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**This Brochure provides information about the qualifications and business practices of Värde Management, L.P. (“VMLP”). If you have any questions about the contents of this Brochure, please contact us at 952.893.1554. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.**

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

**Registration with the SEC as an investment adviser does not imply that VMLP or any of its affiliates, personnel or employees possesses a particular level of skill or training.**

## **Item 2 – Material Changes**

In this Item we are required to disclose material changes since our last annual update, which was the version dated March 26, 2014. Our material changes updates are as follows:

- In Item 4, we identified additional offices and added disclosure related to side letters;
- In Item 5, we included additional disclosure related to fees, compensation and expenses;
- In Item 8, we included additional disclosure regarding risks related to the firm's significant investment activities;
- In Item 12, we added disclosure regarding principal trades; and
- In Item 14, we updated disclosure regarding the use of placement agents.

If you are interested in receiving the most current copy of our Brochure, please contact Investor Services by email at [investor.services@varde.com](mailto:investor.services@varde.com).

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#### Item 4 – Advisory Business

Värde Management, L.P. (“VMLP”) is the registered investment adviser in the broader Värde organization (“Värde” or the “Firm”), which was established in 1993. Värde is a global investment adviser that focuses on credit and event driven strategies. Värde’s investment activities have focused primarily in the U.S., Europe and Asia-Pacific. Värde is headquartered in Minneapolis, Minnesota, with regional headquarters in London and Singapore. Within Europe, Värde has additional offices in Ireland, Italy, Luxembourg, Spain and Australia.

The Firm is managed by its Founding Partners, George G. Hicks and Marcia L. Page, together with Partners Jeremy D. Hedberg, Rick J. Noel, Andrew P. Lenk, Ilfryn C. Carstairs, Ali M. Haroon and Bradley P. Bauer (together, the “Principals”). The Principals, together with retired Partners Jason R. Spaeth and Gregory S. McMillan, own 100% of the Firm.

Värde sponsors and manages a family of private investment funds (the “Private Funds”). The Private Funds are Värde’s only clients (i.e., there are presently no direct advisory clients other than the Private Funds). A related entity of VMLP generally acts as the general partner of each Private Fund, and VMLP is the investment manager of each Private Fund. Värde currently categorizes the Private Funds either as “closed-end funds” or “hedge funds.” The “closed-end funds” are structured in a “private equity” format, typically having a stated investment period and term. The “hedge funds” do not have a defined investment period, but generally permit investors to make redemptions on a periodic basis. In addition, Värde may, from time to time, form co-investment vehicles to participate in certain investments alongside the Private Funds. The terms of such co-investment vehicles, including permitted investments, fees and governance, are negotiated between Värde and the participating co-investors. The section titled “*Methods of Analysis, Investment Strategies and Risk of Loss*” (Item 8 below) includes additional disclosure related to co-investments.

VMLP’s advisory services primarily consist of (i) investigating, identifying and evaluating investment opportunities; (ii) structuring, negotiating and making investments on behalf of the Private Funds; (iii) managing and monitoring the performance of such investments; and (iv) exiting such investments on behalf of the Private Funds. VMLP’s advisory services to each Private Fund are subject to the specific investment objectives and restrictions applicable to such Private Fund, as set forth in such Private Fund’s limited partnership agreement, confidential private placement memorandum and other governing documents (collectively, the “Offering Documents”). Investors and prospective investors in each Private Fund should refer to the Offering Documents of the applicable Private Fund for complete information regarding the investment objectives, investment restrictions and other information with respect to such Private Fund.

In accordance with common industry practice, one or more of the Private Funds’ general partners may enter into “side letters” or similar agreements with certain investors pursuant to which the general partner grants the investor specific rights, benefits, or privileges that may not be made generally available to other investors. Such “side letters” or similar agreements generally are

disclosed only to investors in the applicable Fund that have separately negotiated with Värde for the right to review such “side letters” or similar agreements.

VMLP, as the sole SEC-registered investment adviser within the broader Värde organization, has investment discretion with regard to all Private Fund assets. As of December 31, 2014, Värde’s Regulatory Assets Under Management (as defined in Form ADV Part 1) are \$9.8649 billion.

## **Item 5 – Fees and Compensation**

The compensation each Private Fund pays Värde is set forth in each Private Fund's Offering Documents. Värde is generally paid an annual management fee by each Private Fund monthly in arrears or otherwise in accordance with the Private Fund's Offering Documents. Värde is authorized under the Private Funds' Offering Documents to charge and deduct management fees directly from the assets of the Private Funds. Please refer to the Offering Documents of each applicable Private Fund for complete information on the fees and compensation payable with respect to such Private Fund.

