

# Strategic Value Partners

## ADV Part 2A: Firm Brochure

### Item 1 – Cover Page

# Strategic Value Partners, LLC

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March 1, 2013

This Brochure provides information about the qualifications and business practices of Strategic Value Partners, LLC (“SVP” or the “Firm”). If you have any questions about the contents of this Brochure, please contact us at 203-618-3617. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state securities authority.

SVP is a registered investment adviser with the SEC. Our registration as an investment adviser does not imply any level of skill or training.

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

## Strategic Value Partners

### Item 2 – Material Changes

Since the filing of our last Brochure dated March 2012, we have updated:

- The amount of client assets listed in Item 4.

In future filings, this section of the Brochure will address only those material changes that have been incorporated since our last delivery or posting of this document on the SEC's public disclosure website (IAPD) [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

We may at any time update this Brochure and either send you a copy or offer to send you a copy (either by email or in hard copy form).

You may request a copy of our Brochure by contacting us at 203-618-3617.

# Strategic Value Partners

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## Item 4 – Advisory Business

Strategic Value Partners, LLC, founded in 2001, is a privately held firm specializing in alternative investments. SVP's investment strategies focus on investing assets globally in distressed bank debt and bonds, other distressed loans (including mezzanine debt), par and non-par high yield securities, trade claims, liquid and illiquid distressed assets (including "hard" assets such as real estate), reorganization equities, derivative instruments (primarily credit related, including credit default swaps and total return swaps) and other instruments and assets. SVP's investment activities are focused primarily in Europe, Japan, and the United States. SVP is headquartered in Greenwich, Connecticut, and SVP and its affiliates have offices in Frankfurt, London, Tokyo and the Dubai International Financial Centre. Mr. Victor Khosla is a founder and is the sole member of Midwood Holdings, LLC, which is the sole managing member of SVP. Victor Khosla controls Midwood, LP which is the majority owner of SVP. Other senior professionals at SVP hold minority, limited partnership interests in Midwood, LP.

SVP offers investors the opportunity to participate in its investment strategies primarily through investments in limited partnership and other collective investment vehicles ("**Client Funds**") and, to a lesser extent, separate accounts managed on a fully discretionary basis (together with the Client Funds, the "**Clients**"). The Client Funds are sponsored by and managed by SVP or its affiliates.

Interests in the Client Funds are exempt from registration under the Securities Act of 1933, as amended, and the Client Funds are exempt from registration under the Investment Company Act of 1940, as amended. Accordingly, interests in the Client Funds are offered exclusively to investors satisfying applicable eligibility and suitability requirements in order to maintain such exemptions. As SVP is an investment manager to the Client Funds, we do not generally tailor our advisory services to the needs of any underlying investor in a Client Fund.

As investment manager to the Client and subject to each Client's investment strategy, SVP and its affiliates generally, among other things, (i) identify and monitor investment opportunities for the Clients; (ii) invest and reinvest the capital of Clients into the investment opportunities, (iii) make decisions to sell, exchange or redeem investments held by Clients, (iv) may facilitate pledges and borrowings on behalf of the Clients (pursuant to any leverage limitations in such Client's governing documentation), (v) may engage in foreign currency exchange contracts and/or hedging for certain market exposures, (vi) may solicit investors on behalf of a Client, (vii) may purchase swap contracts or other financial instruments, (viii) may process investor subscriptions and redemptions on behalf of a Client and (ix) may conduct margin accounts.

Investors or Clients may impose restrictions and/or limitations on SVP's management of such Client. These restrictions and/or limitations are set forth in the applicable Client's investment guidelines and/or confidential offering memoranda, or investment management agreement between the Client and the Firm. Additional details regarding services, fees, investor suitability standards and other specific terms applicable to a Client Fund are described in such Client Fund's confidential offering memoranda. For copies of the offering memoranda, please contact us at 203-618-3617. The terms of individual managed accounts are negotiated individually with the applicable Client.

We do not participate in wrap fee programs.

As of February 25, 2013, SVP manages \$4,179,464,138 of Client assets on a discretionary basis.

## Item 5 – Fees and Compensation

Our fees include asset-based fees ranging from annual rates of 1% to 2% of assets under management, plus performance-based fees or allocations (typically a 20% performance/incentive allocation) payable to certain of our affiliates, as well as certain other fees and expense reimbursements, all as more fully described in each Client Fund's offering documents.

Fees and performance compensation payable by the Client Funds is summarized below and is described in detail in the operative documents for the applicable Client Fund.

### Restructuring Fund

SVP is paid a quarterly management fee in advance computed at an annual rate as detailed in the chart below. The annual management fee is, generally, the indicated annual rate multiplied by the net asset value of the indicated series.

Annual Rate	Series
1.0%	Series H limited partnership interests
	Series H common shares
1.5%	Series A limited partnership interests
	Series G limited partnership interests
	Series R limited partnership interests
	Series C common shares
	Series G common shares
	Series V-2 common shares
	Series Y-2 common shares
2.0%	Series C limited partnership interests
	Series U limited partnership interests
	Series E common shares
	Series V-1 common shares
	Series W common shares
	Series X common shares
	Series Y-1 common shares

The Restructuring Fund previously offered Series S shares which related to "special investments" (more commonly referred to as "side pockets") and which were allocated to investors in Series A, C, E, G, H and U partnership interests. Series S shares were linked to Series A, C, E, G, H and U and accordingly, SVP was paid a quarterly management fee in advance in respect of such Series S shares of either 1.0%, 1.5% or 2.0%. Since June 30, 2010, SVP has deferred the receipt of its quarterly management fee in respect of Series S shares and will only receive management fees for such Series S shares if, upon realization of the assets relating to such Series S shares, the investor receives an amount equal to or greater than the net asset value of such Series S shares as of June 30, 2010.

