



Part 2A of Form ADV Firm Brochure

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This Brochure provides information about the qualifications and business practices of CarVal Investors, LLC. If you have any questions about the contents of this Brochure, please contact us at 952-984-3774. 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.

CarVal Investors, LLC is a registered investment adviser. Registration of an investment adviser does not imply any level of skill or training. Additional information about CarVal Investors, LLC is also available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

CarVal is amending its Form ADV due to the following changes:

New address: 9320 Excelsior Boulevard, 7th Floor, Hopkins, MN 55343.

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Item 4 – Advisory Business

CarVal Investors, LLC (“CarVal”) is a global asset manager of private alternative investment funds. CarVal was formed in 2006 and is a continuation of Cargill Value Investment (“CVI”) which was an internal business unit of Cargill, Incorporated (“Cargill”). Between 1987 and 2006, CVI solely managed proprietary investments on behalf of Cargill. Cargill is an international marketer, processor and distributor of agricultural, financial and industrial products and services with over 142,000 employees in 65 countries. In 2006, Cargill established CarVal as an independently managed alternative investment manager to continue and expand upon the investment activities of CVI. CarVal is currently a 100% owned independently managed subsidiary of Cargill.

CarVal provides investment management services on a discretionary basis to several private domestic and non-U.S. collective investment vehicles which are identified below (the “Funds”). Interests in the Funds are offered exclusively to investors satisfying applicable eligibility and suitability requirements. From time to time, CarVal will also provide advice to vehicles established by single investor.

The Funds invest primarily in one or more of four principal asset classes: Loan Portfolio Investments, Corporate Securities Investments, Real Estate Investments, and Special Opportunities Investments. For greater detail on these strategies, see **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**.

In providing services to the Funds, CarVal may conduct its investment management business through its wholly-owned subsidiaries: CarVal Investors UK Limited (based in London, England, and regulated by the United Kingdom Financial Services Authority), CarVal Investors Pte. Ltd. (based in Singapore), CarVal Investors France SAS (based in Paris, France), CarVal Investors Pte. Ltd., Tokyo Branch (based in Tokyo, Japan and regulated by the Japan Financial Services Authority), and CarVal Investors Consulting (Shanghai) Ltd. (based in Shanghai, China) (the “Subsidiaries”). Each Subsidiary has executed a sub-advisory agreement pursuant to which the Subsidiary provides investment management advice and expertise regarding local and regional capital markets, public and private transactions, and market participants. As of October 31, 2012, CarVal and its subsidiaries employed approximately 198 employees, including support staff.

The Funds

CarVal currently manages the following Funds:

- CVI Credit Value Fund (“CVF”) (closed to new investors)
- CVI Global Value Fund (“GVF”) (closed to new investors)
- CVI Specialized Ventures Fund (“SVF”) (closed to new investors)
- North American Real Estate Partners I (“NARE I”) (closed to new investors)
- North American Real Estate Partners II (“NARE II”) (closed to new investors)
- NAREP II Land Entitlement Sidecar (“NARE II SC”) (closed to new investors)
- CVI International Credit Fund Ltd (“CVIC”) (closed to new investors)
- CVI Real Estate Value Fund III (“RVF III”) (closed to new investors)
- CVI Credit Value Fund II (“CVF II”) (open to new investors)

Please note that for the purposes of Form ADV Part I, CarVal reports each master-feeder arrangement as a Private Fund. Since some of the Private Funds CarVal manages have multiple master-feeder arrangements, the total number of Private Funds reported in Item 5.C.(1) of Form ADV Part I may not correspond to the total number of Private Funds CarVal reports on other documents including but not limited to marketing documents, private placement memoranda and official filings with regulators.

Individual investors (each, an “Investor”) invest in one or more feeder funds which, in turn, invest capital in the assets the Funds hold through one or more master funds or pooling entities.

Investments in a Fund may be subject to a requirement that the Investor commits capital to the Fund for a given period of time. In CarVal’s current Funds, these investment periods range from 6 months to 4 years from a fixed date set forth in the relevant LPA, depending on the Fund. Each Fund may have different redemption terms. Further information can be found in each Fund’s Offering Documents and/or LPA.

In its capacity as investment manager to the Funds, CarVal is responsible for executing each Fund’s investment objectives and strategy.

As of October 31, 2012, CarVal’s total discretionary assets under management are \$8,171,758,760. Assets under management including non-discretionary accounts are \$8,914,685,625. CarVal’s Regulatory Assets Under Management (as defined in Form ADV Part I) are \$13,079,470,463. Please note that assets under management for NARE I and NARE II funds are as of September 30, 2012 and NARE SC is as of August 31, 2012.

CarVal does not participate in wrap fee programs.

CarVal generally has broad and flexible discretion with respect to investment decisions made for the Funds, and also with respect to the selection of brokers, dealers and other counterparties for such investments, and the amount of commissions or other compensation to be paid by the Funds. CarVal provides investment advisory services to the Funds based on the particular investment objectives and strategies described in the applicable Fund’s Offering Documents.

All discussions of the Funds in this Brochure, including but not limited to their investments, the strategies used in managing the Funds, the fees and other costs associated with an investment in the Funds, investor suitability standards and conflicts of interest faced by CarVal in connection with management of the Funds, are qualified in their entirety by reference to each Fund’s respective Offering Documents and LPAs.

CarVal currently manages a non discretionary account for its parent, Cargill. In addition, RVF III is a non-discretionary fund. As of October 31, 2012, CarVal’s total non-discretionary assets under management are \$742,926,865.

Item 5 – Fees and Compensation

Fees for Funds

The compensation each Fund pays CarVal is set forth in each Fund's LPA. The fees described below are generally non-negotiable except as set forth below. For each Fund it manages, CarVal charges a management fee (the "Management Fee") and a performance allocation or fee ("Carried Interest") consisting of a percentage of realized and/or unrealized profits (subject in certain Funds to hurdle rates, high watermarks and holdback and clawback provisions as defined by the respective LPA). Principals and employees currently invested in the Funds are not charged such asset-based or performance fees. For further information about Carried Interest, see **Item 6 – Performance-Based Fees and Side-By-Side Management**.

CarVal charges a Management Fee to Investors that varies pursuant to the terms of each Fund's LPA. The fees associated with an investment in a Fund vary, depending on the Fund, and are described in detail in each Fund's Offering Documents. Current management fees range between 1.25% and 2.5% of committed, contributed or invested capital or net asset value. Management Fee calculations may vary depending on a particular Fund's stage in its life cycle. The Management Fee may be calculated on a beginning or end of quarter methodology and is typically paid quarterly in arrears.

CarVal may, in its sole discretion, waive or reduce the Management Fee or Carried Interest and distributions to Investors will be adjusted accordingly. CarVal may also charge a Management Fee that is higher than, lower than, or otherwise on different terms than those described above.

Fees for managing single investor or non-discretionary vehicles will be set forth in the written agreement with the relevant investor(s). Generally such arrangements will include an asset-based and/or a performance-based component and will be negotiated on a case-by-case basis. In addition, single investor vehicle arrangements may include provisions under which investors reimburse CarVal for expenses in an amount established under the terms of the agreement with CarVal.

Automatic Fee Deduction

CarVal generally deducts fees, if any, directly from each Fund, pursuant to the relevant LPA and investment management agreement. CarVal provides each individual Investor with a statement that includes the amount of all fees charged by CarVal no less frequently than quarterly.

Expenses

Each Fund will pay or reimburse CarVal for certain organizational, administrative, operational and other permissible expenses as described in its LPA. These permissible expenses generally include costs and expenses relating to both the offer and sale of interests in the Funds ("Offering Expenses") as well as the organization of the entities that comprise the Funds and the investment vehicles that invest into the Funds and their respective general partners and managing members ("Organizational Expenses"). Offering and Organizational Expenses may be capitalized or expensed for accounting purposes in accordance with GAAP.

Each Investor is solely responsible for its own legal and tax counsel expenses and any out-of-pocket expenses incurred in connection with its admission to, or the maintenance of its interest in, the Funds.