The fee percentage and/or the base upon which the fee is calculated may vary with the size of the Private Fund and may also vary over the life of the Private Fund, as negotiated and determined at the time the Private Fund is established and as set forth in its Offering Documents. Management fees, performance-based fees and incentive allocations are sometimes waived or reduced with respect to investments in the Private Funds by Värde and/or its related persons. Värde reserves the right to waive, reduce or defer any compensation or allocations payable to it by a Private Fund, including with respect to certain participants in such Private Fund, at any time it deems appropriate in its sole discretion.

Each Private Fund will pay or reimburse Värde for certain organizational, operational and other permissible expenses as described in the Offering Documents for each Private Fund. These permissible expenses may vary among Private Funds, but the expenses borne by each Private Fund generally include: (i) organizational and offering expenses; (ii) expenses incurred in connection with the Private Fund's trading, evaluation, acquisition, disposition, carrying, financing or management of investments (whether or not consummated), including, without limitation, the costs and expenses of outside legal counsel, brokers, asset managers, consultants, work out specialists, valuation services (including third-party valuation firms and software), finance providers, travel-related expenses and similar costs of Värde and its employees and agents; (iii) all broker's commissions, clearance charges and other normal charges, costs and expenses incidental to the purchase, sale or other disposition of the Private Fund's investments; (iv) expenses incurred in connection with the Private Fund's financial statements and tax returns by outside advisors; (v) professional fees and expenses; (vi) all expenses of the transfer, receipt, safekeeping, servicing and accounting for the Private Fund's investments, cash and other property, including all charges of depositories, custodians, asset managers, title companies and other agents, if any; (vii) all charges for services and expenses of the Private Fund's outside legal counsel, outside tax advisors, administrators and independent auditors; (viii) any and all expenses (including legal fees and expenses of outside counsel) incurred to comply with any law or regulation related to the activities of the Private Fund (including regulatory expenses of the Private Fund and the general partner, including Form PF, AIFMD and similar filings); (ix) such nonrecurring expenses as may arise, including the costs of actions, suits or proceedings to which the Private Fund is a related party and the expenses that the Private Fund may incur as a result of its legal obligation to provide indemnification under its Offering Documents or any contract; (x) all taxes and governmental fees payable or with respect to the Private Fund, its investments, or to federal, state or other governmental agencies, domestic or foreign, including real estate, stamp or

other transfer taxes; (xi) expenses related to complying with Sections 1471–1474 of the Internal Revenue Code of 1986, as amended (the “Code”), regulations or official interpretations thereof, agreements entered into pursuant to Section 1471(b) of the Code, or fiscal or regulatory legislation, rules or practices adopted pursuant to intergovernmental agreements entered into in connection with the implementation of such Sections of the Code (“FATCA”); (xii) insurance (including general liability and errors or omissions insurance in respect of Värde or its respective affiliates and related entities); (xiii) expenses incurred in connection with the winding up or liquidation of the Private Fund; and (xiv) management fees. To the extent that any of the foregoing expenses relate to the operations of more than one Private Fund, Värde will allocate such expenses based on a good faith determination of the relative benefits of such expenses to all Private Funds benefiting from such expenses. From time-to-time, Värde may pay for certain of these expenses out of its own assets. Värde generally seeks reimbursement of these expenses directly from the Private Funds on a cost reimbursement basis only. The Private Funds pay no interest or carrying charges associated with expense payments made on their behalf by Värde. The section titled “*Brokerage Practices*” (Item 12 below) describes the factors Värde considers in selecting or recommending broker-dealers and determining the reasonableness of their compensation. The section titled “*Client Referrals and Other Compensation*” (Item 14 below) describes certain management, monitoring, consulting, directors’ or other fees that Värde may receive from portfolio investments held by Private Funds.

Certain of the fees payable to Värde are based on the value and performance of the assets held in the Private Funds. Värde has adopted and implemented a Valuation Policy that governs the pricing of the securities and other assets held by the Private Funds. The Valuation Policy generally provides that liquid investments will be valued at readily ascertainable market values. In the case of assets that lack such a readily ascertainable market value, the Valuation Policy requires Värde to determine a value for these investments in accordance with the terms of the policy. Värde faces a conflict of interest in valuing assets that lack a readily ascertainable market value, because their value can impact certain of the fees payable to Värde and its performance returns. With respect to these investments, Värde uses various valuation methodologies based on the nature of the assets. These methodologies are inherently subjective and capable of producing a range of values that may be considered reasonable to different parties and that may be different than valuations done by others applying their own judgment at different or similar dates. There is no assurance that the valuations determined by Värde represent values that can or will be realized in a sale or exchange of investments with an independent third party. Värde documents its valuation decisions and reviews them on a periodic basis. Värde has a Valuation Committee that is responsible for overseeing the Valuation Policy and the related procedures. The Valuation Committee meets no less than quarterly and on an as-needed basis. On an annual basis, Värde’s valuations are reviewed in connection with each Private Fund’s independent external financial statement audit.