The Restructuring Fund's general partner receives an annual incentive allocation of 20% of net profits, subject to a "loss carryforward"/"high-water mark" and, in some cases, a preferred return measured for the benefit of certain investors in the Client Funds.

SVP accrues and calculates the management fee for each series before the accrual of the incentive allocation. The management fee is paid quarterly in advance directly from the assets of the applicable Client Fund and is pro-rated for any calculation period that is less than a full calendar quarter.

As described more fully below under "Other Considerations" and in the offering and governing documents for the Restructuring Fund, the Restructuring Fund will also bear other additional expenses and costs including, without limitation: (a) accounting, audit and tax preparation expenses; (b) the cost of administrative, accounting, legal counsel, specialized asset servicing, and/or back office services provided by third parties (including administrators); (c) the expense of administrative, accounting, legal support, and Service Activities (as described below and in the offering documents of the Restructuring Fund); (d) management fees; (e) organizational and offering expenses, including travel expenses in connection with the offering of interests/shares, and compensation and expenses relating to the Restructuring Fund's investment advisory council and advisory board; and (f) extraordinary expenses as shall be determined by SVP in its sole discretion. Reimbursement of internal expenses to SVP (other than expenses relating to Service Activities) are subject to the limitation that the effect, taken in the aggregate, of any such reimbursements/payments to SVP will not cause the net performance of the Restructuring Fund for any fiscal year to decrease by more than 50 basis points on an annualized basis (which performance, for the avoidance of doubt, reflects the percentage change in the net asset value of the Restructuring Fund during the relevant fiscal year). "Service Activities", as described in the Restructuring Fund's offering materials, generally include asset workout, oversight and other support activities provided in respect of existing or proposed investments.

## **Global Opportunities Funds (SVGO)**

### **Management Fee - Fund I and I-A**

During the investment period of Fund I and Fund I-A, SVP is entitled to a management fee, payable in advance from the assets of the fund, in an annual amount equal to 2% of limited partners' commitments (whether or not yet drawn upon). Thereafter, SVP is entitled to a management fee in an annual amount equal to the lesser of 2% of the limited partners' commitments and the limited partners' share of the cost basis of the investments of Fund I and Fund I-A.

### **Management Fee - Fund II**

During the investment period of Fund II, an affiliate of SVP is entitled to a management fee, payable in advance from the assets of the fund, in an annual amount equal to 2% of limited partners' commitments (whether or not yet drawn upon). Thereafter, SVP is entitled to a management fee in an annual amount equal to the lesser of 2% of the limited partners' commitments and the limited partners' share of the cost basis of the investments of Fund II.

## Performance Allocation – Funds I, I-A and II

The general partner of each of the Global Opportunities Funds is entitled to performance compensation equal to 20% of the net proceeds from the disposition of investments in such Fund plus current income, if any, from interest and dividends with respect to these investments, after:

- A. the limited partners have received distributions equal to their funded commitments plus a compounded annual preferred return of 8% (the “Preferred Return”), and
- B. the general partner has received distributions equal to 20% of the sum of:
  - all amounts distributed to the limited partners in respect of the Preferred Return plus
  - amounts distributed under this clause (B).

As further described in “Other Considerations” below, SVP, or an affiliate, is also entitled to reimbursement for certain asset workout, oversight and support services provided on behalf of Funds I and I-A. Fund II may use affiliates of SVP for similar services and may maintain on staff personnel charged with restructuring and/or ongoing monitoring of investments or servicing as part of in-house management and turnaround teams. Such services are also described in more detail in the offering and governing documents of the applicable Client Funds.

## **Special Situations Funds I and II**

An affiliate of SVP is entitled to a management fee, payable quarterly in advance, calculated as follows:

- during the investment period of the fund, after the fund's initial capital call but prior to the first date on which at least 50% of aggregate commitments has been called by the fund, an amount equal to 2% annually of 50% of aggregate capital commitments (whether or not then drawn);
- during the investment period of the fund, on and after the first date on which at least 50% of the aggregate commitments has been called by the fund, an amount equal to 2% annually of 100% of the aggregate capital commitments (whether or not then drawn); and
- after the investment period of the fund, an annual amount equal to 2% of limited partners' commitments (whether or not yet drawn upon). Thereafter, SVP is entitled to a management fee in an annual amount equal to the lesser of 2% of the limited partners' commitments and the limited partners' share of the cost basis of the investments of Fund I and Fund II.

It should be noted that in Special Situations Fund II, the annual rate at which the management fee described above will be charged will be (i) 2% for limited partners with a capital commitment of less than \$100 million, (ii) 1.75% for limited partners with a capital commitment equal to at least \$100 million but less than \$200 million and (iii) 1.5% for limited partners with a capital commitment equal to \$200 million or greater.

In addition, the general partner of each of the Special Situations Funds is entitled to performance compensation equal to 20% of the net proceeds from the disposition of investments plus current income, if any, from interest and dividends with respect to these investments, after:

- A. the limited partners have received distributions equal to their funded commitments plus a compounded annual preferred return of 8% (the “Preferred Return”), and



- B. the general partner has received distributions equal to 20% of the sum of:
- all amounts distributed to the limited partners in respect of the Preferred Return plus
  - amounts distributed under this clause (B).

