

CARVAL INVESTORS[®]

9320 Excelsior Boulevard, 7th Floor Hopkins, MN 55343

952-984-3774



Form ADV, Part 2A: Brochure

Date: May 31, 2014

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

None

Item 3 - Table of Contents

Items	Title	page
Item 1	Cover Page	i
Item 2	Material Changes	ii
Item 3	Table of Contents	iii
Item 4	Advisory Business	4
Item 5	Fees and Compensation	7
Item 6	Performance-Based Fees and Side-By-Side Management	10
Item 7	Types of Clients	12
Item 8	Methods of Analysis, Investment Strategies and Risk of Loss	13
Item 9	Disciplinary Information	42
Item 10	Other Financial Industry Activities and Affiliations	43
Item 11	COE, Participation or Interest in Client Transactions & Personal Trading	46
Item 12	Brokerage Practices	49
Item 13	Review of Accounts	53
Item 14	Client Referrals and Other Compensation	54
Item 15	Custody	55
Item 16	Investment Discretion	56
Item 17	Voting Client Securities	57
Item 18	Financial Information	58

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, indirect subsidiary of Cargill.

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

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 general partner of CarVal Investors GB LLP, which is a limited liability partnership regulated by the United Kingdom Financial Conduct Authority), CarVal Investors Pte. Ltd. (based in Singapore, holder of a capital markets services license and regulated by the Singapore Monetary Authority), and CarVal Investors France SAS (based in Paris, France) (the "Subsidiaries"). Each Subsidiary (or in the case of the UK, the limited liability partnership of which the Subsidiary is general partner) 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 May 31, 2014, CarVal and its subsidiaries employed 175 employees, including support staff.

The Funds

As of May 31, 2014, CarVal managed 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 ("CVIC") (closed to new investors)
- CVI Real Estate Value Fund III ("RVF III") (closed to new investors)
- CVIC International Credit Fund II (CVIC II) (closed to new investors)
- CVI Credit Value Fund II ("CVF II") (closed to new investors)
- CVI Emerging Markets Credit Value Fund ("EMCVF") (open to new investors)
- CVI Aiguille D'Argentiere Fund ("AA") (closed to new investors)
- CVI CHVF ("CHVF") (closed to new investors)
- CarVal HH Fund ("HH") (closed to new investors)
- CVI Real Estate Value Fund IV ("RVF IV") (closed to new investors)
- CVI Europe Real Estate Partners Fund ("EREP") (closed to new investors)
- Envoy Opportunistic Credit Fund ("EOC") (closed to new investors)

Please note that for the purposes of Form ADV Part I, CarVal reports each master-feeder arrangement as a Private Fund. All feeders in these arrangements invest on a pro rata basis; there is no differentiation in Investor holdings. Therefore, individual feeder funds are not included as separate clients in Item 5.C and 5.D of Form ADV Part I. 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.

In each master-feeder arrangement, 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 commit capital to the Fund for a given period of time. In CarVal's current Funds, commitments 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 liquidity and redemption terms. Further information can be found in each Fund's private placement memorandum, limited partnership agreement ("LPA"), subscription agreements, investment management agreements and/or other governing documents, as applicable (the "Offering Documents").

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

As of May 31, 2014, CarVal's total discretionary net assets under management are \$ 9,527,328,767. Net assets under management including non-discretionary accounts are \$ 10,208,649,388. CarVal's Regulatory Assets Under Management (as defined in Form ADV Part I) are \$ 14,020,827,103. Please note that assets under management for NARE I, NARE II, RVF III and RVF IV and EREP funds are as of March 31, 2014.

CarVal currently manages a non-discretionary account for its parent, Cargill. In addition, RVF III, RVF IV, and EREP are non-discretionary funds. As of May 31, 2014, CarVal's total net non-discretionary assets under management are \$681,320,621.

CarVal does not participate in wrap fee programs.

Apart from non-discretionary accounts and Funds, 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.

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, employees, and certain individuals or entities with historic relationships to CarVal invested in the Funds may not be 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 for its comingled Funds range between 1% 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 and may be lower than management fees for other Funds.

Automatic Fee Deduction

CarVal generally deducts fees, if any, directly from each Fund, pursuant to the relevant LPA and investment management agreement. The governing documents of each Fund describe the specific manner and means by which fees will be paid, including, if applicable, the circumstances in which fees may be invoiced for payment by the Investor.

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 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 other Offering Documents, and in addition to Management Fees, CarVal has the right to charge to its Funds certain expenses, including internal and third party 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 and investment activity or trading activity of the Funds' investment vehicles("Fund Operating Expenses"). Examples of Fund Operating Expenses include, without limitation, (i) internal and third party expenses of evaluating and monitoring investment activity including due diligence, travel, and broken deal; (ii) expenses (whether internal or third party) 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 (iii) Internal Fund Operating Expenses. "Internal Fund Operating Expenses" include salaries and expenses of CarVal employees, contractors, affiliates 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, preparation and distribution of annual reports, notices, statements and other communications to Investors, oversight and monitoring of third-party service providers, asset management and oversight and monitoring of third-party asset management, asset servicing, cash management and computer hardware and software; [language highlighted in light of discussions with ACA.KB comment: I think the highlighted section is generally fine and we got confirmation from SRZ that it is as comprehensive as any in the market].
- (ii) all costs incurred in connection with 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 amount of time spent on Fund related activities, 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 the Offering Documents entered into between CarVal and the underlying 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 fees to CarVal in a separately negotiated manner, including, but not limited to paying 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 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 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 or in connection with a distribution of redemption proceeds to an investor.

The Carried Interest may be subject to a high water mark and may be adjusted for hurdle rates and holdbacks or 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 equitably 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. In some circumstances, CarVal may be able to obtain a market value from only one source. 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 debt and equity securities and obligations of leveraged and/or financially troubled corporations including those in liquidation, insolvency 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 to service the assets.
- **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 in 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 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.

The following risk factors do not purport to be a complete list or explanation of the risks involved in an investment in one or more of the Funds. These risk factors include only those risks CarVal believes to be material, significant or unusual and relate to particular significant investment strategies or methods of analysis employed by CarVal.

Risks Related to the Funds Generally

Legal and Regulatory Environment for Private Investment Funds and their Managers

The U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was enacted in July 2010. The Dodd-Frank Act has resulted in extensive rulemaking and regulatory changes that affect private fund managers, the funds that they manage and the financial industry as a whole. Under the Dodd-Frank Act, the SEC has mandated (and will mandate) new recordkeeping and reporting requirements for investment advisers, which add costs to the legal, operational and compliance obligations of CarVal and its Funds and increase the amount of time that CarVal spends on non-investment-related activities. The Dodd-Frank Act affects a broad range of market participants with whom the Fund interacts or may interact, including banks, non-bank financial institutions, rating agencies, mortgage brokers, credit unions, insurance companies, payday lenders and broker dealers, and may change the way in which CarVal conducts business with its counterparties. It may take years to understand the impact of the Dodd-Frank Act on the financial industry as a whole, and

therefore, the continued uncertainty may make markets more volatile and make it difficult for CarVal to execute the investment strategy of its Funds.

In addition to the Dodd-Frank Act in the United States, regulators in various countries, central banks and other policy makers have undertaken unprecedented regulatory actions. 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.

The overall impact of the Dodd-Frank Act or comparable regulations in other jurisdictions on CarVal and its Funds is uncertain and it is unclear how the markets will adapt to this new regulatory regime or any additional regulation in the future.

Systemic Risk. Credit risk may arise through a default by or because of one of several large institutions that are dependent on one another to meet their liquidity or operational needs. A default by or because of one institution may cause a series of defaults by the other institutions. This is sometimes referred to as a "systemic risk" and may adversely affect financial intermediaries, such as clearing houses, banks, securities firms and exchanges with which the Funds interact. A systemic failure could have material adverse consequences on the Funds and on the markets for the investments in which the Funds seek to invest.

