investment management agreement, or similar agreement, with each Harbinger Fund, pursuant to which Harbinger, or an affiliate of Harbinger, was granted discretionary trading authority.

## **Item 17. Voting Client Securities**

Harbinger has discretionary authority over the securities held by the Harbinger Funds, and therefore has proxy voting authority; due to the nature of Harbinger's current strategy, it does not except to receive proxy votes (each, a "Proxy" and collectively, "Proxies"). To the extent Harbinger receives Proxies, Harbinger has adopted policies and procedures which apply to Harbinger's voting of Proxies and are designed to ensure that the firm complies with the requirements of Rule 206(4)-6 and Rule 204-2 under the Advisers Act, and fulfills its obligation thereunder with respect to Proxy voting, disclosure and recordkeeping. Harbinger's objective is to ensure that its Proxy voting activities on behalf of its clients are conducted in a manner consistent, under all circumstances, with the best interest of such clients.

In the event that Harbinger has a material conflict of interest with the company whose Proxy is at issue, or cannot vote a Proxy for any other reason, Harbinger may abstain from voting, or affirmatively decide not to vote, if Harbinger determines that abstaining or not voting is in the best interests of the applicable client. In making such a determination, Harbinger will consider various factors, including, but not limited to, the costs associated with exercising the Proxy (e.g., translation or travel costs), any legal restrictions on trading resulting from the exercise of a Proxy, and whether Harbinger has sold the underlying securities since the record date for the Proxy. Harbinger will not abstain from voting, or affirmatively decide not to vote, a proxy merely to avoid a conflict of interest.

In any case in which Harbinger votes, or directs the vote of, a Proxy, or abstains from voting, or affirmatively decides not to vote, a proxy, it will document the basis for its Proxy voting decision(s).

Clients may obtain a copy of Harbinger's Proxy Voting Policies and Procedures, and/or a record of Proxy votes cast since the effective date of its registration with the SEC by contacting Harbinger's CCO at the contact information listed on the cover page of this Brochure.

## **Item 18. Financial Information**

Harbinger does not require or solicit prepayment of more than \$1,200 in fees per client, six months or more in advance, and therefore has not included a balance sheet.

Harbinger does not believe that there are any conditions that are reasonably likely to impair Harbinger's ability to meet contractual commitments to its clients.

Harbinger has never been the subject of a bankruptcy petition.

## **Item 19. Requirements for State-Registered Advisers**

Harbinger is not registered with any state securities authority; therefore, this Item is not applicable.