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

Each Private Fund provides for the payment of performance compensation to its general partner, which is a Värde affiliated entity. The calculation and role of this performance compensation is described in each Private Fund's Offering Documents. Performance-based fee and allocation arrangements theoretically create an incentive for Värde to make more speculative investments in the assets purchased for a Private Fund than it might otherwise make in order to increase the likelihood that Värde would be paid incentive fees or receive incentive allocations. As a general matter, this conflict is mitigated by provisions requiring Värde (in its capacity as general partner) to invest at least 1% in each Private Fund, as well as restrictions on the distribution of any incentive compensation relating to the "closed-end" Private Funds until after the return of all principal to investors and payment to them of any preferred return. This conflict is further mitigated by Värde's suitability obligation with respect to Private Fund investments and its disciplined investment process.

Different Private Funds have different incentive compensation arrangements. For example, the incentive compensation for the hedge funds is generally payable annually, while the incentive compensation for the closed-end funds is generally paid only after investors have received distributions equal to their invested capital and a preferred return. This may create a potential conflict of interest relating to the allocation of investment opportunities and the time and attention of Värde personnel to the extent Värde (in its capacity as general partner) can collect the incentive compensation sooner (or collect higher incentive compensation) from one Private Fund than it can from the others. Värde believes that this conflict is mitigated by its investment allocation procedures (as described in Item 12 below) and its disciplined investment process.



## Item 7 – Types of Clients

Värde's only clients are the Private Funds (i.e., there are presently no direct advisory clients other than the Private Funds). Investors in the Private Funds include various global institutional investors (e.g., trusts, endowments, foundations, pensions, corporations and other types of entities, including private funds-of-funds) as well as high net worth individuals that, in each case, meet the regulatory and other requirements under which the Private Fund operates and desire to invest in accordance with the Private Funds' investment objectives.

Interests in the Private Funds are offered in private placements under the U.S. Securities Act of 1933 (as amended, the "Securities Act"). As a result, Värde generally offers limited partner (or equivalent) interests in the Private Funds to a limited number of "accredited investors" as defined in Regulation D under the Securities Act, and exclusively to "qualified purchasers" as defined in Section 2(a)(51) of the U.S. Investment Company Act of 1940 (as amended, the "1940 Act") due to the Private Funds' exempt status from registration as investment companies. Employees who qualify as "knowledgeable employees" under Rule 3c-5 of the 1940 Act are also permitted to invest (directly or indirectly) in the Private Funds. Investors and prospective investors in each Private Fund should refer to the Offering Documents of such Private Fund for complete information on minimum investment requirements for participation in such Private Fund.

In connection with the formation and management of a Private Fund, Värde may form certain related entities for such Private Fund. Värde may establish vehicles to address tax, legal or regulatory issues or requirements of certain investors in such Private Fund or for other purposes. Värde may also form "parallel funds" to invest alongside a Private Fund. In addition, Värde may form "alternative investment vehicles," holding companies or other special purpose vehicles for the purpose of facilitating certain investments by one or more Private Funds. Please refer to the Offering Documents of the applicable Private Fund for complete details regarding entities that Värde may form in connection with the formation and management of such Private Fund.

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

Värde’s investing activities are guided by the following investment principles:

- Search for undervalued investment opportunities or inefficient markets;
- Invest in financial assets at a discount to their “intrinsic value;”
- Identify catalysts for value recognition; and
- Manage risk through diversified investment programs and trading strategies.

A key tenet of Värde’s strategy is a flexible investment approach – investing and allocating capital and resources across multiple segments and markets. The Firm’s approach involves the Principals moving capital and resources as market dynamics change. Värde focuses on seeking to anticipate such market shifts to more effectively pursue investment opportunities. The Firm has consistently sought to identify undervalued and inefficient markets, determine the resources and strategies necessary to invest in such markets and execute the strategies required to capture the opportunities.