Pursuant to the underlying LPA's and Offering Documents, and in addition to Management Fees, CarVal has the right to charge to its Funds certain expenses, including certain direct and indirect operational and administrative expenses. These may include, but are not limited to, the following:

- (i) Internal and third party expenses incurred in connection with the organization, operations, investment activity or trading activity of the Funds ("Fund Operating Expenses"). Fund Operating Expenses include, without limitation, all due diligence, travel-related expenses, broken deal expenses, other third party expenses, expenses (whether internal or external) of consultants, custodians, paying agents, registrars, bank service fees, accountants, brokers, servicers, financial advisors, investment bankers, legal, tax, accounting and other advice and administration of investor capital accounts, distributions, fees and expenses related to data and pricing services (e.g., Bloomberg) and related record keeping and Internal Fund Operating Expenses. "Internal Fund Operating Expenses" include salaries of CarVal employees, contractors or agents, other compensation, and internal overhead costs (including, without limitation, allocation of rent, utilities, IT expenses, Human Resources expenses, and other applicable overhead items), to the extent such individuals provide services related to or otherwise benefiting the organization, operations, investments or trading activities of the Funds. Examples of internal Fund Operating Expenses charged to Investors include, without limitation, auditing, accounting, legal and tax personnel, distribution of annual reports, statements and other communications to Investors, oversight and monitoring of third-party administrator, asset management and oversight and monitoring of third-party asset management, asset servicing, cash management and computer hardware and software;
- (ii) all costs incurred in connection with the preparation of or relating to reports made to the Investors and reports, notices, account statements and meetings of Investors;
- (iii) all costs related to litigation involving a Fund, directly or indirectly, including, without limitation, attorneys' fees incurred in connection therewith;
- (iv) all costs related to a Fund's indemnification or contribution;
- (v) the costs of any litigation, director, general partner, management company and officer liability or other insurance and indemnification or extraordinary expense or liability relating to the affairs of a Fund;
- (vi) the pro rata expenses of any subsidiary or special purpose vehicle in which a Fund invests;
- (vii) all expenses incurred in connection with any credit facility or other such indebtedness, including in connection with the repayment of any amounts, including principal, interest, expenses and costs under such credit facility;
- (viii) third party administration fees;
- (ix) all expenses of liquidating a Fund; and

- (x) any taxes levied in respect of a Fund, fees or other governmental charges levied against a Fund and all expenses incurred in connection with any tax audit, investigation, settlement or review of a Fund.

Investor-borne expenses are generally allocated *pro rata* among the Investors, relative to their capital commitments.

Fund Operating Expenses that are shared across multiple Funds will be allocated by CarVal among such Funds based on criteria such as relative benefits to each Fund, pro rata based on Fund assets under management or investment allocation and/or such other criteria that CarVal believes to be fair and equitable taking into consideration the nature of such Fund Operating Expense.

More detailed information about the fees and/or expenses that a particular Fund may pay in connection with the advisory services that CarVal provides is contained in the relevant LPA or Investment Management Agreement entered into between CarVal and the underlying Fund investors. In addition, please see **Item 12 – Brokerage Practices** for a further discussion of the brokerage and other transaction costs that Funds pay. Other than as disclosed, neither CarVal nor its employees accept compensation for the sale of securities or other investment products to Funds.

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

CarVal receives Carried Interest from its Funds that is generally equal to a percentage of the net profits allocable to each Investor. For some Funds, Carried Interest is not paid until specified performance thresholds are met. The specific terms governing the structure and calculation of Carried Interest, which may vary between Funds, are described in each Fund's LPA. While each Fund currently managed by CarVal is subject to Carried Interest, CarVal reserves the right to reduce, waive or calculate differently such fees for certain Investors. In addition, certain single investor vehicles that CarVal may manage from time to time may pay part or all of their fees to CarVal based on the performance of their investments. These terms will vary, and Investors should consult the LPAs of their applicable Funds.

The Funds charge a Carried Interest fee that is generally equal to 20% of the net profits allocable to each Investor. The method each Fund utilizes in assessing and charging the Carried Interest fee varies pursuant to the terms of the applicable LPA. The Carried Interest is generally assessed annually at year end, but, for some Funds, may be assessed at other times, such as quarterly.

The Carried Interest fee may be subject to a high water mark and may be adjusted for hurdle rates and clawbacks, pursuant to the terms of the applicable LPA.

Performance-based compensation creates a potential conflict of interest in that it may create an incentive 1) to make investments that are riskier or more speculative than in the absence of such a performance-based fee, and 2) to favor higher fee paying accounts over other accounts in the allocation of investment opportunities. As a general matter, CarVal believes that it mitigates these potential conflicts by requiring certain senior employees to invest their own money in each of its Funds. Further, CarVal follows procedures it believes are reasonably designed to ensure that all Funds are treated fairly over time and to prevent conflicts from influencing allocation decisions among Funds. CarVal's allocation procedures are further described in **Item 12 – Brokerage Practices**. CarVal recognizes that it is a fiduciary and as such must act in the best interests of the Funds.

Because of the nature of many of CarVal's underlying investments, a significant portion of assets rely on internal analysis using mark-to-model methodologies that may include discount cash flow analyses. Such analyses are inherently subjective. Changes in underlying assumptions and/or economic and market factors may have a material impact on the returns on which Carried Interest is calculated. Certain fees payable to CarVal are based on the value and performance of Fund assets. CarVal has adopted and implemented a valuation policy that governs the pricing of securities and other assets held by the Funds (the "Valuation Policy"). The Valuation Policy generally provides that liquid investments will be valued at readily ascertainable market values. For assets that lack such a readily ascertainable market value, the Valuation Policy requires CarVal to determine a value using various valuation methodologies as set forth in the policy. In valuing certain privately placed and less liquid assets, CarVal has considerable discretion. CarVal generally faces a conflict of interest in valuing assets, because their value can impact certain of the fees payable to CarVal and the performance returns of the Funds. CarVal is responsible for determining the fair market value of each Fund asset. The methodologies used are inherently subjective and capable of producing a range of values that may be different from valuations performed by others applying their own judgment at different or similar dates. There is no guarantee that the valuations determined by CarVal represent values that can or will be realized in a sale or exchange of investments with an independent third party. CarVal documents its valuation decisions and reviews them on a periodic basis. On an annual basis, CarVal's valuations are reviewed in connection with each Fund's independent external audit.

Item 7 – Types of Clients

CarVal currently offers investment advisory services to private funds, single investor vehicles and non-discretionary accounts. The underlying Investors in CarVal's Funds and other investment vehicles are typically institutional investors (e.g. trusts, endowments, foundations, corporations, banks, insurance companies, public and private pension plans, private fund-of-funds, etc.) and high net worth investors meeting the terms of the exceptions and exemptions under which the Funds operate and wishing to invest in accordance with the Funds' investment objectives. With limited exceptions as permitted by law, Investors must be both "accredited investors," as defined in Rule 501(a) of Regulation D under the Securities Act of 1933, and "qualified purchasers" (or "knowledgeable employees"), as defined in Section 3(c) 7 of the Investment Company Act of 1940, as amended (the "Investment Company Act").

Generally, the LPA that governs each of the Funds requires a minimum initial capital contribution prior to an Investor being admitted to a Fund. However requirements for opening or maintaining accounts with CarVal can differ based on the applicable strategy and other factors in the discretion of CarVal. Accordingly, CarVal reserves the discretion in each of the LPAs governing the Funds to adjust account size minimum with respect to any Investor.

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

CarVal focuses on investment strategies that fall within its core competencies. This includes pursuing select investments in “capital vacuums” of illiquidity and “orphaned” or “non-core” assets on the balance sheets of sellers and financial institutions.

Each strategy involves significant risks, many of which are outside of CarVal’s control. Investing in securities and other investments involves significant risks, including the risk that Funds could lose some or all of any invested capital. An investment in a Fund will provide limited liquidity as there are significant restrictions on transferability of and withdrawals from interests in a Fund. A description of CarVal’s core investment strategies, as well as the risks that Funds may face in employing such strategies, is set forth below. A complete description of the risks associated with each particular investment strategy is included in the Offering Documents of the respective Funds, a copy of which is provided to prospective Investors and should be carefully reviewed prior to investing.

Significant Investment Strategies

CarVal focuses on four key investment strategies:

- **Corporate Securities** –investments in obligations of leveraged and/or financially troubled corporations including those in liquidation or bankruptcy proceedings. These investments typically extend to bonds we believe are mispriced or undervalued, bank debt, trade claims, liquidation claims, credit default swaps and equities, but may also extend to other similar investment types or assets.
- **Loan Portfolios** - investments in: (i) performing, sub-performing, non-performing or write-off loans; (ii) slow paying, partially paying or delinquent loans; (iii) loans being paid under a modification agreement or bankruptcy plan; (iv) loan portfolios that include real estate owned and other receivables; and (v) non-uniform or non-conforming loans. CarVal may engage outside operating partners in local markets across the globe.
- **Real Estate** - investments in commercial real estate loan transactions, as well as real estate-related public debt and equity securities. In some Funds CarVal will seek direct investments in real estate assets and may focus such Funds into specific geographic regions. In executing this strategy, CarVal applies fundamental real estate analysis and usually engages operating partners, who assist with the transactions and coordinate the due diligence and asset management of the investments. CarVal uses this network of operating partners to assist with assessments of market conditions, as well as analysis and management.
- **Special Opportunities** – Through this strategy, CarVal may invest in a diverse base of non-traditional businesses and asset classes that are not targeted in its other strategies. Such investments have historically included aviation assets, vessel assets, oil and gas related assets and commercial mortgage and asset backed securities but may extend to any investment opportunity that CarVal believes to be attractive and profitable under the circumstances.