As described more fully below in "Other Considerations", SVP, or an affiliate, is also entitled to reimbursement for certain asset workout, oversight and support services provided on behalf of each of the Special Situations Funds. Such services are also described in more detail in the offering and governing documents of the applicable Client Funds.

### **Managed Accounts**

With respect to any managed account, our fees are determined on a negotiated basis based on various factors and strategies. Managed account management fees are typically billed on a monthly basis in arrears. However, other arrangements may be made. SVP may manage separate accounts under performance-based fee arrangements.

### **Other Considerations**

SVP has discretion to agree with investors in the Client Funds to waive or modify any of the investment terms above--in a "side letter" or any other manner--without obtaining the consent of any other investor in the Funds (except an investor (1) whose rights would be materially and adversely changed by the waiver or modification or (2) which has a side letter which permits the affected investor to elect to have such waiver or modification to be applied to them).

Generally, SVP deducts fees from Clients' assets rather than invoice Clients for fees incurred.

The costs and expenses to be borne by each Client Fund relating to its investment activity are described in the Client Fund's offering and governing documents and the following provides a brief summary of those costs and expenses. The Client Funds pay certain other fees in connection with the advisory services that SVP provides. The Client Funds typically bear the organizational expenses related to such entities. The Restructuring Fund, the Global Opportunities Funds and the Special Situations Funds have used, and will likely in the future use, SVP affiliates to perform certain service activities, real estate asset management activities (where real estate is part of the investment strategy) and certain administrative support activities. These affiliates will receive reasonable and customary compensation for their services, payable by the Restructuring Fund, the Global Opportunities Funds or the Special Situations Funds (as applicable) and, in certain instances, subject to the approval of the relevant Client Fund's Advisory Committee.

We expect that our relationship with Clients will be terminable only upon:

- expiration of the term of the applicable Client Funds/accounts or their dissolution, based upon the Client's offering and governing documents, or
- SVP (or its affiliate's) withdrawal as manager or general partner of the applicable Client Fund/account.

If a Client terminated the advisory relationship with SVP and the applicable management fee which is paid in advance were not capable of pro ration, the Client could seek a refund by sending an invoice to SVP's address set forth on the cover page to this Brochure.

SVP and its employees do not accept compensation for the sale of interests in Client Funds, other securities or other investment products.

Employees, advisory consultants and former employees of SVP may maintain (directly or indirectly) investments in the Client Funds and generally management fees and performance compensation are waived in whole or in part for such investments. In addition, when an SVP affiliate acts as the general partner of a Client Fund, fixed fees and performance compensation may not be charged on the general partner investments.

SVP's fees are exclusive of brokerage commissions, transaction fees, and other related costs and expenses which shall be incurred by the Client. Clients incur certain charges imposed by custodians, brokers and other third parties such as fees charged by auditors, attorneys, administrators or custodians, deferred sales charges, odd-lot differentials, transfer taxes, wire transfers and electronic fund fees, and other fees and taxes on brokerage accounts and securities transactions. Such charges, fees and commissions are in addition to SVP's fees, and SVP does not receive any portion of these commissions, fees or costs.

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

SVP and its affiliates accept performance-based fees and allocations as described in Item 5. Performance compensation/incentive allocations may create an incentive for SVP to make investments that are riskier or more speculative than would be the case in the absence of such performance compensation/incentive allocations. As performance-based fees and allocations for the Restructuring Fund are calculated on an annual basis, which includes unrealized appreciation of a Client's assets, the fees may be greater than if based solely on realized gains. A conflict of interest could therefore arise in that SVP could be incentivized to favor an account which pays performance-based fees or allocations, or higher rates for performance-based fees or allocations.

To address this potential conflict, SVP maintains policies that intend to allocate resources and investments fairly among accounts and Client Funds (including with respect to trade allocations and valuation of assets). SVP has adopted an allocation policy for all the Client Funds directly and indirectly advised by it. SVP's allocation policy is described below in Item 11.

## Item 7 – Types of Clients

SVP provides investment advice to pooled investment vehicles which include both a hedge fund and private equity funds as well as managed accounts. Such vehicles may be formed as U.S. or non-U.S. limited partnerships, limited liability companies, corporations or companies, trusts or other entities.

Interests in the Client Funds are not registered under the Securities Act of 1933, as amended, and the Client Funds are not registered under the Investment Company Act of 1940. Accordingly, interests in the Client Funds are offered exclusively to investors satisfying the applicable eligibility and suitability requirements either in private placement transactions within the United States or in offshore transactions, and the Client Funds are excepted from the definition of an “investment company” under Section 3(c)(7) of the 1940 Act.

Requirements for opening or maintaining accounts with the Firm can differ based on the applicable strategy and other factors in the discretion of SVP. Accordingly, the Firm reserves the right to adjust account size minimums with respect to any one Client as deemed appropriate in light of the overall facts and circumstances and may agree with investors in any Client Fund to alter the terms and conditions applicable to such investor without the consent of any other investor in a “side letter” or similar agreement.

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

### Methods of Analysis

We employ a rigorous, disciplined and organized investment process, with the goal of creating value through proactive proprietary sourcing, intensive analysis, execution, and portfolio monitoring and management. The particular investment strategies, methods of analysis, and material risks applicable to each Client Fund are set forth in detail in each of the Client Fund's respective offering documents. A brief summary of those investment strategies, methods of analysis, and material risks is provided below.

#### Idea Generation

Traditional distressed investing is often reactive: investment opportunities arise based on what debt is available for sale and which companies are distressed. In contrast, SVP takes a more proactive approach, and we expect every member of our team (from our CIO to our junior analysts) to generate ideas.