### ***Significant Investment Strategies***

Details regarding the investment and liquidity profile pursued by each Private Fund, as well as additional information regarding Värde’s investment strategies and activities, is set forth in the Offering Documents related to each Private Fund. Subject to the specifics of those Offering Documents, Värde’s significant global investment strategies encompass investments across the liquidity spectrum in the following segments.

- *Corporate Assets & Sovereign Debt:* This segment is comprised of investments in debt and equity instruments issued by corporate entities as well as government issued debt.
- *Residential Mortgages:* This segment is comprised of investments in residential real estate mortgages, either directly or indirectly via securities that are backed by underlying residential real estate assets. This segment also includes direct investments in companies that originate and/or service residential mortgages.
- *Real Estate:* This segment is comprised of investments that arise from lending to commercial entities that develop or manage real property assets, investments in loans and securities that are secured by commercial real estate assets and direct investments in real estate assets or companies that are involved in developing property or originating commercial real estate loans.
- *Transportation, Infrastructure and Logistics:* This segment is comprised of investments in transportation, infrastructure and energy assets, including loans

secured by assets associated with the transportation, infrastructure and energy sectors as well as direct investments in companies that operate in those sectors.

- *Specialty Finance:* This segment is comprised of investments in assets related to a range of smaller balance commercial and consumer credits, including credit cards, auto loans and small business loans as well as direct investments in companies that originate and/or service those credits.

### ***General Methods of Analysis***

Värde invests across a broad spectrum of the global markets, and therefore individual investment opportunities will require varying levels of review and customized processes depending upon the markets and participants involved. Värde performs extensive quantitative and qualitative fundamental research to determine the suitability of a particular investment on both its own merits as well as its “fit” in terms of industry or macro theme. In typical situations, a detailed financial model for use in assessing valuation is developed. In conjunction with the financial model, investment professionals generally perform an analysis of comparable valuations in the liquid and illiquid markets, a discounted cash flow analysis, a reorganization analysis and/or liquidation analysis, and an analysis of potential returns for the investment as well as other types of financial analyses in each case as warranted. At the completion of a favorable due diligence process, Värde identifies the price range at which to pursue the investment opportunity.

### ***Material Risks***

The material risks presented by the strategies and financial assets pursued by Värde are set forth below. Additional information is contained in the Offering Documents related to each Private Fund. This Brochure does not purport to contain a complete disclosure of all risks that may be relevant to a prospective investor in a Private Fund.

Investing involves risk of loss that an investor should be prepared to bear. Investments by Värde involve significant risks. There can be no assurance that Värde will meet the investment objectives of any particular Private Fund or otherwise be able to carry out its investment strategy successfully.

Changes and Fluctuations in Financial Markets: The Private Funds may be materially affected by conditions in the financial markets and economic conditions throughout the world. These factors are outside Värde’s control and may adversely affect the liquidity and value of the Private Funds’ investments, and Värde may fail to, or may not be able to, manage their exposure to these conditions. In these circumstances, the financial performance of the Private Funds may be negatively impacted and investors may incur material losses. In addition, a negative impact on economic fundamentals and consumer and business confidence would likely increase market volatility and reduce liquidity, both of which could have a material adverse effect on the performance of the Private Funds and these or similar events may affect the ability of Värde to execute its investment strategies.

In recent years, the financial markets in the U.S., Europe and other international markets have experienced historic levels of stress and dislocation. This market turbulence, as well as

decreased lending and overall economic weakness, adversely impacted households as well as corporate debt-laden balance sheets. The response by world governments, central banks and other policy makers to financial crisis situations may adversely affect Värde's ability to effectively execute its investment strategy. The unprecedented intervention by governments and their agencies may effectively negate the ability of private sector investors to pursue investment opportunities in certain markets. Similarly, this intervention may create artificial market prices or result in other unanticipated consequences that could adversely affect the performance of the Private Funds.

Highly Volatile Markets: The prices of financial instruments in which the Private Funds may invest can be highly volatile. The price of equity, debt and other instruments that Värde may pursue are influenced by numerous factors including interest rates, currency rates, default rates, governmental policies and political and economic events (both domestic and global). Moreover, political or economic crises, or other events may occur that can be highly disruptive to the markets in which Värde may invest. In addition, governments from time-to-time intervene (directly and by regulation), which intervention may adversely affect the performance of the Private Funds and Värde's investment activities. The Private Funds are also subject to the risk of a temporary or permanent failure of the exchanges and other markets on which their investments may trade. Sustained market turmoil and periods of heightened market volatility may make it more difficult to produce positive trading results, and there can be no assurance that Värde's strategies will be successful in such markets.