More detailed information regarding CarVal’s investment strategies and activities is set forth in the Offering Documents related to each Fund.

General Methods of Analysis

At the core of the CarVal's investment strategy is an investment selection and investment decision process with an emphasis on monitoring and reporting the performance of the ongoing investment portfolio. In evaluating potential investments, CarVal performs a quantitative and qualitative analysis based on, among other things, legal and financial due diligence (which may include reliance on third-party due diligence) and the experience and judgment of its investment professionals. CarVal structures deals to allow its Funds to invest on what it believes is a profitable and sustainable risk-adjusted basis and to provide flexibility in dealing with buyers, sellers and operating partners.

Material Risks

The material risks presented by the strategies pursued by CarVal are summarized below. Additional information is set forth in the Offering Documents for each Fund. An investment in a CarVal Fund is speculative and involves the risk of loss of capital. CarVal neither guarantees nor represents that any Fund or investment will achieve its respective investment objectives or be able to avoid losses. A Fund may not be broadly diversified, and, therefore, the performance of one or a few investments could have a material adverse effect on the Funds' investment returns. This Brochure does not contain all of the risks that may be relevant to an Investor in one of CarVal's Funds. **For a broader description of the risks, investors should consult the relevant Offering Documents.**

Business Risks

Market Conditions, Volatility and Regulatory Action. The Funds may be affected by general economic and market conditions, such as interest rates, availability of credit, credit defaults, inflation rates, economic uncertainty, changes in laws (including tax laws), trade barriers, currency exchange controls, and national and international political circumstances (including wars, terrorist acts or security operations). These factors may affect the level and volatility of prices and the liquidity of the Funds' investments and are outside of CarVal's control. Volatility or illiquidity could impair the Funds' profitability or result in losses. The profitability of the Funds substantially depends upon CarVal correctly assessing the future price movements of various financial instruments and the movements of interest rates. CarVal cannot guarantee it will be successful in accurately predicting such movements. Market volatility creates the risk that positions held by Funds, which may include high-risk or illiquid securities and may use highly speculative investment techniques, may be highly unprofitable on an interim basis, even if they might become profitable later. In addition, the lack of an established, liquid secondary market for many investments may have an adverse effect on the market value of such investments and on a Fund's ability to achieve liquidity from a disposition. Under certain market conditions, Funds could be forced to liquidate positions and to realize significant losses.

In reaction to the general economic and market conditions of the past several years, regulators in various countries, central banks and other policy makers have undertaken unprecedented regulatory actions. It is uncertain whether existing or future regulatory actions will be able to prevent further losses and volatility in securities markets or stimulate the credit markets. These interventions may effectively negate the ability of private sector investors to pursue investment opportunities in certain markets, may create artificial market prices or result in other unanticipated consequences, or unusual risks that could adversely affect the performance of the Funds, especially with regard to developing countries where markets are often highly controlled by government authorities and the laws governing

such transactions may be new and largely untested. Consequently, the Funds may not be capable of, or successful at, preserving the value of their assets, generating positive investment returns or effectively managing their risks.

Distressed Securities. The 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. Although such Investments may result in significant returns to a Fund, they involve a substantial degree of risk. Any one or all of the issuers of the securities in which a Fund may invest may be unsuccessful or not show any return for a considerable period of time. 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 CarVal will correctly evaluate the value of the assets collateralizing such loans or the prospects for a successful reorganization or similar action. Unless such loans are most senior, in any reorganization or liquidation proceeding relating to a company in which a Fund may invest, such Fund may lose its entire investment or may be required to accept cash or securities with a value less than the Fund's original investment. Under such circumstances, the returns generated from such Fund's Investments may not compensate the Fund adequately for the risks assumed.

Loan Portfolios and Debt Obligations. Debt portfolios of the kind CarVal's eligible Funds will acquire typically comprise large numbers of heterogeneous, bilaterally negotiated loans which may be performing, sub- or non-performing and possibly in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. In addition to credit risk and interest rate risk, these portfolios may carry a number of idiosyncratic risks, including: limited representations and warranties from the selling institution; risk that liens over collateral are improperly recorded; incomplete or inconsistent documentation; incomplete payment history; impairment or illiquidity of collateral; inability to secure title to collateral; and the effectiveness of the loan servicer. There can be no assurance as to the amount and timing of payments, if any, with respect to the loans.

Illiquid Investments. The Funds may make Investments for which no liquid market exists or which are subject to restrictions on transfer. The market prices, if any, of such Investments tend to be volatile and the Funds may not be able to sell such investments when they desire, or, upon sale, to realize what they perceive to be their fair value. Moreover, the Funds may invest in securities that are not listed on a stock exchange or traded on an over-the-counter market. Such securities may be less liquid than publicly traded securities and the Funds may encounter substantial delays in selling such securities. Companies whose securities are not publicly traded are not subject to the disclosure and other investor protection requirements applicable to publicly traded securities.

Structured Finance Securities. Portfolios held by CarVal's Funds may include investments in structured finance securities. Structured finance securities are, generally, debt securities that entitle the holders thereof to receive payments of interest and principal that depend primarily on the cash flow from or sale proceeds of a specified pool of assets, either fixed or revolving, that by their terms convert into cash within a finite time period, together with rights or other assets designed to assure the servicing or timely distribution of proceeds to holders of such securities.

Investing in structured finance securities entails various risks: credit risks, liquidity risks, interest rate risks, market risks, operations risks, structural risks, geographical concentration risks, basis risks and legal risks. Structured finance securities are subject to the significant credit risks inherent in the

underlying collateral and to the risk that the servicer fails to perform. Accordingly, such securities generally include one or more credit enhancements, which are designed to raise the overall credit quality of the security above that of the underlying collateral. However, insurance providers and other sources of credit enhancement may fail to perform their obligations. Structured finance securities are subject to risks associated with their structure and execution, including the process by which principal and interest payments are allocated and distributed to investors, how credit losses affect the issuing vehicle and the return to investors in such structured finance securities, whether the collateral represents a fixed set of specific assets or accounts, whether the underlying collateral assets are revolving or closed-end, under what terms (including maturity of the structured finance instrument) any remaining balance in the accounts may revert to the issuing entity and the extent to which the entity that is the actual source of the collateral assets is obligated to provide support to the issuing vehicle or to the investors in such structured finance securities.

Certain structured finance securities that may be held by the Funds may be subordinate in right of payment and rank junior to other securities that are secured by or represent an ownership interest in the same pool of assets. In addition, many of the related transactions have structural features that divert payments of interest and/or principal to more senior classes when the delinquency or loss experience of the pool exceeds certain levels. As a result, such securities have a higher risk of loss due to delinquencies or losses on the underlying assets. Additionally, as a result of cash flow being diverted to payments of principal of more senior classes, the average life of such securities may lengthen.

Structured finance securities are also subject to the risks of the securitized assets. The Funds may rely upon representations of the securitization vehicles in respect of control systems and the securitized assets and conduct little or no diligence in respect of them. Accordingly, there can be no assurance that the control systems and the securitized assets will not be defective in a manner that could adversely affect the Funds.

Residential Mortgage Loans. The Funds may invest in mortgage loans secured by residential properties and subject to risks of loss from delinquencies and foreclosures. The ability of a borrower to repay a mortgage loan secured by residential property typically is dependent primarily upon the income or assets of the borrower. In addition, the ability of borrowers to repay their mortgage loans may be affected by, among other things: property location and condition, competition and demand for comparable properties, changes in zoning laws for the property or its surrounding area, environmental contamination at the property, the occurrence of any uninsured casualty at the property, changes in national, regional or local economic conditions, declines in regional or local real estate values, increases in interest rates or real estate taxes, availability and costs of municipal services, changes in governmental rules, regulations and fiscal policies, including environmental legislation and changes in tax laws, acts of God, war or other conflict, terrorism, social unrest and civil disturbances and natural disasters, such as hurricanes; and availability of financing.

Foreclosure of a mortgage loan can be an expensive and lengthy process that can have a substantial negative effect on a Fund's originally anticipated return on the foreclosed mortgage loan. Furthermore, such foreclosures could have negative tax consequences, particularly for non-U.S. investors. In addition, failure of loan originators or servicers to comply with laws, to the extent any of their loans become part of a Fund's mortgage-related assets, could subject such Fund to monetary penalties and could result in the borrowers rescinding the affected residential mortgage loans.

