UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 6270 / April 3, 2023

INVESTMENT COMPANY ACT OF 1940
Release No. 34875 / April 3, 2023

ADMINISTRATIVE PROCEEDING
File No. 3-21355

In the Matter of

CHATHAM ASSET MANAGEMENT, LLC, AND ANTHONY MELCHIORRE

Respondents.

ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTIONS 203(e), 203(f), AND 203(k) OF THE INVESTMENT ADVISERS ACT OF 1940, AND SECTIONS 9(b) AND 9(f) OF THE INVESTMENT COMPANY ACT OF 1940, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 203(e), 203(f), and 203(k) of the Investment Advisers Act of 1940 ("Advisers Act"), and Sections 9(b) and 9(f) of the Investment Company Act of 1940 ("Investment Company Act") against Chatham Asset Management, LLC ("Chatham") and Anthony Melchiorre ("Melchiorre") (together with Chatham, "Respondents").

II.

In anticipation of the institution of these proceedings, Respondents have submitted Offers of Settlement (the "Offers") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over them and the subject matter of these proceedings, which are admitted, and except as provided herein in Section V below as to Melchiorre, Respondents consent to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 203(e), 203(f), and 203(k) of the Investment Advisers

Act of 1940, and Sections 9(b) and 9(f) of the Investment Company Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondents' Offers, the Commission finds[1] that:

Summary

1. This matter arises from Chatham's and Melchiorre's trading, on behalf of their fund clients, in three high-yield debt securities issued by American Media Inc. ("AMI"), a wholly-owned subsidiary of AMI Parent Holdings, LLC ("AMI Parent"). At times, from 2016 through 2018, Chatham and Melchiorre engaged in transactions in these AMI debt securities (the "AMI Bonds") that resulted in one Chatham fund selling AMI Bonds and a different Chatham fund purchasing the same AMI Bonds, through various broker-dealers (the "Rebalancing Trades"). Chatham engaged in the Rebalancing Trades to address portfolio constraints such as industry or issuer fund concentration limits, to meet investor redemptions, and to allocate capital inflows and outflows. These trades were executed at prices Chatham and Melchiorre proposed. Over time, the prices at which Chatham and Melchiorre traded the securities in the Rebalancing Trades increased at a significantly higher rate than the prices of similar securities. Chatham's and Melchiorre's trading in the AMI Bonds accounted for the vast majority of the trading in those Bonds and therefore over time had a material effect on their pricing.

2. Chatham and Melchiorre calculated the net asset values ("NAVs") of their client funds' holdings using pricing data that was based, in part, on the trading prices of the securities. As a result, during the relevant time period, the NAVs of Chatham's Clients were higher than they would have been if Chatham's Rebalancing Trades were removed from the market for the AMI Bonds, which, in turn, resulted in higher fees being charged to the clients than would have been charged if Chatham's Rebalancing Trades were removed from the market.

3. Many of the Rebalancing Trades involved open-ended mutual funds regulated as registered investment companies ("RICs"). In those cases, Chatham and Melchiorre aided and abetted and caused RICs to enter into prohibited affiliate transactions in violation of Sections 17(a)(1) and (2) of the Investment Company Act.

Respondents

4. Chatham Asset Management LLC ("Chatham") is a Delaware limited liability company based in Chatham, New Jersey. It has been registered with the Commission as an investment adviser since 2012 (CRD No. 157517; SEC No. 801-73452). From approximately January 2016 to December 2018 (the "Relevant Period"), Chatham advised and managed a number

[1] The findings herein are made pursuant to Respondents' Offers and are not binding on any other person or entity in this or any other proceeding.

of hedge funds, including the following: the Chatham Asset High Yield Master Fund, Ltd.; the Chatham Asset Private Debt and Strategic Capital Fund, LP; the Chatham Fund, LP; the Chatham Everest Fund, L.P.; and the Chatham Eureka Fund, LP (collectively the "Funds"). The Funds are organized as domestic and offshore partnerships. During the Relevant Period, Chatham also served as the adviser or sub-adviser to a number of liquid alternative funds[2] ("LAFs" together with the Funds, the "Clients"), some of which LAFs were RICs. Per its Form ADV filed in March 2022, Chatham managed approximately $8.6 billion on a discretionary basis across its Clients.