Changes to the Regulatory Framework: Many of the investments and investment strategies employed by Värde are subject to numerous laws and regulations in many jurisdictions. Material changes to, or interpretations of, such laws and regulations could have a material adverse effect on the financial performance of the Private Funds and undermine Värde's ability to execute its investment strategy.

Execution Risks: In order to seek positive returns in global markets, Värde's trading and investment activities for the Private Funds involve multiple instruments, multiple brokers and counterparties, and multiple strategies. As a result, the execution of the trading and investment strategies employed by Värde may often require rapid execution of investments, complex transactions, difficult to execute trades, use of negotiated terms with counterparties such as in the use of derivatives, and the execution of trades involving less common or novel instruments. In each case, Värde seeks best execution and has trained execution and operational staff devoted to executing, settling and clearing investments. However, in light of the volumes, velocity, complexity and global diversity involved, some errors and miscommunications with brokers and counterparties may occur and could result in losses to the Private Funds. In these circumstances, Värde will evaluate the merits of potential claims for damage against brokers and counterparties who may be at fault and, to the extent practicable, will seek to recover losses from those parties. In its sole discretion, Värde may choose to forego pursuing claims against brokers and counterparties on behalf of the Private Funds for any reason, including, but not limited to, the cost of pursuing claims relative to the likely amount of any recovery and the maintenance of its business relationships with brokers and counterparties. In addition, Värde's own execution and

operational staff may be solely or partly responsible for errors in placing, processing, and settling trades that result in losses to the Private Funds.

Market Disruptions: The Private Funds may incur losses in the event of market disruptions and other extraordinary events in which historical pricing relationships (on which Värde bases a number of its trading positions) become materially distorted. The risk of loss from pricing distortions is compounded by the fact that in disrupted markets many positions become illiquid, making it difficult or impossible to close out positions against which the markets are moving. The availability of credit is typically reduced during market disruptions. Market disruptions caused by unexpected political, military or terrorist events may from time to time cause dramatic losses for the Private Funds and such events can result in otherwise historically low-risk strategies performing with unprecedented volatility and risk.

Distressed Debt Generally: Investments in distressed debt are subject to the significant risk of a borrower's inability to meet principal and interest payments on the obligations (credit risk) and also may be subject to price volatility due to such factors as interest rate sensitivity, market perception of the creditworthiness of the borrower and general market liquidity (market risk). Distressed debt may react to developments affecting market and credit risk more than non-distressed debt. A wide variety of other considerations exist, including, for example, the possibility of litigation between the participants in a reorganization or liquidation proceeding or a requirement to obtain mandatory or discretionary consents from various governmental authorities or others. The uncertainties inherent in evaluating distressed debt may be increased by legal and practical considerations that limit the access of Värde to reliable and timely information concerning material developments affecting a company, or that cause lengthy delays in the completion of the liquidation or reorganization proceedings. The level of analytical sophistication, both financial and legal, necessary for successful investment in companies experiencing significant business and financial distress is unusually high. There is no assurance that Värde will correctly evaluate the nature and magnitude of the various factors that could affect the prospects for a successful reorganization or similar action. In any reorganization or liquidation proceeding relating to a company in which a Private Fund invests, the Private Fund may lose its entire investment or may be required to accept cash or securities with a value less than the its original investment.

Commercial, Residential and Bank Loans: Värde will pursue investments in commercial real estate loans, residential mortgages, consumer loans, bank loans and participations. These loans may be at the time of acquisition, or may become after acquisition, nonperforming for various reasons. With respect to collateralized loans, the underlying asset may be too highly leveraged, poorly managed or substantially in need of rehabilitation. Nonperforming and sub-performing loans may require a substantial amount of workout negotiations or restructuring, which may entail, among other things, a substantial reduction in the interest rate and a substantial write-down of the principal of the loan. Finally, there is unlikely to be a liquid secondary market for these types of investments. Consequently, Värde may not be able to dispose of these investments at prices that reflect their value or the amount paid for them by Värde.

It is possible that Värde may find it necessary or desirable to foreclose on collateral securing one or more loans purchased by a Private Fund. The foreclosure process can be lengthy and

expensive. Borrowers often resist foreclosure actions by asserting numerous claims, counterclaims and defenses against the holder of a loan including, without limitation, lender-liability claims and defenses, even when such assertions may have no basis in fact, in an effort to prolong the foreclosure action. In some jurisdictions, foreclosure actions can take up to several years or more to conclude. At any time during the foreclosure proceedings, the borrower may file for bankruptcy, staying the foreclosure action and further delaying the foreclosure process. Foreclosure litigation tends to create a negative public image of the collateral and may result in disruptions that could adversely affect the value of the underlying asset.