Competition; Availability of Investments. The identification of attractive investment opportunities is difficult and involves a high degree of uncertainty. There can be no assurance that CarVal will be able to identify or successfully pursue attractive investment opportunities in the markets in which the Funds intend to invest for many reasons, including competition for attractive investment opportunities and changes in markets or economic conditions. As a result, there can be no assurance that there will be a sufficient number of suitable investment opportunities to enable each of the Funds to invest all of its capital in opportunities that satisfy its investment objectives or that such investment opportunities will lead to completed investments by the Funds.

Assumption of Business, Terrorism and Catastrophe Risks. The Funds may be subject to the risk of loss arising from exposure that such Funds' investments may incur, indirectly, due to the occurrence of various events, including, without limitation, hurricanes, earthquakes, and other natural disasters, terrorism and other catastrophic events. These risks of loss can be substantial and could have a material adverse effect on the Funds and the investments therein.

Risks Related to Investment Strategies

General Economic and Market Conditions. The success of CarVal's investment management activities will 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 laws relating to taxation of the

Funds' investments), 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 the prices and the liquidity of the Funds' investments. Volatility or illiquidity could impair profitability or result in losses. The Funds may maintain substantial trading positions that can be adversely affected by the level of volatility in the financial markets.

Recent Developments in the Credit Market. Recently, declines in the market value of asset-backed securities, especially securities backed by subprime mortgages, have been concomitant with significant market events. Increasing credit and valuation problems in the subprime mortgage market have generated extreme volatility and illiquidity in the markets for securities directly or indirectly exposed to subprime mortgage loans. This volatility and illiquidity has extended to the global credit and equity markets generally, and, in particular, to the high-yield bond and loan markets, exacerbated by, among other things, growing uncertainty regarding the extent of the problems in the mortgage industry and the degree of exposure of financial institutions and others, decreased risk tolerance by investors and significantly tightened availability of credit. The duration and ultimate effect of current market conditions cannot be predicted, nor is it known whether or the degree to which such conditions may worsen. However, the continuation of current market conditions, uncertainty or further deterioration could result in further declines in the market values of potential Fund investments or declines in the market values of subsequently purchased Fund investments. Such declines could lead to diminished investment opportunities for the Funds, prevent the Funds from successfully executing their specific investment strategies or require the Funds to dispose of investments at a loss while such adverse market conditions prevail.

Current Economic Conditions in European Countries. Certain European countries are currently experiencing varying degrees of financial distress. Risks from the debt crisis in Europe could result in a disruption of the financial markets, which could have a detrimental impact on global economic conditions. There remains considerable uncertainty as to future developments in the European debt crisis and the impact on global financial markets. A significant deterioration of the European debt crisis could result in material reductions in the value of sovereign debt and other asset classes, disruptions in capital markets, widening of credit spreads, loss of investor confidence in the financial services industry, a slowdown in global economic activity, and other adverse developments that could negatively impact the performance of the Funds.

Leverage and Borrowing.

Leverage for Investment Purposes. The use of leverage will allow CarVal's Funds to make additional investments, thereby increasing its exposure to assets, such that its total assets may be greater than its capital. However, leverage will also magnify the volatility of changes in the value of each Fund's portfolio. The effect of the use of leverage by the Funds in a market that moves adversely to such Fund's investments could result in substantial losses to the Funds, which would be greater than if the Funds were not leveraged.

Collateral. The instruments and borrowings utilized by CarVal's Funds to leverage investments may be

collateralized by all or a portion of such Fund's portfolio. Accordingly, the Funds may pledge Investments in order to borrow or otherwise obtain leverage for investment or other purposes. Should the Investments pledged to lenders to secure a Fund's borrowing decline in value, such Fund could be subject to a "margin call", pursuant to which the Fund must either deposit additional funds or Investments with the lender or suffer mandatory liquidation of the pledged Investments to compensate for the decline in value. The banks and dealers that provide financing to the Funds can apply essentially discretionary margin, "haircut", and financing and collateral valuation policies. Changes by counterparties in any of the foregoing may result in large margin calls, loss of financing and forced liquidations of positions at disadvantageous prices. Lenders that provide other types of asset-based or secured financing to the Funds may have similar rights. There can be no assurance that the Funds will be able to secure or maintain adequate financing.

Increases in the amount of margin the Funds are required to post could result in a disposition of the Funds' assets at times and prices which could be disadvantageous to the Funds and could result in substantial losses. Significant market disruptions such as those that are currently occurring could result in forced sales of Fund assets, especially if credit lines cannot be maintained or are withdrawn, or if other costs are substantially increased, or in addition, if markets become illiquid or for other reasons result in significant losses for the Funds. To the extent that a creditor has a claim on the Funds, such claim would be senior to the rights of the Funds and their investors. The Funds bear counterparty risk with respect to their lenders. For example, if a Fund repays secured indebtedness (including satisfying obligations to repurchase assets subject to repurchase agreements), such Fund bears the risk that one or more lenders could fail to satisfy their corresponding obligations to return collateral (including Fund assets sold subject to repurchase agreements). In many cases, such collateral may be rehypothecated by the lender and/or commingled with other assets of the lender. In the event a lender counterparty fails to satisfy its obligations (whether because of an insolvency, bankruptcy or otherwise), there can be no assurance that the Funds will be able to repossess such collateral.

Costs. Borrowings will be subject to interest, transaction and other costs, and other types of leverage also involve transaction and other costs. Any such costs may or may not be recovered by the return on the Funds' investment portfolios.

Subscription Facility. CarVal may from time to time have the Funds and/or certain of their direct and indirect subsidiaries enter into a subscription facilities. Lenders under a subscription facility will likely have full recourse to a Fund and its direct and indirect subsidiaries, and such facility will likely be secured by the capital commitments of the investors in such Fund. In the event of a default under a subscription facility, the lenders thereunder may be entitled to take various actions, including the acceleration of amounts due thereunder and all actions permitted to be taken by a secured creditor. Capital commitments of certain investors may or may not be included in the borrowing base of the subscription facility. This may be due to the provisions of the subscription facility or to such investors' arrangements with the Fund. Exclusion of the capital commitments of such investors will reduce the borrowing base of the subscription facility. This may result in access to leverage that is less than what would otherwise be available to the Fund if capital commitments of

all investors were included in the borrowing base of the subscription facility.

Financing Risk. Investments may be purchased using debt financing. However, there can be no assurance that debt financing will be obtained. Consequently, such investments may not be purchased and made available to the Funds. In the foreseeable future there may be reduced access to leverage due to the current credit situation in the financial markets triggered by problems relating to, among others, the sub-prime mortgage market. Such reduced access to leverage is likely to have associated with it certain aspects, including but not necessarily limited to the following: decreased ability to enhance return through leverage; less favorable price terms for debt; and less favorable non-price terms for debt resulting in a correspondingly higher potential for defaults and stricter availability criteria under revolving credit facilities.

Interest Rate Risks. The Funds may have exposure to interest rate risks, meaning that changes in prevailing interest rates could negatively affect the value of the Funds. Interest rate changes may affect the cash flows of an investment directly; the discount rate applied to those cash flows to determine present value; the cost of leverage; or the market yield requirement (and thereby realizable value) of a debt or equity instrument, real asset or item of collateral.

Expedited Transactions. Investment analyses and investment decisions may be undertaken on an expedited basis in order for the Funds 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.

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

Lack of Control. The Funds may invest in debt instruments and equity securities of companies that it does not control, which the Funds may acquire through market transactions or through purchases of securities directly from the issuer or other shareholders. Such investments will be subject to the risk that the issuer may make business, financial or management decisions with which the Funds do not agree or that the majority stakeholders or the management of the issuer may take risks or otherwise act in a manner that does not serve the Funds' interests. In addition, the Funds may share control over certain investments with co-investors, which may make it more difficult for the Funds to implement their respective investment approach or exit the investment when they otherwise would. The occurrence of any of the foregoing could have a material adverse effect on the Funds and the investments they hold.