5. Anthony Melchiorre, age 55, resides in Short Hills, New Jersey. He is the founder and principal owner of Chatham. During the Relevant Period, Melchiorre owned approximately 70 percent of Chatham, and is the managing member of the general partner entity for each of the Funds. During the Relevant Period, Melchiorre also served as the primary portfolio manager for all of Chatham's Clients.

Other Relevant Entity

6. AMI, now known as a360 Media LLC, is a print media publisher that, during the Relevant Period, was responsible for numerous long-running publications, including *US Weekly* and *The National Enquirer*. Chatham acquired 78 percent of AMI Parent's equity for certain of the Funds in 2014. Through the Funds' ownership of AMI Parent, Chatham and Melchiorre effectively controlled AMI and appointed two Chatham employees to AMI's four-person board.

Background

7. During the Relevant Period, Chatham and Melchiorre were investment advisers to all of their Clients. They implemented a similar strategy for each Client—investing in high yield bonds, leveraged loans, and credit derivatives.

8. In implementing this strategy, Chatham caused the Clients to take a number of concentrated "high conviction" positions in debt securities issued by companies in the print media industry, including AMI. A "high conviction" position was a position that Chatham had a high degree of confidence would produce satisfactory investment returns over time.

9. Pursuant to the high conviction strategy, during the Relevant Period, Chatham and Melchiorre caused their Clients to acquire substantial positions in the AMI Bonds. The percentage of the Clients' portfolios invested in AMI Bonds varied for each Client, but on average the AMI Bonds constituted 11 percent of Client portfolios. During the Relevant Period, the Clients collectively owned an average of 83 percent of the bonds issued by AMI.

[2] Liquid alternative funds are mutual funds that seek to implement hedge fund-like strategies while maintaining daily liquidity. After the Relevant Period, Chatham wound down its relationship with its Clients who were RICs, and has not advised any Clients that are RICs as of December 2020.

10. Through its control of the Funds, Chatham also possessed voting control of AMI during the Relevant Period. On average during the Relevant Period, the Funds owned an average of 80 percent of the equity in AMI Parent, the sole shareholder of AMI.[3]

11. The AMI Bonds generally were illiquid investments and traded over the counter. There were few purchasers of the AMI Bonds other than the Chatham Clients. Indeed, when the next largest holder of AMI Bonds attempted to sell them on the open market during the Relevant Period, they were unable to find any purchaser aside from Chatham Clients.

12. Melchiorre understood that liquidity was limited for the AMI Bonds.

13. From time to time, notwithstanding Chatham's favorable view of the investment, it would become necessary for the Clients to sell portfolio positions, including AMI Bonds, due to the parameters of a Chatham Client account.

14. Specifically, the LAFs, including those that were RICs, imposed limits on the percentage of funds that could be invested in a single issuer or industry. In addition, the LAFs, including those that were RICs, provided daily liquidity to their shareholders, meaning that investors could withdraw their money at any time.

15. Due to the position limits and daily liquidity needs of the LAFs, and the high concentration of AMI Bonds held by the LAFs, Chatham and Melchiorre frequently were required to "rebalance" the LAF portfolios by selling certain of the AMI Bonds.

16. In other cases, the Clients had a need to sell the AMI Bonds in order to fund investor redemptions or other cash needs.

17. Generally, when Chatham was forced to sell a high conviction AMI Bond in these circumstances, Chatham desired to purchase the AMI Bond for another Client because Chatham still believed in the merits of the investment and would not otherwise be selling the AMI Bonds if it were not for the portfolio restrictions or cash needs of the selling Clients.