Risks Associated with Investments related to Bankruptcy Proceedings: There are a number of significant risks when investing in companies involved in bankruptcy proceedings, including the following: (i) many events in a bankruptcy are the product of contested matters, adversary proceedings and negotiated settlements that are beyond the control of individual creditors; (ii) a bankruptcy filing may have adverse and permanent effects on a company (e.g., the company may lose its market position and key employees and otherwise become incapable of restoring itself as a viable entity); (iii) if the proceeding is converted to liquidation, the liquidation value of the company may not equal the liquidation value that was believed to exist at the time of the investment; (iv) the duration of a bankruptcy proceeding is difficult to predict and a creditor's return on investments can be adversely impacted by delays while the plan of reorganization is being negotiated, approved by the creditors and confirmed by the bankruptcy court, and until it ultimately becomes effective; (v) the administrative costs in connection with a bankruptcy proceeding are frequently high and will be paid out of the debtor's estate prior to any return to creditors; (vi) creditors can lose their ranking and priority if they exercise "domination and control" over a debtor and other creditors can demonstrate that they have been harmed by such actions, especially in the case of investments made prior to the commencement of bankruptcy proceedings; (vii) the Private Funds may purchase creditor claims subsequent to the commencement of a bankruptcy case, which may be disallowed by the bankruptcy court; (viii) bankruptcy law permits the classification of "substantially similar" claims in determining the classification of claims in a reorganization; (ix) in the early stages of the bankruptcy proceeding, it is often difficult to estimate the extent of, or even to identify, any contingent claims that may be made; (x) certain claims, such as claims for taxes, may have administrative priority by law over the claims of certain creditors; (xi) if Värde seeks representation on creditors' committees, it may owe certain obligations generally to all creditors similarly situated that the committee represents, and it may be subject to various trading or confidentiality restrictions (and since each Private Fund will indemnify any person serving on a committee on its behalf for claims arising from breaches of those obligations, indemnification payments could adversely affect the return on such Private Fund's investment in a reorganization); (xii) litigation (including related discovery requests) can ensue among parties-in-interest to a bankruptcy (which proceedings can be expensive and their outcomes (including the loss of claims and/or priority) are inherently unpredictable); and (xiii) involvement on a creditors' committee or other significant involvement in a bankruptcy proceeding may expose the Private Funds to material non-public information, which would restrict the Private Funds' trading activities.

Contingent Liabilities: In connection with executing an investment, a Private Fund may assume, or acquire, a financial asset subject to contingent liabilities. These liabilities may be material and may include liabilities associated with pending litigation, regulatory investigations or

environmental actions, among other things. To the extent these liabilities are realized, they may materially and adversely affect the value of a financial asset. In addition, if a Private Fund has assumed or guaranteed these liabilities, the obligation would be payable from the assets of such Private Fund. In connection with the disposition or financing of an investment, a Private Fund may be required to make representations about the investment, be responsible for the contents of disclosure documents or otherwise make certain guarantees. A Private Fund may also be required to indemnify the purchasers of such investment or underwriters to the extent that any such representations or disclosure documents are inaccurate or with respect to certain potential liabilities or other obligations. These arrangements may result in the incurrence of accrued expenses, liabilities or contingencies for which reserves or escrow accounts may be established.

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

**Investments in Asset-Backed Securities:** The Private Funds may invest in a variety of types of asset-backed securities (“ABS”), including residential mortgage-backed securities (“RMBS”), commercial mortgage-backed securities and collateralized debt obligations. The Private Funds may invest in any tranche of an ABS, including unrated tranches. ABS are primarily exposed to the performance and credit risk of the underlying collateral. At times, there may not be a liquid secondary market for many of the ABS the Private Funds may purchase. The lack of a liquid secondary market may have an adverse effect on the market value of the related ABS and Värde’s ability to sell them. Further, ABS may be subject to certain transfer restrictions that may further restrict liquidity.

Värde engages in certain activist efforts with respect to one or more ABS held by the Private Funds and will likely continue to do so going forward. These efforts include enforcing contractual rights against certain parties to the ABS, which may result in legal proceedings being brought against these parties. In addition, securitization trustees generally require indemnifications to be provided by activist ABS holders, which could increase potential liability to the Private Funds. There is no assurance as to the amount or timing of any benefits to the Private Funds that could result from these activist efforts.