Co-Investments with Third Parties. The Funds may co-invest with third parties through joint ventures or other parties' entities (including, without limitation, other investors, who participate in the identification, acquisition

or renovation, or other services or activities related to investment properties for the Funds). Third-party involvement with an investment may negatively impact the returns of such investment if, for example, the third-party co-venturer has financial difficulties, has economic or business interests or goals that are inconsistent with those of the Funds or is in a position to take (or block) action in a manner contrary to the Funds' investment objective. In circumstances where such third parties involve a management group, such third parties may enter into compensation arrangements relating to such investments, including incentive compensation arrangements. Such compensation arrangements will reduce the returns to the Funds.

Co-Investments with Related Parties. CarVal may cause the Funds to commingle a portion of their assets in one or more collective investment vehicles, special purpose holding companies or other accounts in order to facilitate co-investment. Ownership interests in such vehicles, companies or accounts typically will be recorded by means of private book entry in records maintained by CarVal.

Global Asset Manager Network. CarVal uses a network of asset managers and servicers to manage investments made by the Funds (the "Global Asset Manager Network"). Global Asset Manager Network managers are not generally controlled by CarVal, and they may not be required to direct investment opportunities to the Funds or spend any portion of their time managing investments held by the Funds. While the Global Asset Manager Network may at times provide a valuable source of deal flow, familiarity with local markets and management expertise among other possible benefits, there can be no assurance that they will in fact do so, and there can be no assurance that any actions or omissions on their part will not result in material adverse consequences to the Funds.

Numerous conflicts of interest are inherent in CarVal's use of the Global Asset Manager Network. Global Asset Manager Network managers may co-invest in and receive performance compensation from the assets they manage. Due to the fact that Global Asset Manager Network managers often simultaneously manage assets held by the Funds and assets not held by the Funds, the Global Asset Manager Network 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.

Operating Partners and Affiliated Servicer Platforms. Many of the third-party operators and joint venture partners, including strategic local asset managers and servicers with which CarVal may elect to co-invest a specific Fund's capital, have preexisting investments with other CarVal Funds (and the terms of these pre-existing investments may differ from the terms upon which a specific CarVal Fund may invest with such operators and partners). In addition, the Funds or CarVal or its affiliates may make loans to and/or equity investments in (and may be issued warrants or other interests from) certain operating partners with which CarVal may elect to co-invest the Funds' capital. Further, CarVal may enter into other types of service agreements with certain operating partners to provide administrative and other services for the benefit of the Funds. CarVal and its affiliates may be presented with conflicts of interests in negotiating the terms of these relationships and the terms on which the Funds' capital is invested with such operating partners. CarVal and its Affiliates will generally seek to ensure that such transactions, over time and taking into account related

arrangements, will be conducted on arms-length terms.

Risks Related to Specific Investments

Illiquid Investments. Certain Investments made by the Funds may be illiquid because, for example, they are subject to legal or other restrictions on transfer or there is no liquid market for such Investments. Valuation of such Investments may be difficult or uncertain because there may be limited information available about the issuers of such Investments. The market prices, if any, for such Investments tend to be volatile and may not be readily ascertainable, and the Funds may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted and illiquid Investments often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of Investments eligible for trading on national securities exchanges or in the over-the-counter markets. The Funds may not be able to readily dispose of such illiquid investments and, in some cases, may be contractually prohibited from disposing of such investments for a specified period of time. As a result, the Funds may be required to hold such Investments despite adverse price movements. Even those markets which CarVal expects to be liquid can experience periods, possibly extended periods, of illiquidity. Occasions have arisen in the past where previously liquid investments have rapidly become illiquid.

A portion of the Investments made by the Funds may consist of securities that are subject to restrictions on resale by the Funds for various reasons including that they were acquired in a "private placement" transaction or that the specific Fund is deemed to be an affiliate of the issuer of such securities. Generally, the Funds may be able to sell such securities without restriction to other large institutional investors but may be restrained in its ability to sell them to other investors. If restricted securities are sold to the public, the Funds may be deemed to be an underwriter or possibly a controlling person with respect thereto for the purposes of the Securities Act and be subject to liability as such under the Securities Act.

Some of the Funds' interests may be highly illiquid and may be subject to long term holding in accordance with the investment program of the specific Fund and due to market conditions applicable to such assets.

Investments in Event-Oriented Situations. From time to time the Funds may make investments in securities based on the expectation that certain events will or will not take place, such as the consummation of an announced or otherwise anticipated transaction or the satisfaction of prerequisite elements of a related transaction. The success of a Fund's event-driven investment strategy depends upon CarVal's ability to make predictions about (i) the likelihood that an event will occur and (ii) the impact such event will have on the value of a company's securities. If the event fails to occur or it does not have the expected effect, losses can result. The consummation of such transactions can be prevented or delayed by a variety of factors, including but not limited to: (i) intervention of a regulatory agency; (ii) market conditions resulting in material changes in securities prices; (iii) compliance with any applicable securities laws; and (iv) the inability to obtain adequate financing. Accordingly, results of a particular period will not necessarily be indicative of results that may be expected in future periods.

Emerging Markets Investments. The Funds may invest in assets and securities traded in various markets throughout the world, some of which are highly controlled by government authorities. Many of the laws that govern private and foreign investment, financial investment transactions, creditors' rights and other contractual relationships in non-U.S. countries, particularly in developing countries, are new and largely untested.

As a result, the Funds may be subject to a number of unusual risks, including inadequate investor protection, contradictory legislation, incomplete, unclear and changing laws, ignorance or breaches of regulations on the part of other market participants, lack of established or effective avenues for legal redress, possible adverse political developments, possible seizure or nationalization of foreign deposits and possible adoption of governmental restrictions which might adversely affect the payment of principal and interest to investors located outside the country of the issuer, lack of standard practices and confidentiality customs characteristic of developed markets, lack of enforcement of existing regulations, and the potential for the outbreak of war or other conflict, terrorism, social unrest and civil disturbances.

In addition, economic problems in a single country are increasingly affecting other markets and economies. A continuation of this trend could adversely affect global economic conditions and world markets and, in turn, could adversely affect the performance of some or all of CarVal's Funds.

Non-U.S. Investments. Investments outside the U.S. or denominated in non-U.S. currencies pose currency exchange risks (including blockage, devaluation and non-exchangeability), as well as a range of other potential risks which could include, depending on the country involved, expropriation, confiscatory taxation, political or social instability, illiquidity, price volatility and market manipulation. In addition, less information may be available regarding non-U.S. issuers, and non-U.S. companies may not be subject to accounting, auditing and financial reporting standards and requirements comparable to or as uniform as those of U.S. companies. Further, non-U.S. securities markets may not be as liquid as U.S. markets. Transaction costs of investing outside the U.S. are generally higher than in the U.S. Higher costs result because of the cost of converting a foreign currency to dollars, the payment of fixed brokerage commissions on some foreign exchanges and the imposition of transfer taxes or transaction charges by non-U.S. exchanges. Non-U.S. markets also have different clearance and settlement procedures, which in some markets have at times failed to keep pace with the volume of transactions, thereby creating substantial delays and settlement failures that could adversely affect the Funds' performance.

Distressed Obligations. 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). Such investments are likely to be particularly risky although they also may offer the potential for correspondingly high returns. Any one or all of the issuers of the securities in which the Funds may invest may be unsuccessful or not show any return for a considerable period of time. Among the risks inherent in investments in troubled entities is the risk that it frequently may be difficult to obtain information as to the true condition of such issuers. Such investments may also be

adversely affected by laws relating to, among other things, fraudulent transfers and other voidable transfers or payments, lender liability and the bankruptcy court's power to disallow, reduce, subordinate, recharacterize debt as equity or disenfranchise particular claims. Such companies' obligations may be considered speculative, and the ability of such companies to pay their debts on schedule could be affected by adverse interest rate movements, changes in the general economic climate, economic factors affecting a particular industry or specific developments within such companies. In addition, there is no minimum credit standard that is a prerequisite to the Funds' investments in any Investment. Obligations in which the Funds invest may be less than investment grade. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial difficulties is unusually high. There is no assurance that value of the assets collateralizing the Funds' investments will be sufficient or that prospects for a successful reorganization or similar action will become available. Unless such loans are most senior, in any reorganization or liquidation proceeding relating to a company in which the Funds invest, the Funds may lose their entire investment, may be required to accept cash or securities with a value less than the original investment and/or may be required to accept payment over an extended period of time. Under such circumstances, the returns generated from the Funds' investments may not compensate the investors adequately for the risks assumed. In addition, under certain circumstances, payments and distributions may be disgorged if any such payment is later determined to have been a fraudulent conveyance or a preferential payment.