18. Recognizing that there were legal restrictions on trading between RICs and their affiliates, which included other Chatham Clients, Chatham and Melchiorre sought advice from a compliance consultant on how to facilitate the Rebalancing Trades. The consultant advised Chatham to conduct the trading either through a single broker over more than one day or through multiple brokers if on the same day. The foundational principle underlying the advice was to ensure that the transactions occurred at independently-derived market prices.

19. As portfolio manager for the Chatham Clients, Melchiorre personally caused the Rebalancing Trades in AMI Bonds to be executed. Each Rebalancing Trade involved the sale of AMI Bonds by one or more Clients and an offsetting purchase or purchases of the AMI Bonds by one or more different Clients.

---

[3] The equity positions in AMI Parent were only held by the Funds, not the RICs.

20. To execute the Rebalancing Trades, Melchiorre worked with a small number of broker-dealer firms with whom he had traded previously (the "Rebalancing Brokers").

21. Consistent with the compliance consultant's advice, Melchiorre generally executed the Rebalancing Trades through a single Rebalancing Broker's firm over more than one day or through multiple Rebalancing Broker firms during a single day, and he also sometimes executed them through multiple broker firms over multiple days.

22. The Rebalancing Trades, however, were executed at prices proposed by Melchiorre and agreed to by the Rebalancing Brokers, but not at prices that were independently derived from price discovery in the broader market.

23. Around the time that Chatham began to execute the Rebalancing Trades, Melchiorre generally explained the purpose of the Rebalancing Trades to the Rebalancing Brokers. Melchiorre informed each of the Rebalancing Brokers to whom he sold a Client's AMI Bonds that he likely would have an interest in repurchasing that same AMI Bond he was selling for another Client. Over time, an understanding developed on the part of the Rebalancing Brokers that whenever Melchiorre placed an order to sell one of the AMI Bonds for a Client, he would repurchase it for another Client, either directly the following day or days, or indirectly through another broker.

24. The Rebalancing Brokers engaged in the Rebalancing Trades because they expected Melchiorre to repurchase the bonds. The business model of several of the Rebalancing Brokers was to "match" buy and sell orders from their customers. Those Rebalancing Brokers ordinarily did not purchase securities for their own inventory—*i.e.*, put the firm's own capital at risk—or they did so on a very limited basis. Nonetheless, the vast majority of the Rebalancing Trades involved at least one Rebalancing Broker that purchased bonds into its firm's inventory. For example, some of the Rebalancing Brokers would at times agree to purchase securities from Chatham even though the Rebalancing Broker may not have lined up the other leg of the transaction. These brokers' willingness to do so was based on their expectation that Chatham would repurchase the bonds, either directly or through another broker.

25. The purchasing Rebalancing Brokers generally did not offer the AMI Bonds to other customers in the market. Instead, in virtually every case, they resold the securities to Chatham or to another broker who they understood was purchasing for Chatham.

26. As Chatham's need to conduct rebalancing in its various Client Accounts increased over time, Rebalancing Trades became routine. When Melchiorre wanted to sell an AMI Bond to one particular Rebalancing Broker ("Rebalancing Broker A") and then repurchase it the following day, he would send Rebalancing Broker A a message indicating that he wanted to sell an AMI Bond in the "usual drill." Rebalancing Broker A then would purchase the AMI Bond into the firm's inventory until Melchiorre repurchased it the following day.

27. Other Rebalancing Brokers understood that when Melchiorre sold them an AMI Bond, they should look for a corresponding purchase from a second Rebalancing Broker, identified by Melchiorre, who also was representing Chatham.

28. The Rebalancing Brokers stood to benefit from the Rebalancing Trades because they expected Chatham to repurchase the bonds at a higher price, and it typically did so.

29. Melchiorre proposed the price for the Rebalancing Trades and the Rebalancing Brokers agreed to it without first soliciting bids from other market participants.