Investment ideas typically come together as a result of two parallel and integrated processes: (i) our investment team as they study sectors in detail; and (ii) our origination team as they communicate with various intermediaries or direct sources of opportunities.

#### Due Diligence / Evaluation / Execution

- **Fundamental Research** - Primary research is at the heart of our due diligence process. We are data and experientially driven, and supplement our views by drawing upon our proprietary network of relationships (management teams, industry experts, specialists) to calibrate our analyses. In certain circumstances, such as areas of due diligence that have unique aspects or require specialized skills, we will engage third parties such as accountants, lawyers or consultants as appropriate. In all cases where third parties are used, however, their diligence is based upon our direction: we do not rely on third parties to make conclusions, but rather use them to help us confirm or disprove a hypothesis, or seek facts.

Sell-side research plays a very limited role in our due diligence. We will use sell-side research on occasion, but it is usually only at the start of our research process to familiarize ourselves with situations more quickly, or to understand how the market may be viewing opportunities.

- **Industry** - We seek to understand industries, their key drivers and how companies compete within them: historic and prospective industry trends, growth potential, cyclicity, barriers to entry, end-market customers, regulatory frameworks, secular threats, value propositions, market shares and fragmentation.

Then, based on the information we compile and aggregate, we frequently develop our own proprietary databases or analyses to evaluate companies within an industry, and will tap our industry relationships to help calibrate our thoughts. As part of this process, we will also determine the relative value of companies within the target industry.

- **Company** - We seek to identify the key value drivers and risks that a company may face. We evaluate a company's management team, its operations and financial performance, and the circumstances that led to its distress. Our diligence would typically include: analyzing customer and product concentration, product profitability, cost structure, market position and unit economics; understanding a company's competitive advantages, operational excellence, business model and customer switching costs; and conducting channel and vendor checks, and interviews with management.
- **Capital Structure** - We generally prefer making investments through the debt of a target portfolio company and consider the following: the relative priorities, rights, controls and risks each security may have, intercreditor rights, guarantees, intercompany claims, waterfalls, and structures. We may also make investments through other securities in the capital structure based on the aforementioned and other considerations.
- **Restructuring** - Because our investments may be centered on a restructuring event, we seek to identify the key capital structure or bankruptcy issues, and develop a restructuring strategy prior to making an investment.
- **Operations / Strategy** - With respect to our control strategy, our operating professionals are involved from the onset of our due diligence, though their involvement may vary depending on the degree of turnaround complexity. We draw upon their experiences at the company-, industry- and geographic-levels to help us identify issues and enact solutions to improve operations. Our operating partners will determine the nature and depth of any issues, whether they are fixable and the plans to address them.
- **Exit** - Before executing an investment, we seek to explore various exit options and determine the viability of each one. We consider the attractiveness of an industry and the prospects for various exit opportunities to identify the most likely exit options. Traditional exit strategies include: recapitalizations, sales to strategic or financial buyers, public offerings, private offerings through the over-the-counter market, refinancings prior to a debt-for-equity swap, liquidations or asset sales.
- **Trading** - Throughout our diligence, we are in regular communication with our origination team to understand potential supply, timing and who is selling or buying and why. Understanding who is part of the lender constituency and their motivations is essential to determining timing and level of our investment. CLOs, banks, high yield funds and hedge funds all have different objectives, and will behave differently in restructurings. The intelligence generated by our team is helpful not only for originating and timing already identified prospects, but also for targeting proactively identified opportunities from our research process. This approach allows us to call upon potential sellers directly, engage preferred broker-dealers, or work through other channels on a negotiated basis or with limited competition.

## Investment Strategies

SVP manages investments across a distressed and deep value strategy and distressed for control strategy. Although we have several vehicles, our efforts are concentrated on distressed opportunities in middle-market

companies where we can typically exert significant influence or obtain outright control. The Restructuring Fund and the Special Situations Funds typically invest in non-control distressed investments while the Global Opportunities Funds typically take positions with the expectation of obtaining or influencing control of the issuer, as discussed in more detail in the private placement memoranda of each of the Client Funds.

## **Risk of Loss**

**All of our Client's investments risk the loss of capital.** There can be no assurance that the Clients' investment programs will be successful or that investments purchased by the Clients will increase in value. Investors in the Clients could lose their entire investment. All investors in the Clients should consult their own legal, tax and financial advisors prior to investing.

The Clients will invest a portion of their assets in securities and other assets and liabilities/debt of U.S. and non-U.S. companies that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Such investments involve a substantial degree of risk. In any reorganization or liquidation proceeding relating to a company in which a Client invests, such Client may lose its entire investment, may be required to accept cash or securities with a value or liquidity less than that of the Client's original investment, and/or may be required to accept payment over an extended period of time.

Each Client Fund's private placement memorandum and/or other governing documentation describes in detail the risk factors and potential conflicts of interest associated with an investment in such Client. The information included herein does not include every potential risk associated with each investment strategy or security. Set forth below in a non-exhaustive summary of such risks:

### Risks Applicable to Investment in any of our Clients

- The Clients' strategies rely, in part, upon general economic forces that are outside the control of the Clients or SVP and the Clients may become subject to market risks that SVP is not able to plan for or mitigate.
- There is no public market for interests in the Clients and one is not expected to develop.
- Investors in the Clients will have no opportunity to control the day-to-day operation of the Clients.
- General fluctuations in interest rates and market prices of securities and other assets could adversely affect the value of a Client's investments.
- The success of the Clients depends, to a significant extent, on the experience of SVP's senior professionals, whose continued services cannot be guaranteed.
- Legal and regulatory changes could adversely affect the ability of the Clients and SVP to carry out the investment strategies described in Item 8.
- SVP, on behalf of the Clients, may agree to abide by certain social, environmental or similar investment policies which may restrict the scope of a Client's stated investment policy.
- The existence of performance-based compensation creates an incentive for SVP to make riskier or more speculative investments on behalf of the Clients than would be the case in the absence of these arrangements.