**Risks Relating to Investments in RMBS and Residential Mortgage Loans:** The Private Funds may invest in RMBS as well as pools of residential mortgage loans. Holders of these assets bear various risks, including credit, market, interest rate, structural and legal risks. RMBS represent interests in pools of residential mortgage loans secured by residential properties. 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 and the securities issued in such securitization may be guaranteed or

credit enhanced. The rate of defaults and losses on residential mortgage loans will be affected by a number of factors, including general economic conditions and those in the area where the related mortgaged property is located, the borrower's equity in the mortgaged property and the financial circumstances of the borrower. 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.

At any one time, a portfolio of RMBS may be backed by, or a pool of residential loans may be comprised of, residential mortgage loans with disproportionately large aggregate principal amounts secured by properties in only a few states or regions. As a result, the residential mortgage loans may be more susceptible to geographic risks relating to such areas (such as adverse economic conditions, adverse events affecting industries located in such areas and natural hazards affecting such areas), than would be the case for a pool of mortgage loans having more diverse property locations. In addition, the residential mortgage loans may include so-called "Jumbo" mortgage loans, having original principal balances that are higher than is generally the case for residential mortgage loans. As a result, such portfolio may experience increased losses.

Certain underlying residential mortgage loans may have a balloon payment due on its maturity date. Balloon residential mortgage loans involve a greater risk to a lender than self-amortizing loans, because the ability of a borrower to pay such amount will normally depend on its ability to obtain refinancing of the related mortgage loan or sell the related mortgaged property at a price sufficient to permit the borrower to make the balloon payment. A number of factors prevailing at the time such refinancing or sale is required, including, without limitation, the strength of the residential real estate markets, tax laws, the financial situation and operating history of the underlying property, interest rates and general economic conditions. If the borrower is unable to make such balloon payment, the related issue of RMBS or residential mortgage pool may experience losses.

Prepayments on the underlying residential mortgage loans will be influenced by the prepayment provisions of the related mortgage notes and may also be affected by a variety of economic, geographic and other factors, including the difference between the interest rates on the underlying residential mortgage loans (giving consideration to the cost of refinancing) and prevailing mortgage rates and the availability of refinancing. In general, if prevailing interest rates fall significantly below the interest rates on the related residential mortgage loans, the rate of prepayment on the underlying residential mortgage loans would be expected to increase. Conversely, if prevailing interest rates rise to a level significantly above the interest rates on the related mortgages, the rate of prepayment would be expected to decrease. Prepayments could reduce the yield received on the related issue of RMBS or residential mortgage pool.

Structural and Legal Risks of RMBS and Residential Mortgage Loans: Residential mortgage loans may be subject to various federal and state laws, public policies and principles of equity that protect consumers, which among other things may regulate interest rates and other charges, require certain disclosures, require licensing of originators, servicers and/or debt buyers, prohibit discriminatory lending practices, regulate the use of consumer credit information and regulate



debt collection practices. Violation of certain provisions of these laws, public policies and principles may limit the servicer's or owner's ability to collect all or part of the principal of or interest on a residential mortgage loan, entitle the borrower to a refund of amounts previously paid by it, or subject the servicer or owner to damages and sanctions. Any such violation could also result in cash flow delays and losses on the related issue of RMBS.

RMBS may have structural characteristics that distinguish them from other ABS. The rate of interest payable on RMBS may be set or effectively capped at the weighted average net coupon of the underlying mortgage loans. As a result of this cap, the return to investors is dependent on the relative timing and rate of delinquencies and prepayments of mortgage loans bearing a higher rate of interest. In general, early prepayments will have a greater impact on the yield to investors. Federal and state law may also affect the return to investors by capping the interest rates payable by certain mortgagors. The Servicemembers Civil Relief Act of 2003 provides relief for soldiers and members of the reserve called to active duty by capping the interest rates on their mortgage loans at 6% per annum. Certain RMBS may provide for the payment of only interest for a stated period of time.

In addition, structural and legal risks of RMBS include the possibility that, in a bankruptcy or similar proceeding involving the originator or the servicer (often the same entity or affiliates), the assets of the issuer could be treated as never having been truly sold by the originator to the issuer and could be substantively consolidated with those of the originator, or the transfer of such assets to the issuer could be voided as a fraudulent transfer. Challenges based on such doctrines could also result in cash flow delays and losses on the related issue of RMBS.

It is not expected that the RMBS will be guaranteed or insured by any governmental agency or instrumentality or by any other person, although the Private Funds may be permitted to invest in direct obligations of, or that are fully guaranteed as to principal and interest by, the United States or certain instrumentalities thereof. Distributions on RMBS and residential mortgage pools will depend solely upon the amount and timing of payments and other collections on the related underlying mortgage loans.