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

Credit Risks. While loans and most other assets invested in by the Funds will generally be collateralized, the Funds may be exposed to losses resulting from default. Therefore, the value of the underlying collateral, the creditworthiness of the borrower or other counterparty and the priority of the lien are each of great importance. CarVal cannot guarantee the adequacy of the protection of the Funds' interests, including the validity or enforceability of the applicable investment contract and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, CarVal cannot assure that claims may not be asserted that might interfere with enforcement of the Funds' rights. In the event of a foreclosure, the Funds or affiliates of the Funds may assume direct ownership of the underlying assets. The liquidation proceeds upon sale of such assets may not satisfy the entire outstanding balance of principal and interest payable, resulting in a loss to the Funds. Any costs or delays involved in the effectuation of a foreclosure of the asset or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss.

Unlisted Securities. Securities that are not listed on a stock exchange or traded on an over the counter market may be subject to higher risks than listed securities. Because of the absence of any trading market for unlisted

securities, it may take longer to liquidate, or it may not be possible to liquidate, positions in unlisted securities than would be the case for publicly traded securities. Companies whose securities are not publicly traded may not be subject to public disclosure and other investor protection requirements applicable to publicly traded securities.

Debt Securities Generally. Debt securities of all types of issuers may have speculative characteristics, regardless of whether they are rated. The issuers of such instruments (including sovereign issuers) may face significant ongoing uncertainties and exposure to adverse conditions that may undermine the issuer's ability to make timely payment of interest and principal in accordance with the terms of the obligations.

Interest Rate Risk. Changes in interest rates can affect the value of the Funds' investments in fixed-income instruments. Increases in interest rates may cause the value of the Funds' debt investments to decline. The Funds may experience increased interest rate risk to the extent they invest, if at all, in lower-rated instruments, debt instruments with longer maturities, debt instruments paying no interest (such as zero-coupon debt instruments) or debt instruments paying non-cash interest in the form of other debt instruments.

Prepayment Risk. The frequency at which prepayments (including voluntary prepayments by the obligors and accelerations due to defaults) occur on debt instruments will be affected by a variety of factors including the prevailing level of interest rates and spreads as well as economic, demographic, tax, social, legal and other factors. Generally, obligors tend to prepay their fixed rate obligations when prevailing interest rates fall below the coupon rates on their obligations. Similarly, floating rate issuers and borrowers tend to prepay their obligations when spreads narrow.

Increased prepayment levels may negatively impact the total cash realized over the life of the assets and may consequently affect the rate of return on such Investments. Specifically, adverse effects of prepayments may impact the portfolio of the Funds in two ways. First, particular investments may experience outright losses, as in the case of an interest-only instrument in an environment of faster actual or anticipated prepayments. Second, particular investments may underperform relative to hedges that CarVal may have constructed for these investments, resulting in a loss to the overall portfolios for the Funds. In particular, prepayments (at par) may limit the potential upside of many instruments to their principal or par amounts, whereas their corresponding hedges often have the potential for unlimited loss. CarVal accounts for anticipated prepayment levels in investing in loan assets.

High-Yield. A portion of the Funds' investments may consist of investments characterized as "high-yield securities". Such securities are expected to be rated below investment-grade by one or more nationally recognized statistical rating organizations or will be unrated but of comparable credit quality to obligations rated below investment-grade, and have greater credit risk and liquidity risk than more highly rated obligations. Bonds or other fixed-income securities that are "higher yielding" (including non-investment grade) debt securities are generally not exchange traded and, as a result, these securities trade in the over-the-counter marketplace, which is less transparent and has wider bid/ask spreads than the exchange-traded

marketplace. High-yield securities face ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to the issuer's inability to meet timely interest and principal payments. High-yield securities are generally more volatile and are generally unsecured and may be subordinate to other obligations of the obligor, which may be secured by substantially all of the issuer's assets. High-yield securities may also not be protected by financial covenants or limitations on additional indebtedness. The market values of certain of these lower-rated and unrated debt securities tend to reflect individual corporate developments to a greater extent than do higher-rated securities which react primarily to fluctuations in the general level of interest rates, and tend to be more sensitive to economic conditions than are higher-rated securities. Companies that issue such securities may be highly leveraged and their relatively high debt to equity ratios create increased risks that their operations might not generate sufficient cash flows to service their obligations. Overall declines in the below investment grade bond and other markets or an economic downturn in the financial markets generally may adversely affect such issuers by inhibiting their ability to refinance their obligations at maturity. In addition, the Funds may invest in bonds of issuers that do not have publicly traded equity securities, making it more difficult to hedge the risks associated with such investments.

The Funds are authorized to invest in obligations of issuers that are generally trading at significantly higher yields than had been historically typical of the applicable issuer's obligations. Such investments may include debt obligations that have a heightened probability of being in covenant or payment default in the future or that are currently in default and are generally considered speculative. The repayment of defaulted obligations is subject to significant uncertainties. Defaulted obligations might be repaid only after lengthy workout or bankruptcy proceedings, during which the issuer might not make any interest or other payments. Typically such workout or bankruptcy proceedings result only in partial recovery of cash payments or an exchange of the defaulted security for other debt or equity securities of the issuer or its affiliates, which may in turn be illiquid or speculative.

Corporate Debt. Bonds, notes and debentures issued by corporations may pay fixed, variable or floating rates of interest, and may include zero-coupon obligations. Corporate debt instruments may be subject to credit ratings downgrades. Other instruments may have the lowest quality ratings or may be unrated. In addition, the Funds may be paid interest in kind in connection with investments in corporate debt and related Investments (e.g., the principal owed to the Funds in connection with a debt investment may be increased by the amount of interest due on such debt investment). Such investments may experience greater market value volatility than debt obligations that provide for regular payments of interest in cash and, in the event of a default, the Funds may experience substantial losses.

Mezzanine Debt. Mezzanine debt is typically junior to the obligations of a company to senior creditors, trade creditors and employees. The ability of the Funds to influence a company's affairs, especially during periods of financial distress or following an insolvency, will be substantially less than that of senior creditors. Mezzanine debt instruments are often issued in connection with leveraged acquisitions or recapitalizations in which the issuers incur a substantially higher amount of indebtedness than the level at which they had

previously operated. Default rates for mezzanine debt instruments have historically been higher than for investment-grade instruments.

Stressed Debt. Stressed issuers are issuers that are not yet deemed distressed or bankrupt and whose debt securities are trading at a discount to par, but not yet at distressed levels. An example would be an issuer that is in technical default of its credit agreement, or undergoing strategic or operational changes, which results in market pricing uncertainty. The market prices of stressed and distressed instruments are highly volatile, and the spread between the bid and the ask prices of such instruments is often unusually wide.

Non-Performing Nature of Debt. Certain debt instruments may be non-performing or in default. Furthermore, the obligor or relevant guarantor may also be in bankruptcy or liquidation. There can be no assurance as to the amount and timing of payments, if any, with respect to such debt instruments.

Troubled Origination. When financial institutions or other entities that are insolvent or in serious financial difficulty originate debt, the standards by which such instruments were originated, the recourse to the selling institution, or the standards by which such instruments are being serviced or operated may be adversely affected.

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

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, re-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.

A number of judicial decisions in the United States have upheld the rights of debtors to sue lending institutions on the basis of evolving lender liability legal theories. Generally, lender liability is founded upon the premise that an institutional investor has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the debtor or its other creditors. Lenders who are determined to have exercised inappropriate control over the management of a debtor may find their claims subordinated or be exposed to counterclaims for damages. Such liability could exceed the value of the Funds' investment.