30. When proposing a price for Rebalancing Trades, Melchiorre considered a number of factors, which included the prior day's price as reflected in prices published by a pricing service. Those published prices would have been influenced, to some extent, by Chatham's own trading. When purchasing the AMI Bonds, Melchiorre also added a spread to compensate the Rebalancing Brokers. For example, in the case of a Rebalancing Trade executed through a single Rebalancing Broker overnight, Chatham would repurchase the AMI Bonds for a small spread above what it had sold the AMI Bonds to the broker the day before. In the case of a multi-broker Rebalancing Trade, Melchiorre would bid a small spread above the prior sale that was sufficient to compensate each of the Rebalancing Brokers involved.

31. Over the Relevant Period, Chatham and Melchiorre engaged in over one hundred Rebalancing Trades in AMI Bonds, accounting for approximately 81 percent, on average, of the customer trading (i.e., not broker-to-broker trading) in such securities.

32. Over time, the frequent Rebalancing Trades and repeated mark-ups to compensate the Rebalancing Brokers resulted in the market price of AMI Bonds increasing at a faster rate than prices of similar securities. For example, by November 2017, two of the AMI Bonds traded in Rebalancing Trades at implied yields lower than the prevailing London Interbank Offered Rate ("LIBOR"). Such yields ordinarily would have been associated with a bond of a much higher creditworthiness than the AMI Bonds.

33. Chatham was compensated for its advisory services to the Funds with a management fee and a performance fee, and to the LAFs with a management fee. The management fee charged to certain Clients was set at a percentage of the NAV of those Clients.

34. In order to calculate each Fund's NAV, Chatham used an independent pricing service to determine the value of each of the portfolio securities, including the AMI Bonds. The LAF administrators calculated their own NAVs, also using the same pricing service Chatham used.

35. Chatham and Melchiorre understood that the pricing service that Chatham and the LAF administrators utilized was based to some extent on recent trading prices and that the Rebalancing Trades accounted for virtually all of the trading in the Bonds during the Relevant Period. Because the Rebalancing Trades at times increased the prices of the AMI Bonds, the NAVs of the Client accounts also were increased by that amount on those occasions.

36. Accordingly, the Clients paid Chatham an estimated $11,000,000 in performance and/or management fees that they would not have in the absence of Chatham's Rebalancing Trades. Chatham in turn paid approximately 55 percent of such fees to Melchiorre.

Violations

37. As a result of the conduct described above, Respondents willfully violated Section 206(2) of the Advisers Act, which prohibits an investment adviser from engaging in any transaction, practice, or course of business which operates as a fraud or deceit upon any client or prospective client. Scienter is not required to establish a violation of Section 206(2), but rather such a violation may rest on a finding of negligence. *SEC v. Steadman*, 967 F.2d 636, 643 n.5 (D.C. Cir. 1992) (citing *SEC v. Capital Gains Research Bureau, Inc.*, 375 U.S. 180, 195 (1963)).

38. As a result of the conduct described above, Respondents willfully aided and abetted violations of, and caused certain Clients to violate, Sections 17(a)(1) and 17(a)(2) of the Investment Company Act, which make it unlawful for any affiliated person or promoter of or principal underwriter for a RIC or any affiliated person of such a person, promoter, or principal underwriter, acting as principal (1) knowingly to sell any security or other property to such RIC or to any company controlled by such RIC, or (2) knowingly to purchase from such RIC, or from any company controlled by such RIC, any security or other property, unless the transaction complies with the exemptive requirements of Rule 17a-7 under the Investment Company Act, or the adviser obtains an exemptive order under Section 17(b) of the Investment Company Act.

Disgorgement

39. The disgorgement and prejudgment interest ordered in paragraph IV(G) below is consistent with equitable principles and does not exceed Respondents' net profits from their violations, and will be distributed to harmed investors to the extent feasible. The Commission will hold funds paid pursuant to paragraph IV(G) in an account at the United States Treasury pending distribution. Upon approval of the distribution final accounting by the Commission, any amounts remaining that are infeasible to return to investors, and any amounts returned to the Commission in the future that are infeasible to return to investors, may be transferred to the general fund of the United States Treasury, subject to Section 21F(g)(3) of the Securities Exchange Act of 1934.