- The governing documents of each Client and the investment management agreement and other documents between SVP and each Client limit the circumstances under which SVP can be held liable to such Client.
- Instances of fraud and other deceptive practices committed by senior management of certain companies or by sellers of assets in which a Client invests may undermine SVP's due diligence efforts and if such fraud is uncovered, may adversely affect the valuation of such assets.
- A Client may exercise influence or control over an investment which could impose additional risks of liability for environmental damage, failure to supervise management, violation of governmental regulations (including securities laws), joint employer or other types of liability in which the limited liability characteristics of business ownership may be ignored.
- Board participation may prevent a Client from purchasing additional investments which may be attractive or from freely disposing of its investments.
- A Client may use special purpose vehicles in jurisdictions in which SVP has less familiarity and may provide additional informational and operational uncertainty or difficulties to SVP.
- A Client may incur contingent liabilities which could increase the risk for the Client and adversely impact the results of an investment.
- In order to take advantage of displacements in the markets, investment analyses and decisions by SVP may be undertaken on an expedited basis and material information may be limited or unavailable.
- In connection with certain investments, a Client may be required to post deposits which may not be refundable in the event the transaction is not ultimately consummated.
- SVP may rely on a third party advisor to supply, from time to time, advice as to business valuation, tax, legal, financial, accounting and other issues and such advice could prove to be ineffective or erroneous and the Client may suffer investment losses and/or unanticipated expenses or taxes.
- Interests/shares in all the Client Funds are subject to strict limitations on transfers and assignments.

#### Risks Associated with the Investment Strategies of the Clients

- SVP, on behalf of the Clients, will focus on companies which it believes have an intrinsic value that can be realized through a restructuring, however, companies undergoing a reorganization are unusually vulnerable to adverse industry developments such as new regulations, increased competition, increased bargaining power of suppliers and overall macro-economic changes.
- A Client may extend loans to companies that are experiencing significant financial or business difficulties, including companies involved in bankruptcy or other reorganization proceedings and such loans involve a substantial degree of risk.
- In connection with an investment, a Client may employ leverage by borrowing money with recourse to the assets of the Client, including a credit facility or investment-level financing with cross-collateralized recourse to the assets of the Fund and in the event of a default, all assets of a Client may be available to satisfy the applicable obligations.
- Because of the nature of a Client's investments, such Client may be subject to allegations of lender liability, which is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or has assumed a degree



of control over the borrower resulting in the creation of a fiduciary duty owed to the borrower or its other creditors or shareholders.

- Certain debt instruments acquired by a Client or its affiliates are intended to be over-collateralized and such Client may be exposed to losses resulting from default and foreclosure.
- A Client may invest in fixed and floating-rate loans, which generally will be in the form of loan participations and assignments of portions of those loans which involve special types of risk, such as credit risk, interest-rate risk, liquidity risk, currency risk and the risks of being a lender.
- There are special risks associated with investments in bank loans and participations, including possible invalidation of an investment transaction as a fraudulent conveyance, lender liability claims, environmental liabilities, and limitations of a Client to enforce its rights.
- There are risks associated with investments in companies involved in reorganization proceedings, such as the possibility of litigation between the participants, or unforeseen delays in timing and information availability, and the risks associated with serving on a creditors' committee.
- To the extent a Client invests in over-the-counter instruments, such Client may take a credit risk with regard to parties with whom it trades and may also bear the risk of settlement default.
- The Clients may invest in securities issued by companies in weak financial condition, experiencing poor operating results, needing substantial capital investment, facing special competitive or product obsolescence problems or even out-of-court workouts or in-court insolvency or bankruptcy proceedings. Investing in distressed securities may be unusually complicated and may involve an unusually high degree of risk and illiquidity. Additionally, bankruptcy courts are unpredictable and could result in the complete loss of such Client's investment.
- A Client may engage in various derivatives 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.
- Investments outside of the U.S. could expose a Client to increased risk due to political, social and economic uncertainty affecting a country or region.
- There are risks inherent in the ownership and operation of real estate assets, including but not limited to adverse changes in national and international economic conditions, adverse local market conditions, the financial conditions of tenants, buyers and sellers of properties, changes in availability of debt financing, changes in interest rates, real estate taxes and other operating expenses, environmental laws and regulations, zoning laws and other governmental rules and fiscal policies, energy prices, changes in the relative popularity of certain property types, risks associated with operating problems related to the presence of certain construction materials, uninsurable losses and other factors which are beyond the control of SVP.
- A Client may make substantial investments in non-performing or other troubled real estate assets which involve a degree of financial risk and are experiencing or are expected to experience severe financial difficulties, which may never be overcome.
- A Client may acquire direct or indirect interests in undeveloped land or underdeveloped real property, which may be non-income producing and subject to development risks, including but not limited to, risks relating to the availability and timely receipt of zoning and other regulatory approvals and entitlements, the cost and timely completion of construction (including risks beyond the control of SVP, such as weather or labor conditions or material shortages) and the availability of both

construction and permanent financing on favorable terms. These risks could result in substantial unanticipated delays or expenses and possibly non-completion.