Commercial Mortgage Loans. Portfolios invested in by CarVal's Funds may include exposure to commercial mortgage-backed securities, which are principally secured by mortgages on real property or

interests therein having a multifamily or commercial use, such as regional malls, other retail space, apartments, office buildings, industrial or warehouse properties, hotels, nursing homes and senior living centers. Commercial mortgage-backed securities are subject to particular risks, including lack of standardized terms, shorter maturities than residential mortgage loans and payment of all or substantially all of the principal only at maturity rather than regular amortization of principal. Additional risks may be presented by the type and use of a particular commercial property. Special risks are presented by hospitals, nursing homes, hospitality properties and certain other property types. Commercial property values and net operating income are subject to volatility, which may result in net operating income becoming insufficient to cover debt service on the related mortgage loan. The repayment of loans secured by income-producing properties is typically dependent upon the successful operation of the related real estate project rather than upon the liquidation value of the underlying real estate. Furthermore, the net operating income from and value of any commercial property is subject to various risks, including changes in general or local economic conditions and/or specific industry segments; the solvency of the related tenants; declines in real estate values; declines in rental or occupancy rates; increases in interest rates, real estate tax rates and other operating expenses; changes in governmental rules, regulations and fiscal policies; acts of God; terrorist threats and attacks and social unrest and civil disturbances. The exercise of remedies and successful realization of liquidation proceeds relating to commercial mortgage-backed securities may be highly dependent on the performance of the servicer or special servicer. There may be a limited number of special servicers available, particularly those that do not have conflicts of interest.

Second Lien Loans. The 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 that 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.

Trade and Other General Unsecured Claims. The Funds may acquire interests in claims of trade creditors and other general unsecured claim holders of a debtor ("Trade Claims"). Trade Claims are typically unsecured and may, in unusual circumstances, be subordinated to other unsecured obligations of the debtor. The repayment of Trade Claims is subject to significant uncertainties, including potential set off by the debtor as well as the other uncertainties described herein with respect to other distressed debt obligations.

Bank Loans. A portion of a Fund's investments may consist of loans and participations originated by financial institutions. Such loans are typically private corporate loans that are negotiated by one or more financial institutions and syndicated among a group of financial institutions. Bank loans acquired by the Funds may be below investment grade and may not be rated.

The Funds may acquire interests in bank loans and other debt obligations either directly or indirectly. The purchaser of an assignment typically succeeds to all rights and obligations of the assigning institution and becomes a lender under the credit agreement; however, its rights can be more restricted than those of the assigning institution. A participation interest in a portion of a debt obligation typically results in a contractual relationship with only the institution acting as lender under the credit

agreement, not with the borrower. In purchasing participations, the Funds generally will have no right to enforce compliance by the borrower with the terms of the loan agreement, nor any rights of set-off against the borrower, and the Funds may not directly benefit from the collateral supporting the debt obligation in which it has purchased the participation. As a result, the Funds will be exposed to the credit risk of both the borrower and the institution selling the participation.

Risks Associated with Bankruptcy Claims. The Funds may invest in bankruptcy claims which are illiquid, generally do not pay interest and there can be no guarantee the debtor will ever be able to satisfy the obligation on the claim. U.S. bankruptcy claims are not generally regulated by U.S. federal securities laws or the SEC. Because bankruptcy claims are frequently unsecured, claims holders may have a lower priority in terms of payment than certain other creditors. In some cases, payments and distributions may be reclaimed later in the proceedings. Many events within a bankruptcy case are adversarial and may be beyond the control of creditors. There can be no assurance a bankruptcy court would not approve actions which may be contrary to the interests of the Fund. Under certain circumstances creditors and equity holders may lose their ranking and priority.

The Funds may invest assets in financially distressed companies domiciled outside the U.S. which involves additional risks. Bankruptcy law and process may differ substantially, 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.

Real Estate Ownership. Ownership of real property interests entails the risk that such interests will fail to perform in accordance with expectations, including operating and leasing expectations, the value achieved on sale, and the timing of sale. The marketability and value of any real property interests that the Funds may own will depend on many factors beyond their control, including: changes in economic conditions; changes in supply or demand; cost and timely completion of construction; changes in interest rates; land use and zoning restrictions, environmental protection and occupational safety; unavailability of mortgage funds; the financial condition of tenants, buyers and sellers; changes in real estate tax rates and other operating expenses; the imposition of rent controls; and various acts of God, natural disasters and uninsurable losses. In addition, general economic conditions, as well as conditions of local and international financial markets, may adversely affect any real property interests that the Funds may own and control. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have an adverse effect on the Funds.

Short Selling. CarVal may utilize short sales as part of its investment program. Short selling involves directly or indirectly selling securities which may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace such securities at a later date. Short selling allows Investors to profit from declines in market prices to the extent such decline exceeds the transaction costs and any borrowing costs. However, any appreciation in the price of the borrowed assets would result in a loss, which is theoretically unlimited in amount. Purchasing assets to close out the short position can itself cause the price to rise further, thereby increasing losses. A Fund could be prematurely forced to close out a short position in a security if a lender of the security demands the return of the security sold short. In addition, there are rules which may prevent the Funds from executing short sales at the most desirable time. Short selling has been the focus of recent regulatory activity, and future regulations could interfere with CarVal's ability to execute certain aspects of its investment strategies, including its ability to hedge certain exposures, and any such limitations may adversely affect the performance of the Funds.

Derivative Instruments. The Funds may use various derivative instruments which may be volatile and speculative, and which may be subject to wide and sudden fluctuations in market value, with a resulting fluctuation in the amount of profits and losses to Funds.

Counterparty Risk. The Funds are subject to counterparty risk. CarVal is not restricted from dealing with any particular counterparty or from concentrating all of its transactions with one counterparty. There is no credit evaluation or regulatory oversight in over-the counter or interdealer markets. Further, the stability and liquidity of derivative instruments is influenced by the creditworthiness of the parties to the transaction. CarVal will monitor the creditworthiness of firms with which it enters into over-the-counter derivatives. If there is a default by the counterparty to such a transaction, the Funds will typically have contractual remedies. However, exercising contractual rights may involve delays or costs which could negatively affect the net asset value of the Funds. There is also the risk that the counterparty could become insolvent, which could result in a material loss to a Fund. If a lender counterparty fails to satisfy its obligations, there can be no assurance that a Fund will be able to repossess such collateral.

Expedited Transactions. Investment analyses and investment decisions may be undertaken on an expedited basis in order for CarVal to take advantage of available investment opportunities. In such cases, the information available at the time of an investment decision may be limited, and CarVal may not have access to the detailed information necessary for a thorough evaluation of the investment opportunity. Further, CarVal may conduct its due diligence activities over a very brief period.

Valuation. A substantial portion of CarVal's investments may be in a form for which market quotations are not readily available. In such cases CarVal will determine the fair value of such investments on a monthly basis, in accordance with its valuation policies. There is no single standard for determining fair value in good faith and in many cases fair value is best expressed as a range of fair values from which a single estimate may be derived. Because valuations are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, determinations of fair value may differ materially from the values that would have resulted if a ready market had existed. Even if market quotations are available, they may not reflect the value a Fund would actually realize because of factors including illiquidity associated with large ownership positions, market price volatility or the potential for a future loss based on poor industry or market conditions. The realized return could be adversely affected if the recorded values of investments are materially higher than the values that are realized upon disposal and changes in values attributed to Investments from quarter to quarter may result in volatility in the net asset values and results of operations. Third-party pricing information regarding certain investments may at times be unavailable. Valuations based on models will be affected by assumptions in the models and may not reflect the prices at which positions could, in fact, be covered or sold.

Management Risks

Conflicts of Interest. Conflicts of interest exist in the structure and operation of the Funds' business. The fees, which CarVal is entitled to receive as a management company from its Funds, have not been set by "arm's-length" negotiations and may be higher than the fees another management company might charge. CarVal believes such fees are justified with regard to each Fund in light of the structure of such Fund, its investment program and the investor base.

CarVal may in the future have other investment advisory clients with different appetites and tolerance for risk and different investment periods. CarVal Investors will seek to allocate investment and disposition opportunities fairly among all funds and accounts it manages in light of their varying risk tolerances and investment periods. However, due to their varying risk tolerance and investment

periods, such allocations of investment and disposition opportunities among the various funds and accounts managed by CarVal might not be pro rata. CarVal may cause Funds to purchase assets from, or sell assets to, such other funds and accounts managed by CarVal when they believe such transactions are appropriate and in accordance with applicable regulatory requirements and any requirements set out in governing documents for the Funds involved.