Undertaking

Respondents Chatham and Melchiorre agree to undertake to assist the Commission staff in the administration of a distribution plan, including any and all efforts to distribute to affected investors the monetary relief described in paragraph IV(G) below. In connection with such assistance, Respondents will produce, without service or notice of subpoena, information reasonably requested by the Commission staff.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondents' Offers.

Accordingly, pursuant to Sections 203(e), 203(f) and 203(k) of the Advisers Act, and Sections 9(b) and 9(f) of the Investment Company Act, it is hereby ORDERED that:

A. Respondent Melchiorre cease and desist from committing or causing any violations and any future violations of Section 206(2) of the Advisers Act or Section 17(a) of the Investment Company Act.

B. Respondents are censured.

C. Respondent Chatham cease and desist from committing or causing any violations and any future violations of Section 206(2) of the Advisers Act or Section 17(a) of the Investment Company Act.

D. Pursuant to Section 9(b) of the Investment Company Act, Respondent Melchiorre be, and hereby is, prohibited from serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter.

E. Pursuant to Section 9(b) of the Investment Company Act, Respondent Chatham be, and hereby is, prohibited from serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter.

F. Any reapplication for association by Respondents will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, compliance with the Commission's Order and payment of any or all of the following: (a) any disgorgement or civil penalties ordered by a Court against the Respondents in any action brought by the Commission; (b) any disgorgement amounts ordered against the Respondents for which the Commission waived payment; (c) any arbitration award related to the conduct that served as the basis for the Commission Order; (d) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission Order; and (e) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission Order.

G. Respondents shall pay, jointly and severally, disgorgement of $11,000,000 and prejudgment interest of $3,375,072. In addition, Respondent Melchiorre shall pay a civil penalty of $600,000, and Respondent Chatham shall pay a civil penalty of $4,400,000 to the Securities and Exchange Commission. Payment shall be made in the following installments:

1. Due within 30 days of the entry of this Order: $7,187,536;
2. Due within 180 days of the entry of this Order: $3,593,768;
3. Due within 270 days of the entry of this Order: $3,593,768; and
4. Due within 360 days of the entry of this Order: $600,000 from Melchiorre, and $4,400,000 from Chatham; plus all remaining unpaid principal and accrued interest.

Payments shall be applied first to post-order interest, which accrues pursuant to SEC Rule of Practice 600 and pursuant to 31 U.S.C. § 3717. Prior to making the final payment set forth herein, Respondents shall contact the staff of the Commission for the amount due. If Respondents fail to

make any payment by the date agreed and/or in the amount agreed according to the schedule set forth above, all outstanding payments under this Order, including post-order interest, minus any payments made, shall become due and payable immediately at the discretion of the staff of the Commission without further application to the Commission. Payment must be made in one of the following ways:

(1) Respondents may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondents may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

(3) Respondents may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Anthony Melchiorre and Chatham Asset Management, LLC as Respondents in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Sheldon L. Pollock, Division of Enforcement, Securities and Exchange Commission, 100 Pearl Street, Suite 20-100, New York, New York 10004.

H. Pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, as amended, a Fair Fund is created for the disgorgement, prejudgment interest, and penalty payments referenced in paragraph IV(G) above. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalties, Respondents agree that in any Related Investor Action, they shall not argue that they are entitled to, nor shall they benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondents' payments of a civil penalties in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondents agree that they shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalties imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondents by or on behalf of one or more investors based on substantially the same facts as alleged in the Order entered by the Commission in this proceeding.

I. Respondents Chatham and Melchiorre shall comply with the undertaking enumerated in Section III above.

V.

It is further ORDERED that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. § 523, the findings in this Order are true and admitted by Respondent Melchiorre, and further, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Respondent Melchiorre under this Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Respondent of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. § 523(a)(19).

By the Commission.

Vanessa A. Countryman
Secretary