Loan Investments. CarVal's Funds' success in the area of loan investing will depend, in part, on their ability to obtain loans on advantageous terms. In purchasing loans, the Funds will compete with a broad spectrum of investors and institutions. Increased competition for, or a diminution in the available supply of, qualifying loans could result in lower yields on such loans, which could reduce returns to investors.

Bank Loans. A portion of CarVal's investments may consist of loans and participations therein originated by banks and other financial institutions. Such loans are typically private corporate loans that are negotiated by one or more commercial banks or financial institutions and syndicated among a group of commercial banks or financial institutions. The bank loans to be 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 (by way of sale or assignment) or indirectly (by way of participation). The purchaser of an assignment typically succeeds to all rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the debt obligation; 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 that is the subject of the participation. As a result, the Funds will be exposed to the credit risk of both the borrower and the institution selling the participation.

Bank loans are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) so-called lender-liability claims by the issuer of the obligations; (iii) environmental liabilities that may arise with respect to collateral securing the obligations; and (iv) limitations on the ability of the Fund to directly enforce its rights with respect to participations. Successful claims by third parties arising from these and other risks will be borne by the Fund.

Second Lien Loans. CarVal's eligible 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. While uncertainty of recovery in an insolvency or distressed situation is inherent in all debt instruments, second lien loan products carry more risks than certain other debt products.

Debtor-in-Possession ("DIP") Loans. Loans to companies that have filed for protection under Chapter 11 of the U.S. Bankruptcy Code, as amended, are most often asset-based, revolving working-capital facilities put into place at the outset of a Chapter 11 case to provide the debtor with both immediate cash and the ongoing working capital that will be required during the reorganization process. While such loans are generally less risky than many other types of loans as a result of their seniority in the debtor's capital structure and because their terms have been approved by a federal bankruptcy court order, it is possible that the debtor's reorganization efforts may fail and the proceeds of the ensuing liquidation of the DIP lender's collateral might be insufficient to repay in full the DIP loan.

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

Collateral. Certain loans held by CarVal's Funds will be secured. While secured loans acquired by the Funds will generally be structured to be over-collateralized, the Funds may be exposed to losses resulting from default and foreclosure. Therefore, the value of the underlying collateral, the creditworthiness of the borrower and the priority of the lien are each of great importance. The Funds cannot guarantee the adequacy of the protection of their interests, including the validity or enforceability of the loan and the maintenance of the anticipated priority and perfection of the applicable security interests. Furthermore, the Funds cannot assure that claims may not be asserted that might interfere with enforcement of their rights. In the event of a foreclosure, the Funds may assume direct ownership of the underlying asset. The liquidation proceeds upon sale of such asset may not satisfy the entire outstanding balance of principal and interest on the loan, resulting in a loss to the Funds. Any costs or delays involved in the effectuation of a foreclosure of the loan or a liquidation of the underlying property will further reduce the proceeds and thus increase the loss.

Loan Participations. 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. CarVal's Funds may invest indirectly through participations. As a result of the structure of a loan participation transaction, the Funds' subsidiaries may not have any direct claim against the underlying borrower in such a transaction, and may be subject to potential default risks by both the party from which the Funds' subsidiaries acquire their participation right and the underlying borrower. In addition, for a variety of reasons, the Funds may invest in loans, and then participate out a portion of the economics in such loans to other CarVal Funds. To the extent that a Fund sells participation interests to one or more other Funds, CarVal will generally seek to ensure that the costs and benefits of such transactions are equitably and proportionately borne by all such Funds. However, there can be no assurance that CarVal will be successful in precisely balancing the appropriate costs and benefits derived from such transactions.

Mortgage REITs. The CarVal Funds may directly or indirectly invest in mortgage REITs. A mortgage REIT is a real estate investment trust that invests primarily in loans that are secured by real estate collateral and other fixed income instruments. Mortgage REITs are subject to certain specific risks:

Real Estate Market Risk. Adverse economic, business or political developments affecting real estate could have a material adverse effect on the value of investments in mortgage REITs.

Interest Rate Risk. Mortgage REITs are subject to significant interest rate risk. When the general level of interest rates goes up, the value of a mortgage REIT's investment in fixed rate obligations goes down. When the general level of interest rates goes down, the value of a mortgage REIT's investment in fixed rate obligations goes up.

Leverage Risk. Mortgage REITs typically use leverage and many are highly leveraged, which exposes them to leverage risk.

Credit Risk. Mortgage REITs receive principal and interest payments from the owners of the mortgaged properties. Accordingly, mortgage REITs are subject to the credit risk of the borrowers to whom they extend credit.

Prepayment Risk. Mortgage REITs are subject to prepayment risk, which is the risk that borrowers may prepay their mortgage loans at faster than expected rates. Prepayment rates generally increase when interest rates fall and decrease when interest rates rise. These faster than expected payments may adversely affect a mortgage REIT's profitability because the mortgage REIT may be forced to replace investments that have been redeemed or repaid early with other investments having a lower yield.

Securitization. In addition to leverage usage for short-term funding as a means of managing cash, CarVal may lever the Funds' assets through the use of securitization vehicles. Since the Funds' ability to issue asset-backed debt securities may be limited because of market conditions or regulations, the Funds may acquire mortgage loan assets at acceptable, unlevered yields, with the prospect of enhancing returns through financing or sales of asset-backed securities. Leverage of certain assets may be accomplished through securitization vehicles

that are either Delaware statutory trusts or non-U.S. entities depending on the nature of the financing required.

Bankruptcy Claims. Bankruptcy claims, which are amounts owed to creditors of companies that are debtors in pending bankruptcy cases, typically are illiquid and generally do not pay interest. The markets in U.S. bankruptcy claims are generally not regulated by U.S. federal securities laws or the Securities and Exchange Commission. Because bankruptcy claims are frequently unsecured, holders of such claims may have a lower priority in terms of payment than certain other creditors in a bankruptcy proceeding. In addition, the debt of companies in financial reorganization may be adversely affected by an erosion of the issuer's fundamental values. Accordingly, there can be no guarantee that the debtor will ever be able to satisfy the obligation on a bankruptcy claim.

Many of the events within a bankruptcy case are adversarial and often beyond the control of the creditors. While creditors generally are afforded an opportunity to appear and be heard, there can be no assurance that a bankruptcy court would not approve actions that may be contrary to the interests of the Funds. Furthermore, there are instances creditors lose their priority or are recharacterized as equity if, for example, they have exercised excessive control management or engaged in misconduct that harms other creditors. In those cases where the Funds, by virtue of such action, are found to exercise "domination and control" of a debtor, such Funds may lose their priority if the debtor can demonstrate that its business was adversely impacted or other creditors and equity holders were harmed by the Funds.

Generally, the duration of a bankruptcy case can only be roughly estimated. The reorganization of a company usually involves the development and negotiation of a plan of reorganization, plan approval by creditors and confirmation by the bankruptcy court. This process can involve substantial legal, professional and administrative costs to the company and the Funds; it is subject to unpredictable and lengthy delays; and during the process the company's competitive position may erode, key management may depart and the company may not be able to invest adequately. In some cases, the company may not be able to reorganize and may be required to liquidate assets. U.S. bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization for the purpose of voting on a plan of reorganization. Because the standard for classification is vague, there exists a significant risk that the Funds' influence with respect to a class of securities can be lost by the inflation of the number and the amount of claims in, or other gerrymandering of, the class. In addition, certain administrative costs and claims that have priority by law over the claims of certain creditors (for example, claims for taxes) may be quite high.

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

CarVal or another representative of the Funds, on behalf of the Funds, may elect to serve on creditors' committees, equity holders' committees or other groups to ensure preservation or enhancement of the Funds' positions as a creditor or equityholder. A member of any such committee or group may owe certain obligations generally to all parties similarly situated that the committee represents. CarVal may resign from that committee or group for any reason, including, for example, if CarVal concludes that its obligations owed to the other parties as a committee or group member conflict with its duties owed to the Funds. In such case, the Funds may not realize the benefits, if any, of participation on the committee or group. In addition, if the Funds are represented on a committee or group, they may be restricted or prohibited under applicable law from disposing of or increasing their investments in such company while they continue to be represented on such committee or group.