CarVal acts as a management company, sponsor, manager or general partner for its Funds and its single investor vehicles; it gives advice and takes action, with respect to any of those entities that may, from time to time, differ from the advice given, or the timing or nature of action taken, with respect to another of those entities. Where there is limited access to an investment opportunity, CarVal uses its best efforts to allocate investment opportunities in a manner deemed equitable, but cannot assure, and assumes no responsibility for, equality among all such entities. CarVal and its principals, members, officers, directors and employees may engage in transactions or investments or cause or advise the Funds and single investor vehicles to engage in transactions or investments that may differ from or be identical to the transactions or Investments engaged in by or for the account of another Fund or single investor vehicle. CarVal has no obligation to engage in any transaction or investment for the account of the Funds or single investor vehicle or to recommend any transaction to the Funds or single investor vehicle that CarVal or any of the principals, members, officers, directors or employees may engage in for their own accounts or the account of any other customer, except as otherwise required by applicable law. To the extent permitted by law, CarVal Investors is permitted to bunch or aggregate orders for the account of the Funds or single investor vehicle with orders for other accounts, notwithstanding that the effect of such aggregation may operate to the disadvantage of a Fund.

Cargill Relationships. CarVal is an independently managed subsidiary of Cargill. A principal concern in establishing CarVal has been to limit Cargill's potential liabilities to third parties and to ensure that the operations of CarVal are in no respect damaging to the Cargill organization. While, in most cases, this objective is consistent with acting in the best interests of the Funds, in certain situations, officers of CarVal may have a conflict of interest between acting in a manner which protects Cargill and acting in the best interests of the Funds.

Related Party Transactions. The Funds may enter into certain transactions with CarVal, Cargill and/or Cargill affiliates, including but not limited to, transactions for the provision of services to the Funds by such parties. It is expected that a number of such transactions may give rise to potential conflicts of interest. Although no exact statement of the full range of such transactions can be made, it is expected that any such transaction will be entered into by the relevant parties on an arm's-length basis.

Material Non-Public Information. As a result of the extensive operations of Cargill, as well as investments made by Cargill and its affiliates for their own accounts, Cargill at times comes into possession of confidential or material, non-public information. Disclosure of such information within Cargill is limited to members of working groups with a need for such information only. Therefore, the Funds will not have access to material, non-public information in the possession of Cargill that might be relevant to an investment decision to be made by the Funds, and the Funds may initiate a transaction or sell an investment which, if such information had been known to it, may not have been undertaken. In the event any material, non-public information is disclosed to any officers or employees of CarVal (including in their capacity as a member of a company's board of directors), any member of CarVal's investment committee or any other person responsible for the affairs of the Funds, the Funds may be prohibited by applicable securities laws and CarVal's internal policies from acting upon any such information. Due to these restrictions, each of the Funds may not be able to make an investment that it otherwise might have made or sell an investment that it otherwise might have sold.

Asset Managers. The Funds may enter into joint ventures and otherwise have ongoing business dealings with various Cargill affiliates or CarVal affiliates. See description of asset managers provided in response to **Item 10 – Other Financial Industry Activities and Affiliations.**

Fund Risks

Dependence on CarVal. Currently, for all of the funds with the exception of RVF III (non-discretionary fund), all decisions with respect to Fund investing activities are made exclusively by CarVal. Investors do not have the opportunity to evaluate fully for themselves the relevant economic, financial, and other information regarding a Fund's investments. . Further, the performance of CarVal depends upon certain key personnel. Should any such individual be incapacitated or cease to provide investment advice for CarVal, Fund performance may be adversely affected.

Concentrations of Investments. Subject to a Fund's Offering Documents, CarVal may concentrate Fund investments by investing a significant portion of its assets in a single industry or geography or a limited number of issuers. To the extent it does concentrate in any of these ways, the overall adverse impact on a Fund of adverse developments in the business of any such issuer, industry or geography could be considerably greater than if it did not concentrate its investments to such an extent.

Lack of Control and Management. The Funds frequently will be minority investors without an active role in the management of investments. As a result, each Fund's control over investments may be limited, and access to information concerning the investments and related matters may not be comprehensive and timely. There can be no assurance that CarVal will be in a position to protect the value of the Funds' Investments.

Delegation of Management. CarVal expects to regularly cause the assets of the Funds to be invested in assets managed by third-party or affiliated asset managers and may delegate to such asset managers some or all of the management responsibilities. There can be no assurance that asset managers will have the resources or skills to effectively perform these functions.

Use of Leverage. CarVal may use leverage for its Funds. Leverage includes, but is not limited to, buying securities on margin. In addition to direct borrowing from banks or prime brokers, CarVal may use reverse repurchase agreements, swaps, options, futures contracts and other derivative securities, or other forms of leverage or credit. The use of leverage may result in a Fund controlling substantially more assets than such Fund has equity. Leverage increases returns if a Fund earns a greater return on investments purchased with borrowed funds than the cost of borrowing such funds. However, the use of leverage exposes the Funds to additional levels of risk, including (i) greater losses than if the Funds had not borrowed to make the investments, (ii) margin calls or interim margin requirements which may force premature liquidations of investment positions and (iii) losses on investments where the investment fails to earn a return that equals or exceeds the Funds' cost of borrowing such funds. In the event of a drop in value of the Funds' assets, the Funds might not be able to liquidate assets quickly enough to repay its borrowings, further magnifying losses. Certain Funds are subject to an aggregate maximum indebtedness for money borrowed from third parties pursuant to their Offering Documents. Leveraged transactions may result in the total loss of capital.

Custodial Risk. Certain securities firms will act as prime brokers for CarVal's Funds (together, the "Prime Brokers"). In connection therewith, the Prime Brokers will provide certain clearing (including prime brokerage) services to the Funds and may also provide margin financing and other financing facilities. Such services and facilities will be provided pursuant to a series of mutually acceptable agreements (the

"Customer Documents"), and may include institutional account agreements and custodian agreements. The Prime Brokers, other selected brokers and other custodians (the "Custodians") may also provide, custody services for the Funds' assets carried on the books of the Prime Brokers or Custodians as part of their brokerage and/or custodial functions in accordance with the terms of the Customer Documents or such other applicable documents. The Prime Brokers or Custodians may appoint sub-custodians, including affiliates of the respective Prime Brokers or Custodians, of the Funds' assets.

In the event that any Prime Broker or Custodian has insufficient financial assets to satisfy all of its customers and certain of its secured creditors, the Funds may suffer losses. The Securities Investor Protection Act provides limited protections for assets of customers like the Funds which are credited to securities accounts, but such protection should not be expected to cover the value of the Funds' assets. There may be a substantial delay in proceedings against a Prime Broker or Custodian and the Fund's assets may become substantially impaired during such proceedings.

Because none of the Funds is registered as an investment company, such custodial arrangements are not subject to the regulations of the SEC governing registered investment companies. The Prime Brokers and Custodians are not required to comply with certain of the SEC regulations applicable to custodians of the securities and other assets of registered investment companies. Under the provisions of the Securities Investor Protection Act, the bankruptcy of a Prime Broker or Custodian might have a greater adverse effect on the Funds than would be the case if such Prime Broker or Custodian were required to comply with SEC regulations governing the custody of the securities of registered investment companies.

Tax Risk. The Funds may take tax considerations into account in determining when positions should be disposed of and may assume certain market risk and incur certain expenses in this regard to achieve favorable tax treatment of a transaction. The tax treatment of Funds and investment portfolios is complex. There is no assurance that the tax positions taken by CarVal will be accurate. A position taken by CarVal could be successfully challenged by the Internal Revenue Service or another applicable taxing authority, resulting in an Investor having a different tax liability for that year. In addition, an audit of the Funds could result in adjustments to the tax consequences initially reported by the Funds and may result in an audit of the returns of some or all of the Investors.

Item 9 – Disciplinary Information

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to an evaluation of CarVal or the integrity of its management. CarVal has no material legal or disciplinary events to disclose.

Item 10 – Other Financial Industry Activities and Affiliations

The general partner for the domestic Funds and the non-U.S. Funds is, in each instance, a wholly owned subsidiary of CarVal. Please see **Item 6 – Performance-Based Fees and Side-by-Side Management** regarding performance fees that may be paid by a Fund to CarVal. In addition, certain senior employees of CarVal are generally required to invest in each Fund as more fully set forth in the Offering Documentation of each Fund. A list of Funds is identified in **Item 4- Advisory Business**.

CarVal manages a variety of Funds and a particular CarVal Fund may not have the exclusive right to any investment opportunity. Accordingly, CarVal may have potential conflicts of interest with respect to the allocation of a given investment opportunity. CarVal's employees also may have conflicts in allocating their time and services among Funds. CarVal's employees will devote as much time to each Fund as CarVal deems appropriate to perform its duties in accordance with its management agreements. Additional information regarding CarVal's management of any such potential conflict is discussed in **Item 11 – COE, Participation or Interest in Client Transactions & Personal Trading**.