- Clients may acquire securities across different parts of a portfolio company's capital structure which could result in conflicts of interest between Clients, including but not limited to conflicts related to proxy voting.
- A Client may acquire real estate loans which may become non-performing and require a substantial amount of workout negotiations or restructuring which may not be successful and could result in a substantial reduction in the interest rate and/or substantial writedown of the principal of such loan.
- A Client may invest in the securities of companies involved in bankruptcy proceedings, reorganizations and financial restructurings and may have a more active participation than is generally assumed by an investor.
- A Client may invest in post-reorganization securities, which generally entail a higher degree of risk than investments in securities of other companies and could face heavy selling or downward pricing pressure.
- A Client may invest in high yield bonds and preferred securities which are rated in the lower rating categories by the various credit rating agencies (or in comparable non-rated securities) and which are subject to greater risk of loss of principal and interest.
- A Client may sell securities short, thereby increasing the possibility of profit and the risk of losses.
- A Client's successful use of options depends on the ability of SVP to forecast interest rate and market movements correctly and errors could cause the Client to lose part or all of its investment in the option.

#### Certain Risks Specifically Applicable to an Investment in the Restructuring Fund

- A substantial amount of redemptions poses a risk for those investors who remain in the Restructuring Fund.
- There are limited redemption and transfer rights attached to the interests in the Restructuring Fund.

## Item 9 – Disciplinary Information

SVP is obligated to disclose any legal or disciplinary event that would be material when evaluating SVP's advisory business and the integrity of SVP's management.

We do not have any material legal or other disciplinary events to report.

## Item 10 – Other Financial Industry Activities and Affiliations

SVP is not engaged in any business activity other than giving investment advice to our Clients. We do not sell any products or services. We are not registered as a broker-dealer, nor are we registered as a futures commission merchant, commodity pool operator or commodity trading adviser.

SVP has an affiliate -- Strategic Value Partners (UK) LLP -- which is registered with the UK Financial Services Authority and researches investment opportunities in Europe for the benefit of our Client Funds. Strategic Investments KK, an affiliate of SVP, is registered as a type 1 and type 2 financial instruments business ("FIB") with the Financial Services Agency in Japan. Neither affiliate provides investment advice or similar support to the registrant nor does either affiliate have any investment discretion with respect to investing Client assets. SVP also has a branch office that is registered in the Dubai International Financial Centre.

In addition, we have a series of affiliates who serve as the general partners and investment advisors of our various Client Funds. A list of Client Funds is identified in Schedule D of Part 1 of SVP's Form ADV, available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) or upon request from us at (203) 618-3617. SVP Special Situations LLC, a wholly-owned affiliate of SVP, provides services to the Special Situations Fund I entities. SVP Special Situations II LLC, a wholly-owned affiliate of SVP, provides services to the Special Situations Fund II entities. SVGO Global Manager II LLC and SVGO European Manager II LLC, each wholly-owned affiliates of SVP, provide services to the Global Opportunities Fund II entities. We do not believe that our relationships with these entities cause a conflict of interest with Clients.

From time to time, advisory personnel of SVP may, on behalf of the Firm or a Client, serve on a portfolio company's board of directors or otherwise act to influence the management of portfolio companies.

We do not recommend or select other advisers for Clients.

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

SVP has adopted a Code of Ethics (“**Code**”) pursuant to Rule 204 A-1 that governs a number of potential conflicts of interest SVP may have when providing advisory services to Client Funds. The Code is designed to encourage a culture of compliance within SVP through ethical practices and conduct. The Code covers a variety of guidelines and requirements concerning, among other topics:

- the prohibition of trading of securities while in possession of material non-public information;
- pre-clearance and reporting of securities transactions by employees;
- restrictions or prohibitions on acquisitions of certain kinds of securities;
- the monitoring of employee outside business affiliations;
- tracking the giving and receiving of gifts and entertainment;
- monitoring and restricting political contributions, when and as required; and
- the maintenance of confidentiality of investment, investor, and employee information.

The Code is designed to assure that the personal securities transactions, activities and interests of our employees will not interfere with SVP making decisions in the best interest of our Clients. The Code requires pre-clearance of non-exempt transactions and personal securities transactions of SVP employees, and restricts trading in securities of issuers who are either rated below investment grade or have equity values equal to or below \$2.00 per share (or foreign equivalent) (to prevent employees from trading for their personal accounts any securities SVP might be contemplating for Clients). Employee trading is monitored under the Code.

New employees receive training in the policies of the Code upon their arrival at SVP, and all employees must acknowledge the terms of the Code and update their personal trading account information and other required disclosures on an annual basis or as required by law.

SVP and its employees may not trade for Clients or themselves or recommend to others trading in securities of a company while in possession of material, non-public information (“**Information**”) or disclose such Information to any person not entitled to receive it. By reason of its various investment activities, the Firm may have access to Information or be restricted from effecting transactions in certain investments that might have otherwise been initiated. While the Firm has designed and implemented policies and procedures reasonably designed to limit those situations, there can be no assurance that such policies and procedures will be successful and that restrictions will not occur.

SVP may (but generally does not) engage in “cross trades” between Client Funds and/or other accounts when it believes that such a transaction would be advantageous or otherwise beneficial to each Client involved.

Copies of the Code are available upon request by contacting us at 203-618-3617.

Certain Client accounts may trade in the same securities with other Client accounts on an aggregated basis when consistent with SVP’s obligation of best execution. In such circumstances, the investing Clients accounts generally will share commission costs pro rata and receive securities at a total average price. SVP

will retain records of the trade order (specifying each participating account) and its allocation, which will be completed prior to the entry of the aggregated order. Completed orders will be allocated as specified in the initial trade offer. Partially filled orders will be allocated on a pro rata basis. Any exceptions will be explained on the relevant order.