CarVal may purchase creditor claims subsequent to the commencement of a bankruptcy case. Under judicial decisions, it is possible that such purchase may be disallowed by the bankruptcy court if the court determines that the purchaser has taken unfair advantage of an unsophisticated seller, which may result in the rescission of the transaction (presumably at the original purchase price) or forfeiture by the purchaser. Additionally, the claim may be disallowed or subordinated if the bankruptcy court determines that the seller engaged in inequitable conduct that harmed other creditors.

Reorganizations can be contentious and adversarial, and it is by no means unusual for participants to use the threat of, as well as actual, litigation as a negotiating technique. The expense of defending against claims by third parties and paying any amounts pursuant to settlements or judgments would generally be borne by the Funds.

Trade and Other General Unsecured Claims. CarVal may acquire interests in claims of trade creditors and other general unsecured claim holders of a debtor ("Trade Claims"). Trade Claims generally include, but are not limited to, claims of suppliers for goods delivered and for which payment has not been made, claims for unpaid services rendered, claims for contract rejection and claims related to litigation. 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.

Structured Finance Securities. The Funds' portfolios 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. In addition, concentrations of structured finance securities of a particular type, as well as concentrations of structured finance securities issued or guaranteed by affiliated obligors, serviced by the same servicer or backed by underlying collateral located in a specific geographic region, may subject the structured finance securities to additional risk.

Structured finance securities are also subject to the risks of the securitized assets. In particular, structured finance securities are subject to risks related to the quality of the control systems and procedures used by the parties originating and servicing the securitized assets. Deficiencies in these systems may result in higher-than-expected borrower delinquencies or other factors affecting the value of the underlying assets, such as the inability to effectively pursue remedies against borrowers due to defective documentation. 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.

ABS and MBS Generally. CarVal eligible Funds may invest in asset-backed securities (“ABS”) and mortgage-backed securities (“MBS”). The investment characteristics of ABS and MBS differ from traditional debt securities. Among the major differences are that interest and principal payments are made more frequently, usually monthly, and that the principal may be prepaid at any time because the underlying loans or other assets generally may be prepaid at any time.

ABS and MBS Subordinated Securities. Investments in subordinated MBS and ABS involve greater credit risk of default than the senior classes of the issue or series. Default risks may be further pronounced in the case of MBS and ABS secured by, or evidencing an interest in, a relatively small or less diverse pool of underlying loans. Certain subordinated securities absorb all losses from default before any other class of securities is at risk, particularly if such securities have been issued with little or no credit enhancement or equity. Such securities, therefore, possess some of the attributes typically associated with equity investments.

CMBS. The Funds' portfolios may include exposure to commercial mortgage backed securities ("CMBS"), 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, office buildings, industrial or warehouse properties, hotels, nursing homes and senior living centers. CMBS are subject to particular risks, including lack of standardized terms, shorter maturities than RMBS, and the structuring such that a substantial portion of the loan principal is not amortized over the loan term but is payable at maturity. Repayment of the loan principal thus often depends upon the future availability of real estate financing from the existing or an alternative lender and/or upon the current value and salability of the real estate. Therefore, the unavailability of real estate financing may lead to default.

Most commercial mortgage loans underlying CMBS are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the subordinated classes of the related CMBS are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of CMBS may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed in lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property. Foreclosure can be costly and delayed by litigation and/or bankruptcy. Factors such as the property's location, the legal status of title to the property, its physical condition and financial performance, environmental risks, and governmental disclosure requirements with respect to the condition of the property may make a third party unwilling to purchase the property at a foreclosure sale or to pay a price sufficient to satisfy the obligations with respect to the related CMBS. Revenues from the assets underlying such CMBS may be retained by the borrower and the return on investment may be used to make payments to others, maintain insurance coverage, pay taxes or pay maintenance costs. Such diverted revenue is generally not recoverable without a court appointed receiver to control collateral cash flow.

ABS. ABS are not secured by an interest in the related collateral. Credit card receivables, for example, are generally unsecured and the debtors are entitled to the protection of a number of state and federal consumer loan laws, many of which give such debtors the right to set off certain amounts owed on the credit cards, thereby reducing the balance due. Most issuers of ABS backed by automobile receivables permit the servicers to retain possession of the underlying obligations. If the servicer were to sell these obligations to another party, there is a risk that the purchaser would acquire an interest superior to that of the holders of the related ABS. In addition, because of the large number of vehicles involved in a typical issuance and technical requirements under state laws, the trustee for the holders of the ABS may not have a proper security interest in all of the obligations backing such ABS. Therefore, there is a possibility that recoveries on repossessed collateral may not, in some cases, be available to support payments on these securities. The risk of investing in ABS is ultimately dependent upon payment of consumer loans by the debtor.

The collateral supporting ABS is of shorter maturity than certain other types of loans and is less likely to experience substantial prepayments. ABS are often backed by pools of any variety of assets, including, for example, leases, mobile home loans and aircraft leases, which represent the obligations of a number of different parties and use credit enhancement techniques such as letters of credit, guarantees or preference rights. The value of an ABS is affected by changes in the market's perception of the asset backing the security and the creditworthiness of the servicing agent for the loan pool, the originator of the loans or the financial institution providing any credit enhancement, as well as by the expiration or removal of any credit enhancement.

RMBS. Holders of residential mortgage-backed securities ("RMBS") bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent interests in pools of residential mortgage loans secured by one to four family residential mortgage loans. Such loans may be prepaid at any time. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity, although such loans may be securitized by government agencies and the securities issued are guaranteed. 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 and may also be effected by, among other things: (i) the terms of the mortgage loan, (ii) the borrower's "equity" in the mortgaged property and (iii) general economic conditions, such as 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. If a residential mortgage loan is in default, foreclosure of such residential mortgage loan may be a lengthy and difficult process, and may involve significant expenses. Furthermore, the market for defaulted residential mortgage loans or foreclosed properties may be very limited.

Foreclosure of a mortgage loan can be an expensive and lengthy process that can have a substantial negative effect on the CarVal Funds' originally anticipated return on the foreclosed mortgage loan. In addition, failure of residential mortgage loan originators or servicers to comply with governing laws, to the extent any of their residential mortgage loans become part of the Funds' mortgage-related assets, could subject the Funds, as assignee or purchaser of the related residential mortgage loans, to monetary penalties and could result in the borrowers rescinding the affected residential mortgage loans.

Non-Prime or Sub-Prime Residential Mortgage Loans. CarVal's eligible Funds may invest in non-prime or sub-prime residential mortgage loans secured by residential properties located outside of the United States. Non-prime and sub-prime residential mortgage loans are made to borrowers who have poor or limited credit histories and, as a result, do not qualify for traditional mortgage products. Non-prime and sub-prime

borrowers have materially higher rates of delinquencies, foreclosure and loss compared to prime credit quality borrowers. Accordingly, the mortgage loans the Funds hold may experience relatively high rates of delinquency and/or foreclosure, and such high rates may have a substantial negative impact on the Funds' return on investments.

Structured Notes. Structured notes, variable rate mortgage-backed and asset-backed securities each have rates of interest that vary based on a designated floating rate formula or index. The value of these investments is closely tied to the absolute levels of such rates or indices, or the market's perception of anticipated changes in those rates or indices. The movements in specific indices or interest rates may be difficult or impossible to hedge.

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.