CarVal's subsidiaries, CarVal Investors UK Limited, CarVal Investors Pte. Ltd., CarVal Investors France SAS, CarVal Investors Pte. Ltd., Tokyo Branch, and CarVal Investors Consulting (Shanghai) Ltd., provide investment advisory services to CarVal in connection with its management of Funds and its investment advisory services. Some of these entities are registered with a foreign regulatory authority. All of these subsidiaries are wholly owned by CarVal or its affiliates and, therefore, CarVal does not believe that such relationships create a material conflict of interest for its Funds. CarVal and its relying advisers are together filing a single Form ADV in reliance on the position expressed in the SEC no-action letter dated January 18, 2012 and have identified each relying adviser on Schedule D, Section 1.B of ADV Part 1 by including the notation "relying adviser".

CarVal employees may serve on boards of directors, creditor committees or in other management capacities at companies in which the Funds invest. This may expose CarVal and its Funds, to certain limitations on the ability to trade the securities of the issuer company and certain conflicts of interest. As a result of such service, an employee may become aware of material non-public information about the company in which the Funds invest, which could substantially restrict the Funds' ability to trade the securities of such company. Such limitations may cause the Funds to forgo sales or purchases that they would otherwise make, thereby exposing the Funds to losses and lost opportunities. CarVal maintains policies and procedures which are intended to minimize the negative effects of such conflicts if they arise. However, there can be no guarantee that such activities will not result in less favorable results for the Funds than if the employee was not permitted to serve in such capacity.

From time to time, Cargill may purchase certain assets at the request of CarVal and warehouse these assets ("Warehoused Assets") on behalf of CarVal. CarVal may deem some or all of these assets to be appropriate for a Fund which has not yet launched. Cargill will partially or fully capitalize such Warehoused Assets with an equity and/or debt contribution. Alternatively, Cargill may obtain secured financing for the purchase of Warehoused Assets. At a later point in time, typically at or around the time of the first admission of Investors to a relevant Fund, and after obtaining explicit consent from the Fund's investors, Warehoused Assets may be purchased by a CarVal Fund. Transfer pricing will be determined at the time of the transfer and will be disclosed to investors. To date such purchases have been made for cost, adjusted for expenses including those associated with any purchase price financing. Cargill is not under any obligation to transfer any particular Warehouse Asset to a Fund.

CarVal Investors Assets Consulting (Beijing) Ltd, which is an asset manager employed by CarVal in China, is a wholly owned subsidiary of Clearwater Consulting LLC which is a wholly owned subsidiary of CarVal. One of CarVal's managed Funds (GVF) pays a fee to CarVal Investors Assets Consulting (Beijing) Ltd. for asset management services. Currently, CarVal does not anticipate using CarVal Investors Assets Consulting (Beijing) Ltd. to manage assets for future CarVal managed Funds or single investor vehicles.

From time to time CarVal uses Cargill's trading desk for foreign exchange trades. CarVal pays Cargill an administrative fee, per transaction, for these services but does not pay a commission. CarVal believes this service fee is at a competitive rate.

Financial Industry Affiliations

Black River Asset Management LLC ("Black River"), a registered investment adviser, is an independent subsidiary of Cargill. CarVal and Black River are operated independently of each other. Cargill Commodity Services Inc, a subsidiary of Cargill, is a commodity pool operator and a commodity trading advisor. These subsidiaries are independent from CarVal and do not pose any material conflicts of interest. Cargill or its subsidiaries may have additional relationships with other financial institutions that are not material to CarVal's advisory business or to its clients.

Asset Managers

CarVal frequently uses third party asset managers to manage assets owned by its Funds, and may delegate to such asset managers some or all management responsibilities. There can be no guarantee that asset managers will have the resources or skills to effectively perform these functions. The asset managers enter into servicing relationships with the Funds (or their investments). All such services are performed by the asset manager's personnel, not by personnel of other affiliates of CarVal and CarVal does not exercise day-to-day control over or management of the asset manager. Asset managers are not generally controlled by CarVal, and they may not be required to direct investment opportunities to the Funds or spend a specified portion of their time managing Investments held by the Funds. While asset managers may provide a source of deal flow, familiarity with markets and management expertise, there is no guarantee that they will in fact do so, and there can be no guarantee that actions or omissions on their part will not result in material adverse consequences to the Funds.

Several conflicts of interest are inherent in CarVal's use of asset managers. Asset managers may co-invest in and receive a share of the profits from the assets they manage. Since asset managers may manage assets held by the Funds and assets not held by the Funds, asset managers may face conflicts of interest between choices that may favor one investment over another, as well as decisions regarding devotion of time and resources.

CarVal, Cargill or certain Funds have ownership or other financial interests (e.g. providing loans to or obtaining warrants in the asset manager) in one or more asset managers ("affiliated asset managers"). Both affiliated and unaffiliated asset managers enter into servicing relationships with the Funds.

Partial ownership of or financial interest in an asset manager by CarVal, Cargill or a Fund may create certain conflicts between CarVal and the Funds or between different Funds. For instance, CarVal could make an investment allocation on behalf of a fund that may generate servicing fees for an affiliated

asset manager and would also benefit the fund with the ownership interest in that asset manager. CarVal's investment process, asset allocation policy and other controls mitigate the risk that such conflict could present.

Item 11 – COE, Participation or Interest in Client Transactions & Personal Trading

Code of Ethics

CarVal maintains a Code of Ethics (the “Code”) designed to govern the conduct of CarVal and its personnel, and to address potential conflicts that might arise in the context of personal trading and other employee activities. Upon employment, and annually thereafter, employees of CarVal acknowledge the terms of the Code.

Employees who are subject to the Code are identified in the Code as “Access Persons”. Pursuant to the Code, Access Persons must conduct their personal securities transactions (and those of certain members of their families) in compliance with the Code, and must avoid taking inappropriate advantage of their positions within CarVal. Access Persons must provide annual holdings reports and quarterly transaction reports or duplicate broker statements and confirmations in accordance with Rule 204A-1.

The Code permits Access Persons to invest for their personal accounts, but requires them to pre-clear all personal securities transactions involving reportable securities and to abide by the guidelines and restrictions set forth in the Code. CarVal maintains a restricted securities list containing the names of securities which Access Persons are generally prohibited from trading and requires holding periods for certain securities by certain employees.

The Code contains conditions under which an Access Person may purchase or sell securities held or traded by a Fund, and subjects certain employees to enhanced scrutiny based on their functions and duties. CarVal periodically reviews personal securities transactions and holdings reports in an effort to ensure that employees do not take advantage of their knowledge of activities in the Funds to benefit personally.

The Code also addresses other obligations and requirements for CarVal employees including sections on gifts and entertainment, political contributions, conflicts of interest and outside business opportunities. Copies of the Code are available to any Investor or prospective Investor upon request to ADVrequest@CarVal.com

Insider Trading

In the course of providing investment advisory services, and subject to procedural safeguards including restricted security lists, CarVal may come into possession of material, nonpublic and other confidential information which may limit CarVal’s ability to direct the purchase or sale of certain investments. For example, CarVal may enter into a confidentiality agreement, or an employee of CarVal may serve as a director or member of a creditor committee with respect to companies whose securities may be purchased or sold on behalf of the Funds. At times CarVal, in an effort to avoid investment restrictions with respect to the Funds, may elect not to receive information that is available to other market participants or counterparties. If a CarVal employee obtains material non-public information with respect to any company, CarVal may be prohibited for a period of time from engaging in transactions on behalf of some or all its Funds with respect to the securities of such company, which may have an adverse effect on such Funds.

While CarVal has designed and implemented policies and procedures reasonably designed to limit those situations, and to prevent the misuse of material, non-public information, there can be no guarantee that such policies and procedures will be successful or that investment restrictions will not occur. CarVal's personnel are required to acknowledge its insider trading policies and procedures as part of the Code on an annual basis.

Potential conflicts due to overlapping Fund Investments

Where CarVal Funds hold the same investment, the differing investment objectives of such Funds may result in a decision to sell or hold all or a portion of an investment on behalf of a Fund at different times as such investment or portion thereof is being sold or held by other Funds. Conflicts of interest may also arise when disposing of a particular investment would be beneficial for one Fund while retaining such investment would be beneficial for another Fund. In some instances investments may not be divisible, and must be sold or held in their entirety. In such cases the decision to sell or hold an investment may be more beneficial or detrimental to one Fund than another. Further, there may be instances where investments are not divisible between eligible Funds prior to their acquisition as a result of, among other reasons, the timing of the transaction, tax, regulatory or legal issues, or significant operational burdens associated with dividing such investments. In such instances, CarVal may determine it is in the best interests of the Funds to acquire such investment into one eligible Fund and divide the investment between, or participate the investment to, all eligible Funds as soon as practicable after the acquisition. In connection with such division or participation, CarVal will endeavor to ensure that each eligible Fund's ownership or participation in such investment will be segregated from each other eligible Fund in terms of, among other items, payment obligations, covenants and benefits, but in some cases may not be able to do so.