SVP may make investments for Clients in the same, similar or different securities (or different securities within the capital structure of a particular issuer) and disclosed to investors in the constituent documents of each Client that a potential conflict of interest may arise as a result, and attempts to address such conflicts through the allocation policy.

SVP has adopted an allocation policy to address conflicts of interest arising from the allocation of investments among Clients. Investments will generally be allocated to each Client based on such Client's investment strategy, as described in the applicable confidential explanatory memorandum, private placement memorandum and constituent documents. Investments that are suitable for more than one Client will be allocated among them by SVP and its affiliates on an investment-by-investment and/or aggregate basis, at acquisition and/or disposition, on a fair and equitable basis, generally within the following summary guidelines (subject to ongoing review and revision by SVP's allocations committee:

If an investment is a "control investment" (in which SVP will exercise or intends to exercise a level of control), then such investment will generally be allocated to each of the Global Opportunities Funds so long as such Fund is within its investment period. If, however, the investment is not a control investment, then it will be allocated generally *pro rata* between the Restructuring Fund and each of the Special Situations Funds which is within its investment period, based on (i) the total assets under management in the Restructuring Fund (less any capital allocated to "side-pocket" investments) and (ii) the assets available for investment plus any uncalled capital in the applicable Special Situations Funds, subject to the following:

- Investments which are intended to be held for less than six months (as determined by SVP upon the initial entry into such investment) will generally be allocated to the Restructuring Fund.
- Investments which will be equal to or less than 1% of the capital commitments of any of the Special Situations Funds may have the portion of such investment which would have otherwise been allocated to such fund allocated to the Restructuring Fund or any other Special Situations Fund.

Allocations of illiquid, non-control investments will generally be to the Special Situations Funds; however, illiquid, non-control investments may also be allocated to the Restructuring Fund if at the time of the initial investment the company to which such investment relates (i) has an enterprise value (as determined by SVP, in its sole discretion) of \$250 million (or equivalent in foreign currency) or greater and (ii) the investment fits one or more of the criteria set forth in the allocation policy. An allocation of an illiquid, non-control investment among the Special Situations Funds and the Restructuring Fund would generally be *pro rata* in a manner that is similar to the allocation for liquid investments. SVP may from time to time offer co-investment opportunities between one or more Clients and third parties. SVP takes into consideration special factors

when a Client account or Client Fund sells investments or is in liquidation. SVP has an allocations committee which reviews existing and proposed allocations as well as the allocation policy.

In the event of any actual or potential conflict of interest due to other business or investment activities or relationships that is not governed by SVP's allocation policy, SVP will act in the manner which it in its good faith discretion believes to be in the best interests of each Client and is consistent with applicable laws and regulations.

## Item 12 – Brokerage Practices

It is SVP's policy to obtain best execution when effecting transactions on behalf of our Clients. In light of this policy, we seek to execute securities transactions for Clients in such a manner that the Client's total cost or proceeds in each transaction is the most favorable given the circumstances and factors detailed below. When selecting broker-dealers, we will consider the full range and quality of the services of a broker-dealer. When seeking best execution, the determinative factor in the selection of a broker-dealer will not be the lowest possible transaction cost but whether the transaction represents the best qualitative execution for the Client account.

Among other things, we will take into account factors such as the following:

- the price of the security;
- the rate of commission;
- the size and difficulty of the order;
- the value and quality of research products and services provided;
- the reliability, integrity, stability, financial condition, general execution,
- settlement and operational capabilities of competing broker-dealers;
- the expertise in particular markets of particular broker-dealers;
- the broker's ability to handle difficult trades, including trades in which the broker's capital is put at risk; and
- the broker's prior performance.

On a quarterly basis, SVP's Trading Committee meets to analyze and assess the quality of trade execution and other brokerage services received from brokers during the preceding quarter.

### **Trade Aggregation and Allocation**

In some circumstances it may be appropriate to buy or sell an investment on behalf of more than one Client account at one time or over a period of time. In these circumstances, and as a general matter, we believe that the aggregation of orders for multiple advisory clients is consistent with our duty to seek best execution for our clients. Aggregation of trades generally facilitates more efficient and less costly execution by enabling us to negotiate transactions on a consolidated basis rather than dealing with multiple smaller lots in investment types that normally trade in significant and/or pre-set blocks. We consider various criteria in deciding when trades for more than one client should be aggregated.

With respect to trade allocation, SVP allocates aggregated transactions in an equitable manner pursuant to its allocation policy, as described above.



## **Soft Dollars and Directed Brokerage**

SVP does not currently use soft dollars or directed brokerage in connection with any of the Clients we advise. To the extent SVP does use soft dollars in the future, we expect that such use will fall within the safe harbor afforded by Section 28(e) of the Securities Exchange Act of 1934, as amended.

## **Brokerage for Client Referrals**

SVP does not provide brokerage opportunities for Client referrals.

## **Cross Transactions**

From time to time, SVP may determine that a sale of securities from one Client to another is in the Clients' best interests. In situations where consent of a Client is required, to the extent permitted by applicable law, we may use committee(s) established by a Client for that purpose.