Shipping Industry Generally. CarVal's Funds may acquire assets in the shipping industry, which are subject to the following, non-exhaustive risks that could have a material adverse effect on such Funds, including: (i) extensive and changing safety, environmental protection and other international, national, state and local governmental laws, regulations, treaties and conventions in force in international waters, the jurisdictional waters of the countries in which the Funds' vessels operate, as well as the countries of the Funds' vessels' registration, compliance with which may require ship modifications and changes in operating procedure; (ii) international sanctions, embargoes, import and export restrictions, nationalizations and wars or terrorist attacks; (iii) acts of piracy on ocean-going vessels; (iv) severe weather and natural disasters, including, but not limited to, oil spills and other environmental mishaps, fire, mechanical failure, collisions, human error, war, terrorism, piracy, political action, civil unrest and insurrection in various countries and other circumstances or events, which may cause serious damage to vessels, any cargo and other equipment, loss of life or physical injury or delays in the delivery of cargo, loss of revenue from termination of charter contracts or ship management agreements; (v) arrests of a vessel by maritime claimants in order to enforce liens against the vessel for unsatisfied debts, claims or damages that could cause delays or require the Funds or their underlying portfolio company or subsidiary entity to pay large sums of money to have the arrest lifted which could have a

negative impact on the Funds' returns; (vi) labor interruptions or unrest among crews working on the vessels directly or indirectly owned by the Funds; (vii) delays in delivery of new-build vessels or delivery of new-build vessels with significant defects which could delay or lead to the termination of related charter agreements and also cause cost overruns or cancellation of the new-build contracts; (viii) increased operational and maintenance costs over the life of a shipping vessel; (ix) dry-docking costs for periodic maintenance and repairs that are difficult to predict with certainty and can be substantial; (x) increased difficulty in securing reasonably affordable insurance; (xi) the unpredictable cost and supply of fuel, including the possible increased prices to repurchase fuel upon redelivery of a vessel after charter; (xii) unpredictable market conditions which could have serious adverse effects on charter rate, including fluctuating supply and demand for vessels and/or products or materials transported by such vessels; (xiii) fluctuations in the market value of vessels; and (xiv) termination, breach or default of chartering agreements entered into by the Fund and third parties. Additionally, Section 27 of the Merchant Marine Act of 1920 (the "Jones Act"), requires that vessels transporting cargo between U.S. ports must, among other requirements, be owned and operated by U.S. organized companies that are controlled and 75% owned by U.S. citizens. Consequently, the Jones Act restrictions on non-U.S. ownership interests may substantially limit the potential purchasers of a shipping vessel, resulting in a sale that may not reflect the value that could be obtained in an unregulated market.

Derivative Instruments Generally. Certain swaps, options and other derivative instruments may be subject to various types of risks, including market risk, liquidity risk and the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty, legal risk, and operations risk. Derivatives traded over-the-counter may not have an authoritative source of valuation and the models used to value such derivatives is subject to change. In addition, CarVal may, in the future, take advantage of opportunities. Special risks may apply in the future that cannot be determined at this time with respect to certain other derivative instruments that are not presently contemplated for use or that are currently not available. The regulatory and tax environment for derivative instruments in which the Funds may participate is evolving, and changes in the regulation or taxation of such Investments may have a material adverse effect on the Funds.

Short Selling. CarVal may utilize short selling. The success of the Funds' short selling depends upon CarVal's ability to identify and sell short investments that are overvalued. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying Investment could theoretically increase without limit, thus increasing the cost to the Funds of buying those investments to cover the short position. There can be no assurance that the Funds will be able to maintain the ability to borrow investments sold short. In such cases, the Funds can be "bought in" (i.e., forced to repurchase investments in the open market to return to the lender). There also can be no assurance that the investments necessary to cover a short position will be available for purchase at or near prices quoted in the market. Purchasing investments to close out a short position can itself cause the price of the investments to rise further, thereby exacerbating the loss. Short strategies can also be implemented synthetically through various instruments and be used with respect to indices or in the over-the-

counter market and with respect to futures and other instruments. In some cases of synthetic short sales, there is no floating supply of an underlying instrument with which to cover or close out a short position and the Funds may be entirely dependent on the willingness of over-the-counter market makers to quote prices at which the synthetic short position may be unwound. There can be no assurance that such market makers will be willing to make such quotes. Short strategies can also be implemented on a leveraged basis. Lastly, even though the Funds may secure a "good borrow" of the investment sold short at the time of execution, the lending institution may recall the lent investment at any time, thereby forcing the Funds to purchase the investment at the then-prevailing market price which may be higher than the price at which such investment was originally sold short by the Funds.

Risks Related to the Operations and Investment Activities of the Funds

Analytical Model Risks. The Funds will employ certain strategies which depend upon the reliability, accuracy and analysis of CarVal's analytical models. To the extent such models (or the assumptions underlying them) do not prove to be correct, the Funds may not perform as anticipated, which could result in substantial losses. All models ultimately depend upon CarVal's judgment and the assumptions embedded in them. To the extent that with respect to any investment, the judgment or assumptions are incorrect, the Funds can suffer losses.

Systems and Operational Risks. Each of the Funds depends on CarVal to develop and implement appropriate systems for its activities. Each of the Funds relies heavily and on a daily basis on financial, accounting and other data processing systems to execute, clear and settle transactions across numerous and diverse markets and to evaluate certain investments, to monitor their portfolio and capital, and to generate risk management and other reports that are critical to oversight of a Fund's activities. Certain of the Funds' and CarVal's activities will be dependent upon systems operated by third parties, including a third party administrator, market counterparties and other service providers, and CarVal may not be in a position to verify the risks or reliability of such third-party systems. Errors are inherent in the business and operations of any business, and although CarVal will adopt measures to prevent and detect errors by, and misconduct of, counterparties and third-party service providers, and transact with counterparties and third-party service providers it believes to be reliable, such measures may not be effective in all cases. Failures in the systems employed by CarVal, a third party administrator, counterparties, exchanges and similar clearance and settlement facilities and other parties could result in mistakes made in the confirmation or settlement of transactions, or in transactions not being properly booked, evaluated or accounted for. Disruptions in a Fund's operations may cause such Fund to suffer, among other things, financial loss, the disruption of its businesses, liability to third parties, regulatory intervention or reputational damage. Any of the foregoing failures or disruptions could have a material adverse effect on such Fund and its investments.

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.

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.

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.

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.

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 a 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.

Hedging Transactions. Each of the Funds may utilize Investments for risk management purposes in order to: (i) protect against possible changes in the market value of such Fund's investment portfolio resulting from fluctuations in the markets and changes in interest rates; (ii) protect such Fund's unrealized gains in the value of its investment portfolio; (iii) facilitate the sale of any Investments; (iv) enhance or preserve returns, spreads or gains on any Financial Instrument in such Fund's portfolio; (v) hedge against a directional trade; (vi) hedge the interest rate, credit or currency exchange rate on any of such Fund's Investments; (vii) protect against any increase in the price of any Investments such Fund anticipates purchasing at a later date; or (viii) act for any other reason that CarVal deems appropriate. The Funds will not be required to hedge any particular risk in connection with a particular transaction or its portfolio generally. While the Funds may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Funds than if they had not engaged in any such hedging transaction. Moreover, the portfolio will always be exposed to certain risks that cannot be hedged.

Investment Procedures. The Funds will establish very broad investment policies and procedures for their investments. These policies and procedures will provide CarVal with substantial discretion when selecting, acquiring and disposing of investments, including in determining the types of investments that it deems appropriate, the investment approach that it follows when making investments and the timing of investments. While CarVal will periodically review the Funds' compliance with investment policies and procedures, such

policies and procedures may be subject to change and derogation consistent with the business practices of the Funds.

Risk of Loss. No guarantee or representation is made that any of the Funds' investment programs, including, without limitation, the Funds' investment objectives, diversification strategies or risk monitoring goals, will be successful. Investment results may vary substantially over time. No assurance can be made that profits will be achieved or that substantial or complete losses will not be incurred. Past investment results of CarVal (or investments otherwise made by CarVal's investment professionals) are not necessarily indicative of their future performance.

Risks Arising From Dispositions of Investments. In connection with the disposition of an investment, a Fund may be required to make representations about the business and financial affairs of the investment, or may be responsible as a selling stockholder for the contents of disclosure documents under applicable securities laws. Such Fund may also be required to indemnify the purchasers of such investments or underwriters to the extent that any such representations or disclosure documents turn out to be incorrect, inaccurate or misleading.