Conflicts may also arise if a Fund makes an investment in which another Fund has already invested, including conflicts related to investing in different or overlapping levels of an entity's capital structure. There can be no assurance that the return on one Fund's investments will not be less than the returns obtained by other Funds participating in the same overall capital structure. CarVal's Funds will not be required to take any action or refrain from taking any action to mitigate another Fund's losses in such a scenario even if such decision may result in losses to a Fund, and CarVal will make decisions on how to resolve such situations in its sole discretion.

Further conflicts may arise if a Fund executes an investment in which one or more Funds have already invested. For example, 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 actions should be taken in a troubled situation, including whether to enforce claims or whether to advocate or initiate a restructuring raise conflicts of interest. In addition, a Fund may participate in restructuring or recapitalization transactions (including those requiring additional investments of capital) involving companies in which other Funds have invested or may invest. These transactions may present conflicts of interest, including determinations of whether existing Investors are being cashed out at a price that is higher or lower than market value and whether new Investors are paying too high or low a price for the company or purchasing investments with terms that are more or less favorable than prevailing market terms.

Certain Funds may make investments in entities or assets in which they have already invested or that are held by other Funds. The purchase, holding or sale of these investments may enhance profitability of such investments to the related Funds. This potential conflict is mitigated by CarVal's investment process.

CarVal seeks to manage such conflicts of interest by using its best judgment and in a manner that it believes to be fair and reasonable to the Funds and in accordance with its duties as an investment adviser. CarVal believes these conflicts of interest are mitigated by its allocation procedures and its investment process.

CarVal serves as an investment adviser to more than one Fund. As a result, CarVal employees may have conflicts in allocating their time and services among various accounts. CarVal believes its allocation methodology effectively mitigates the competing interests for the time and attention of CarVal's resources.

Item 12 – Brokerage Practices

Selection Criteria for Brokers-Dealers – Best Execution

The primary selection criterion employed by CarVal in connection with selecting brokers is their ability to provide best execution. In assessing best execution, and its overall broker relationships, CarVal considers a variety of qualitative and quantitative factors including, but not limited to, price, likelihood of execution, likelihood of execution within a desired time frame, market conditions, ability of a counterparty to execute in desired volume, ability of a counterparty to act on a confidential basis, ability of a counterparty to act with minimum market effect, willingness and ability of a counterparty to make a market in particular securities, operational coordination, automation and counterparty reputation.

Although CarVal generally seeks competitive commission rates, it is not required to solicit competitive bids or seek the lowest available commission or transaction costs. In seeking to obtain best execution, the determinative factor is not the lowest possible cost, but whether the transaction represents the best qualitative execution, taking into consideration the full range of a broker-dealer's services. Commissions are negotiated with the broker on the basis of the quality and quantity of execution services that the broker provides, in light of generally prevailing commission rates with respect to any securities transactions involving a commission payment.

Many of the investments that CarVal manages involve specialized services or unique sourcing considerations, resulting in higher commissions or their equivalents than would be the case with transactions requiring more routine services. As a result, CarVal anticipates that the commissions paid on its transactions will be higher on average than its peers that invest in more generic or widely traded securities. The reasonableness of commissions is based on the broker's ability to provide professional services, competitive commission rates and other services that will help CarVal in providing investment management services to clients. The limited availability of many of the investments managed by CarVal will also impact the selection of a broker-dealer and the related commission will likely be higher than industry averages.

Soft Dollar and Directed Brokerage Policies

From time to time, CarVal may pay a broker-dealer commissions for effecting Fund transactions in excess of that which another broker-dealer might have charged for effecting the transaction in recognition of the value of the brokerage and research services provided by the broker-dealer. CarVal effects such transactions, and receives such brokerage and research services, only to the extent that they fall within the safe harbor provided by Section 28(e) of the Exchange Act and subject to prevailing guidance provided by the SEC regarding Section 28(e). CarVal believes it is important to its investment decision-making processes to have access to independent research.

Where a product or service obtained with soft dollars provides both research and non-research assistance to CarVal (i.e., a "mixed use" item), CarVal will make a good faith allocation of the cost which may be paid for with soft dollars. In making good faith allocations of costs between administrative benefits and research and brokerage services, a conflict of interest may exist by reason of CarVal's allocation of the costs of such benefits and services between those that primarily benefit CarVal and those that primarily benefit the Funds.

When CarVal uses brokerage commissions (or markups or markdowns) generated by any Fund to obtain research or other products or services, CarVal receives a benefit because it does not have to produce or pay for such products or services. CarVal may have an incentive to select or recommend a broker-dealer based on CarVal's interest in receiving research or other products or services, rather than on a Fund's interest in receiving most favorable execution.

From time to time, CarVal may participate in capital introduction events, including events hosted by certain broker dealers that act as prime brokers on behalf of CarVal Funds. However, CarVal does not consider whether it receives Investor referrals in deciding (i) whether to participate in such events or (ii) the manner in which it selects broker-dealers. In addition, CarVal does not allocate Fund brokerage business to a broker-dealer unless CarVal determines in good faith that the commissions payable to such broker are consistent with seeking best execution as discussed above. Finally, neither CarVal nor its Funds compensate such third-party brokers for introducing CarVal to potential Investors or for any investments ultimately made by such Investors. However, such introductions CarVal may receive could present a potential conflict of interest to the extent CarVal uses such brokers in connection with brokerage, financing and other activities on behalf of its Funds.

CarVal has discretion in deciding which broker-dealer its Funds will use and in negotiating the rates of commissions that Funds will pay. CarVal does not participate in directed brokerage commission arrangements and does not accept directed brokerage instructions from any Investor.

Principal & Cross Trades

On occasion, CarVal may determine that it is appropriate and in the best interests of Funds if a Fund purchases an investment from another Fund, Cargill or CarVal. CarVal has policies and procedures consisting of multiple levels of review and approval pertaining to principal trades and/or cross trades. In addition, CarVal may seek, when appropriate or required, Investor pre-approval for such transactions consistent with the respective Fund's LPA and in accordance with Rule 206(3) of the Investment Adviser Act of 1940.

Allocation of Investment Opportunities

In some circumstance Funds with similar objectives may invest in the same investment opportunities at the same time. As set forth in greater detail in **Item 11 – COE, Participation or Interest in Client Transactions & Personal Trading**, CarVal allocates investment and trading opportunities among the Funds, in a manner believed by CarVal to be fair and equitable to each Fund over time, however there can be no guarantee that a Fund will participate in any particular investment opportunity on an equal or *pro rata* basis with other Funds. In making these allocation decisions, CarVal generally takes into account the following factors: (a) strategy of each portfolio; (b) relative risk to the Fund from the investment decision; (c) changes in underlying capital in a Fund; (d) a Fund already having sufficient exposure to the investment, issuer or market in question, for example, through current direct or indirect holdings; (e) the different liquidity positions and requirements of the participating Funds; (f) tax considerations; (g) regulatory considerations; (h) the relative capitalization and cash availability of the participating Funds; and (i) size/liquidity profile of the investment in question. CarVal may determine that certain investments should be made by some and not by other Funds. CarVal may cause certain

Funds to participate in the same investments in a different manner from other Funds. CarVal may also determine that an investment which is allocable to multiple Funds, for legal, operational, tax or a similar reason, will only be allocated to one Fund, with the understanding that CarVal will endeavor to share similar investment opportunities in the future with other eligible Funds in a fair and equitable manner. Due to the different manner in which they participate, there may be different economic consequences to different Funds participating in the same investment opportunity.

Trade Errors

It is CarVal's policy that appropriate care is taken in making and implementing investment decisions on behalf of Fund accounts. Nonetheless, trade errors may occur either in the (a) investment decision-making process or (b) trading process. To the extent that any trade errors occur, they are: (a) corrected as soon as practicable, (b) reported to the compliance department, and (c) scrutinized carefully with a view toward implementing procedures to prevent or reduce future such errors, where necessary. In general, when trade errors are corrected the respective Fund shall retain any gains or losses resulting from the trade error. CarVal will determine in its sole discretion whether any trade error has resulted from willful misconduct or gross negligence on its part. If such a determination is made, CarVal will retain any losses, and the Fund will retain any gains resulting from the trade error. Because CarVal is solely responsible for determining if willful conduct or gross negligence has occurred, and CarVal may be financially liable if willful conduct or gross negligence caused the trade error, this poses a conflict of interest. CarVal seeks to manage this conflict of interest using its best judgment and in a manner it believes to be fair and reasonable to the Fund and in accordance with its duties as an investment adviser.