## **Trade Errors**

From time to time, SVP may make a trade error when trading for a Client. In case of a trade error caused by the broker executing a particular trade, SVP will use commercially reasonable efforts to hold the particular broker responsible. In the case of a trade error caused by SVP, SVP will determine whether to have any costs or losses arising from the trade error borne by the particular Client, or by SVP, by applying the relevant standard of liability (as set forth in the applicable agreement with the Client) for SVP in its management of the applicable Client account. Accordingly, with respect to the Client Funds, SVP will generally be obligated to reimburse a Client Fund for any trade error resulting from SVP's gross negligence, intentional misconduct or bad faith, and not otherwise. SVP will itself determine in good faith whether or not a given trade error is required to be reimbursed under the general standard of liability applicable to the Client account. SVP will have a conflict of interest in determining the resolution of any trade error and it will attempt to resolve any such conflict by making a good faith, objective determination of the status of any trade error under the applicable liability standard. Trade error costs may be significant, including market losses resulting from the position incorrectly acquired as well as the additional brokerage costs of closing out or reversing the error. The opportunity cost (lost profits) of not having made a trade intended to be made is not considered a trade error cost. Any gains recognized on a trade error will be for the benefit of the affected Client and none will be retained by SVP (other than any incentive fee or allocation as set forth in that Client's governing documents).

## Item 13 – Review of Accounts

SVP's investment personnel monitor, essentially on an ongoing basis, changes in relevant market conditions, corporate developments, and similar matters that affect the investments made on behalf of the Client Funds and accounts we advise. Victor Khosla, SVP's chief investment officer, oversees the review process. These reviews are designed, in part, to monitor and analyze securities and other asset holdings as well as desired risk levels.

Investors in the Restructuring Fund receive regular monthly account statements as well as monthly and quarterly letters and annual audited financial statements. Investors in the Global Opportunities Funds and the Special Situations Funds receive regular quarterly account statements, a quarterly letter and annual audited financial statements. Managed account reporting is negotiated on an account -by- account basis.

## Item 14 – Client Referrals and Other Compensation

SVP pays certain third party solicitors for investor referrals. These fees may be based on a percentage of the management fees and/or incentive compensation earned by SVP or its affiliates, or they may be fixed payments, or they may be derived by some other calculation. Compensation to third parties for investor referrals is disclosed to investors in the Client Funds in the Client Funds' offering documents or other disclosure documents delivered to such investors. These arrangements typically do not result in an investor paying any fees in excess of those that would be charged by SVP in the absence of the services by the third party solicitor.

## Item 15 – Custody

SVP is deemed to have custody of Client assets by virtue of being able to debit advisory fees. Physical custody of the assets of the Client Funds is maintained with a qualified custodian. Currently, State Street Bank & Trust as qualified custodian for the Client Funds.

Each Client Fund is audited annually. The audited financial statements of each Client Fund are distributed to investors within 120 days following the end of each Client Fund's fiscal year.

## Item 16 – Investment Discretion

SVP has discretionary authority to select the identity and amount of securities or other instruments to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular Client. When selecting securities and determining amounts, we observe the investment policies, limitations and restrictions of the Clients that we advise.

## Item 17 – Voting Client Securities

SVP has adopted proxy voting policies and procedures that are designed so that, where SVP votes proxies regarding portfolio securities, such proxies will be voted in the best interests of our Clients. These procedures also require that we identify and address conflicts of interest between us and our Clients. Note that because we rarely hold public equity shares in the Clients' portfolios, proxy voting is a very rare occurrence.

### General Proxy Voting Policy

The general policy is to vote proxies individually in a manner that serves the interests of the Clients, taking into account relevant factors, including, but not limited to:

- the impact on the value of the securities;
- the anticipated costs and benefits associated with the proposal;
- the effect on liquidity; and
- customary industry and business practices.

### Specific Proxy Voting Policies

#### Routine Matters

Routine matters are typically proposed by the issuer's management, directors, general partners, managing members or trustees (collectively, "**Management**") and meet the following criteria:

- they do not measurably change the structure, Management, control or operation of the company;
- they do not measurably and directly change the terms of, or fees or expenses associated with, an investment in the company; and
- they are consistent with customary industry standards and practices, as well as the laws of the state of incorporation applicable to the company.

For routine matters, we will generally vote in accordance with the recommendation of Management, as applicable, unless, in our opinion, such recommendation is not in the interests of the relevant Client.

### Non-Routine Matters

Non-routine matters involve a variety of issues and may be proposed by a company's Management or beneficial owners (i.e., shareholders, members, partners, etc.). These proxies may involve one or more of the following:

- a measurable change in the structure, Management, control or operation of the company;
- a measurable change in the terms of, or fees or expenses associated with, an investment in the company; or
- a change that is inconsistent with industry standards and/or the laws of the state of incorporation applicable to the company.

All non-routine matters will be voted on a case-by-case basis pursuant to the general policy noted above.

### All Other Matters

All other decisions regarding proxies will be determined on a case-by-case basis taking into account the general policy. When SVP is faced with a potential conflict of interest in the context of proxy voting because it holds securities or other investments in different segments of an issuer's capital structure it will attempt to resolve any such potential conflict in a manner which is fair and equitable to each Client affected.

### **Abstaining from Voting or Affirmatively Not Voting**

We will abstain from voting (which generally requires submission of a proxy voting card) or affirmatively decide not to vote if we determine that abstaining or not voting is in the interests of the Client. We will not abstain from voting or affirmatively decide not to vote merely to avoid a conflict of interest.

Investors may obtain a copy of these procedures and information about how SVP voted on Clients' proxies by contacting us at 203-618-3617.

## Item 18 – Financial Information

Registered investment advisers are required in this Item to provide you with certain financial information or disclosures about SVP's financial condition. At this time, SVP has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to its Clients, and has not been the subject of a bankruptcy petition at any time during the past ten years. SVP does not charge or solicit prepayment of fees six months or more in advance.