Risks related to CarVal Investors as the Investment Manager

Inability to Resort to Cargill Infrastructure. CarVal is operated separately from the Cargill organization. Investors should not rely on the availability of the Cargill infrastructure, resources or expertise.

Cargill Relationships. CarVal is an independently managed, indirect 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. In addition, Cargill is under no obligation to refer investment opportunities to CarVal.

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.

Further, the general partners of the Funds will often receive performance-based compensation or carried interest distributions in connection with the management of such Fund. The carried interest distributions are not the product of an arm's length negotiation with any third party. The carried interest distributions made on investment gains may create an incentive for CarVal to cause the Funds to make investments that are riskier or more speculative than would be the case if a performance-based compensation arrangement were not in effect. The carried interest distributions may create an incentive for CarVal to time investments, and the realization of investments, so as to maximize the amount of the carried interest distribution rather than the return of the Fund.

CarVal may in the future have other investment advisory clients with different appetites and tolerance for risk and different investment periods. CarVal will seek to allocate investment and disposition opportunities fairly and equitably among all funds and accounts it manages in light of their varying characteristics and the need to construct balanced and appropriate investment portfolios. However, due to their varying circumstances of the various CarVal-managed Funds, the allocation of investment and disposition opportunities among the various funds and accounts managed by CarVal will often not be pro rata. For more detail regarding the factors that may affect these decisions, please see the discussion of **Allocation of Investment Opportunities in Item 12 - Brokerage Practices**.

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 internal policies, applicable regulatory requirements and any requirements set out in governing documents for the Funds involved. Please see **Item 12 - Brokerage Practices** for a discussion of Principal & Cross Trades.

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 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.

Related Party Transactions. The Funds may enter into certain transactions with CarVal, Cargill and/or Cargill affiliates, including but not limited to, joint ventures, sourcing transactions, or the provision of asset management services to the Funds by such parties. These affiliated entities may be compensated in a range of manners, including fixed fee, a percentage of transaction size, cost plus or a percentage of profits. 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.

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.

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, neither CarVal nor the Funds will have access to material, non-public information in the possession of Cargill that might be relevant to an investment decision to be made by or for 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 – whether such information originates from Cargill or another source – 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.

Retention and Motivation of Key Employees. The success of CarVal and its Funds is dependent upon the talents and efforts of highly skilled individuals employed by CarVal and CarVal's ability to identify and willingness to provide acceptable compensation to attract, retain and motivate talented investment professionals and other employees. There can be no assurance that CarVal investment professionals will continue to be associated with CarVal throughout the life of any specific Fund, and the failure to attract or retain such investment professionals could have a material adverse effect on the Funds and their investments. Competition in the financial services industry for qualified employees is intense and there is no guarantee that, if lost, the talents of CarVal's investment professionals could be replaced.

Dependence on CarVal. Currently, for all of the Funds with the exception of RVF III, RVF IV and EREP (non-discretionary funds), 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.

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.

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 legal or disciplinary events that would be material to an Investor's or prospective Investor's evaluation of CarVal's business or the integrity of its management.

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 co-mingled 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 Offering Documents. 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., and CarVal Investors France SAS, provide investment advisory services to CarVal in connection with its management of Funds and its investment advisory services. In the case of CarVal Investors UK Ltd., the subsidiary does not provide the investment advisory services directly to CarVal, but acts as general partner in CarVal Investors GB LLP, which in turn provides investment advisory services to CarVal. 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 from third parties at the request of CarVal and warehouse all or part of these assets ("Warehoused Assets") on behalf of CarVal in anticipation of future CarVal fund launches. CarVal may deem some or all of these assets to be appropriate for a such future funds after they

have 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 for Warehoused Assets will be determined by Cargill at the time of the transfer which poses a potential conflict of interest with the Fund acquiring the assets. The basis for any transfer pricing will be disclosed to Investors before they subscribe to the Fund. 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 and there may be times when Cargill chooses not to transfer certain Warehoused Assets. Cargill's decision not to transfer certain Warehoused Assets may conflict with the interests of the Fund that would have been the recipient of the assets.

In certain circumstances, CarVal or its affiliates may make loans to Funds in order to allow them to acquire assets. Typically these loans are made to allow a Fund to acquire assets prior to a closing on capital commitments or prior to a capital call. The terms of these loans will be arms-length in nature and are disclosed to Investors pursuant to the applicable Offering Documents or if they are made prior to a capital call will be reviewed with investors in the manner set forth in such Fund's governing documents.

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 relating to 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, operating partners ("affiliated asset managers") or service providers ("Affiliated Servicer Platforms"). Both affiliated and unaffiliated asset managers and servicer platforms may enter into administrative or servicing relationships with the Funds.

Partial ownership of or financial interest in an asset manager or service provider 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 or an Affiliated Servicer Platform and would also benefit the Fund with the ownership interest in such Affiliated Asset Manager or Affiliated Servicer Platform. CarVal intends for fees generated in this manner that are payable by the Funds to be fair and reasonable and not less favorable than could be obtained in an arms-length negotiation with an unrelated third party for similar services. Further, CarVal's investment process, asset allocation policy and other controls (including those set forth in the governing documents of the Funds in question) mitigate the risk that such conflict could present. It is important to note that in most instances, CarVal does not anticipate that it would offset the management fees it charges to the Funds by the amount of fees paid by the Funds to Affiliated Asset Managers and/or Affiliated Servicer Platforms.

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 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. CarVal maintains a separate policy that addresses gifts and entertainment.

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. Similarly if any such shared investment is financed, one or more of the eligible Fund's may be required to provide guarantees, collateral or other credit enhancement and as a result Funds sharing such investments may be exposed to counterparty risk of other Funds participating in the investment.

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 investment. 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 acting 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. CarVal will consider all or some of the following factors when fulfilling its obligation to seek best execution: 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, creditworthiness of a counterparty in relation to risk created by the transaction, willingness and ability of a counterparty to make a market in particular securities, operational coordination with CarVal and the Funds' custodians, reputation for ethical and trustworthy behavior, the counterparty's use of automation, willingness of the counterparty to commit capital to a transaction, a counterparty's market knowledge, ability of a counterparty to source and/or execute difficult transactions in unique and/or complex securities, and identification of key components of favorable and efficient executions.

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 that require advance internal review and approval for any proposed principal or cross trade. 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 circumstances, 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 considers a number of factors in an effort to construct balanced investment portfolios for each of the Funds that will provide appropriate risk adjusted returns to the Investors. These factors may include, along with other relevant factors relating to the particular investment and particular funds, any of the following for each respective Fund: (a) investment objectives and guidelines, (b) current and prospective liquidity, (c) overall size, (d) remaining period to make new investments, (e) overall current exposure to investments of a similar nature, (f) ramp-up or wind-down period, and/or (g) appetite or tolerance for risk/volatility. 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, regulatory, 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 acting 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 or Funds, 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 trades after execution. These allocations will be made so that all Funds and other accounts are treated reasonably and non-preferentially 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 investment limits. CarVal also maintains investment committees that include CarVal's chief investment officer, chief financial officer, risk manager, general counsel and relevant senior investment professionals. While investment professionals are generally responsible for making investment determinations on behalf of the Funds, the committee establishes investment limits, as necessary, and performs a monthly review of investments made on behalf of the Funds, which may include allocation determinations, established thresholds, and limits. In some circumstances the committee may review and approve transactions prior to the transaction. 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 the Offering Documents of 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 and to the extent applicable, 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 utilizes third-party placement agents or solicitors in connection with the sale of interests in certain Funds to underlying Investors and compensates such third parties 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 or solicitors 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, RVF IV and EREP 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 additional Funds or single-investor vehicles on a non-discretionary basis.

Item 17 - Voting Client Securities

CarVal votes proxies for the exclusive benefit of 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 investment team and the Compliance Department 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 adviser 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.