Investment or Brokerage Discretion

With the exception of the non-discretionary accounts generally CarVal has complete discretion to determine, subject to each Fund's disclosed investment objectives, the securities to be purchased or sold and in what amounts, the broker-dealers and other financial intermediaries to use in effecting transactions for the Funds, and the commission rates to be paid for such transactions. In the case of single investor vehicles, CarVal may share discretion, or may manage such accounts on a non-discretionary basis.

Aggregation of Trade Orders

CarVal typically does not aggregate the orders for different Funds, however, with respect to liquid investments, which are not generally limited in quantity, CarVal may determine that the purchase or sale of the same security or instrument is in the best interest of more than one Fund. In that case, CarVal may, but is not required to, combine or aggregate orders to the extent permitted by applicable law. CarVal will determine the aggregation and allocation methodologies used and will determine whether to aggregate a Fund's orders with an order for a different Fund. Although CarVal anticipates that the aggregation of an order will benefit each Fund, aggregating orders may disadvantage a particular Fund. Conversely, not aggregating orders may disadvantage a Fund. In accordance with applicable regulations, CarVal may allocate future trades made pursuant to investment strategies to be used for a Fund and

certain other accounts after execution. These allocations will be made so that all Funds and other accounts are treated reasonably and nonpreferentially over time. When an aggregated order is executed in a series of transactions, at different prices, each Fund participating in the order will receive the average price, with transaction costs shared pro-rata based on each Fund's participation in the order as described in the above section Allocation of Investment Opportunities.

Brokerage Fees

Each Fund shall enter into one or more separate written agreements for brokerage and custodial services with a broker-dealer or other custodian. Funds will incur brokerage commissions and/or transaction fees from broker-dealers for effecting certain transactions and may incur certain charges imposed by third parties, including, without limitation, custodial fees, deferred sales charges, odd-lot differentials, transfer taxes, wire transfer and electronic fund fees, and other fees and taxes on brokerage accounts and investments, none of which is payable to or by CarVal.

As discussed in **Item 10 – Other Financial Industry Activities and Affiliations**, CarVal may use Cargill's trading desk for foreign exchange trades. In such cases CarVal pays Cargill an administrative fee, per transaction, for these services but does not pay a commission.

Item 13 – Review of Accounts

Account Review

CarVal's investment professionals are responsible for ongoing diligence and reviews of investments entered into on behalf of the Funds. These investment professionals review investments on a periodic basis, and in some cases as frequently as daily. Key items reviewed include comparing an investment's actual performance versus its anticipated performance. CarVal maintains an investment supervisory structure and escalation procedure with respect to deal sourcing approval and investment limits. CarVal also maintains an investment committee that includes CarVal's chief investment officer, chief financial officer, risk manager, chief legal officer and relevant business heads. The committee is responsible for approving investment decisions, establishing the limits, making allocation decisions, and maintaining investment thresholds. In addition, members of the legal, risk and compliance departments, review investment position reports on a periodic basis. An independent auditor annually audits each Fund's financial statements.

As described in previous sections, CarVal advises Funds on a wide variety of investments. Many of these investments require regular asset management and oversight to ensure that valuation projections, which are determined at asset acquisition, are being realized. Such positions are often monitored through proprietary models, which enable CarVal to identify variations from valuation projections and take appropriate measures as necessary. For other investments, such as those in corporate securities and equity markets, CarVal, from time to time, utilizes, among other things, directional and relative value strategies based on macroeconomic fundamental analysis and market momentum analysis to monitor investments.

Nature and Frequency of Regular Reports

Investors receive an individual statement of capital account prepared by CarVal on a monthly or quarterly basis as determined by the requirements of each Fund. In addition, CarVal may prepare and communicate estimated monthly performance figures to Investors if required by a Fund. Currently, some of the regular reports are prepared by a third party administrator. Portfolio reports and unaudited financial statements are provided on a quarterly basis. On an annual basis, Investors also receive an individual K-1 (tax form) and a copy of the audited financial statement for the Fund(s) in which the Investor has invested. Single investor vehicles, if any, will generally receive reports with the same frequency as the Funds or as otherwise determined on a case-by-case basis and may also be reviewed by an independent public accountant, resulting in the production of annual audited financial statements. For additional information related to the types and frequency of reports provided to Funds and single investor vehicles, please see the relevant Offering Documents, to the extent applicable.

Certain investors may receive supplemental or additional information from time to time either upon request, or pursuant to side letter arrangements.

Item 14 – Client Referrals and Other Compensation

CarVal does not currently utilize third-party placement agents in connection with Fund referrals, but may do so in the future for the purposes of single investor vehicles. CarVal utilizes third-party placement agents in connection with the sale of interests in certain Funds to underlying Investors and compensates such third-party placement agents for their services. Such third-party placement agents may receive a retainer fee and/or fees based on aggregate capital commitment or capital contributions to the relevant Funds. The amount of such compensation may be greater if the applicable Fund accepts greater amounts of Investor commitments and invests a greater amount of capital. Any compensation paid to third-party placement agents in connection with the sale of interests in certain Funds to underlying Investors is ultimately borne by CarVal.

Item 15 – Custody

CarVal does not serve as the qualified custodian of any of the assets owned by the Funds and does not maintain physical custody of any securities or cash owned by the Funds. However, in connection with the services CarVal provides to its Funds, CarVal or entities that are wholly owned by CarVal may, among other things, act as a general partner of a Fund or have investment discretion with respect to Fund investment. As a result of such powers CarVal is deemed by the applicable regulatory rules to have constructive custody of the assets of each Fund for purposes of the custody rule of the Investment Advisers Act. CarVal satisfies the applicable regulatory requirements related to custody by, among other things, ensuring that 1) each Fund is subject to an annual audit by an independent accounting firm that is registered and examined by the Public Company Accounting Oversight Board, and 2) audited financial statements for each Fund are delivered to the Investors in the Funds within the applicable required time frame.

Item 16 – Investment Discretion

Except as noted below, CarVal has full discretion and authority to make all investment decisions with respect to the types and amounts of securities to be bought or sold for its Funds except that such discretion is to be exercised in a manner consistent with the stated investment objectives and guidelines for the particular Fund. When selecting securities and determining amounts, CarVal observes the investment policies, limitations and restrictions of the Funds. The Funds' Offering Documents and/or LPAs may place limits on the types of securities, issuers or industries in the portfolio or the types of investment techniques that may be used in managing the Fund portfolio. The exercise of CarVal's investment discretion includes, but is not limited to, the determination of:

- When to buy or sell.
- Which investments to buy or sell.
- The total amount of investments to buy or sell.
- The broker, dealer or other institution through which investments are bought, sold or managed.
- The prices at which investments are to be bought or sold, which may include spreads, mark-ups, fees and transaction costs payable to one or more third parties.
- How to manage the investments after acquisition, including, for example, whether to engage an asset manager or other third party service provider.

The account which CarVal manages on behalf of Cargill and RVF III are non-discretionary. In the case of single investor vehicles, CarVal may have full discretion as described above, may share discretion, or may manage such accounts on a non-discretionary basis. In the future CarVal may manage certain Funds or single investor vehicles on a non-discretionary basis.

Item 17 - Voting Client Securities

CarVal votes proxies for the exclusive benefit, and in the best economic interest, of the relevant Fund, as determined by CarVal in good faith. Proxies are an asset which will be treated by CarVal with the same care, diligence, and loyalty as any other asset. While CarVal is not required to vote every proxy, CarVal exercises its voting responsibilities in a manner that is consistent with its fiduciary duties to the Funds. Consideration is given to both the short- and long-term implications of the proposal to be voted on when considering the optimal vote. There may be times when refraining from voting is in the best interest of a Fund, such as when CarVal's analysis of a particular proxy reveals that the cost of voting the proxy may exceed the expected benefit to the Fund. Before voting, CarVal shall reasonably assess any material conflicts between CarVal's interests and those of its Funds with respect to proxy voting. If a conflict of interest arises in respect to voting a proxy, the Chief Compliance Officer and investment team will evaluate the proposal to determine the appropriate vote which is in the best interest of the respective Fund. A copy of CarVal's Proxy Policy and information on how proxies were voted may be obtained by contacting CarVal at ADVrequest@CarVal.com

Item 18 - Financial Information

Each registered investment advisers is required to disclose whether it has any financial condition that could impair its ability to meet its contractual commitments to its clients, and whether it has been the subject of a bankruptcy proceeding. CarVal does not have any adverse financial conditions to disclose and has not been the subject of a bankruptcy petition at any time during the past ten years. CarVal does not charge or solicit pre-payment of more than \$1,200 in fees per Client, six months or more in advance. Accordingly, it is not required to include a balance sheet for its most recent fiscal year.