Investments in Land/New Development: The Private Funds may acquire direct or indirect interests in undeveloped land or underdeveloped real property, which may often be non-income producing. To the extent that the Private Funds invest in these types of assets, they will be subject to the risks normally associated with such assets and development activities. Relevant risks include, without limitation, risks relating to the availability and timely receipt of zoning and other regulatory approvals, the cost and timely completion of construction (including risks beyond the control of Värde, such as weather or labor conditions or material shortages) and the availability of both construction and permanent financing on favorable terms. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have an adverse effect on the Private Funds. Properties under development or properties acquired for development may generate little or no cash flow from the date of acquisition through the date of completion of development and may experience operating deficits after the date of completion. In addition, changing market conditions during the course of development may make such development less attractive than at the time it was commenced.

Commercial Assets: Investments may be made in various transactions secured by commercial assets in the transportation (primarily shipping and aviation), energy, manufacturing, construction and technology sectors. Investments in these sectors may be in the form of loans, leases, securities, participations or other structured arrangements (including capital investments directly secured by commercial assets).

Investment opportunities in these sectors present unique risks because of the considerable cyclicity of the related industries and the shifting supply of and demand for the underlying operating assets. In addition, there is often no liquid, secondary market for these types of investments. Consequently, Värde may not be able to dispose of these investments at prices that reflect their value or the amount paid by Värde for them.

Investments in Equity Securities Generally: Investments may include preferred or common stocks, warrants or similar equity securities. These equity investments may be purchased directly by the Private Funds or received in complete or partial exchange of a debt investment that was restructured through a bankruptcy or otherwise. Any investments in equity securities will be subject to normal market risks, including limited liquidity and price volatility. While diversification among issuers may mitigate these risks, the Private Funds are generally not required to diversify their investments in equity securities; and investors must expect fluctuations in value of equity securities based on market conditions. In addition, holders of equity securities may be wiped out or their holdings may be substantially reduced in value in a bankruptcy proceeding or corporate restructuring.

Investments in Less Established Companies: The Private Funds may invest in the securities of less established companies, or early stage companies. Investments in early stage companies may involve greater risks than those generally associated with investments in more established companies. For instance, less established companies tend to have smaller capitalizations and fewer resources and, therefore, are often more vulnerable to financial failure. Such companies also may have shorter operating histories on which to judge future performance and in many cases, if operating, will have negative cash flow. In the case of start-up enterprises, such companies may not have significant or any operating revenues. In addition, less mature companies could be more susceptible to irregular accounting or other fraudulent practices. Such companies may have relatively limited product lines, markets, and financial and other resources. As a result, such companies may be more vulnerable to general economic trends and to specific changes in markets and technology. In addition, future growth may be dependent on additional financing, which may not be available on acceptable terms when required. Furthermore, to the extent there is any public market for the securities held by the Private Funds, securities of less established companies may be subject to more abrupt and erratic market price movements than those of larger, more established companies.

Some of the portfolio investments that may be made by the Private Funds should be considered highly speculative and may result in the loss of the Private Funds' entire investment therein. There can be no assurance that any such losses will be offset by gains (if any) realized on the Private Funds' other investments.

Investments in Public Companies: The Private Funds may invest in public companies or take private companies public. Investments in public companies may subject the Private Funds to risks that differ in type or degree from those involved with investments in privately held companies. Such risks include, without limitation, movements in the stock market and trends in the overall economy, greater volatility in the valuation of such companies, increased obligations to disclose information regarding such companies, limitations on the ability of the Private Funds to dispose of such securities at certain times (including due to the possession by the Private Funds of material, non-public information), increased likelihood of shareholder litigation against such companies' board members, which may include Värde personnel, regulatory actions and increased costs associated with each of the aforementioned risks.

Short Selling Activities: Värde may also engage in short selling. Short selling involves selling securities that may or may not be owned and borrowing the same securities for delivery to the purchaser, with an obligation to replace the borrowed securities at a later date. Similar strategies may be pursued synthetically through credit default swaps. Short selling allows an investor to profit from declines in market prices to the extent such decline exceeds the transaction costs and the costs of borrowing the securities. A short sale creates the risk of a theoretically unlimited loss, in that the price of the underlying security could theoretically increase without limit, thus increasing the cost of buying those securities to cover the short position. Purchasing securities to close out the short position can itself cause the price of the securities to rise further, thereby exacerbating the loss.

In addition, certain limitations that have been implemented by regulators in various other jurisdictions on the short selling of securities could interfere with the ability of the Private Funds to execute certain aspects of their investment strategies, including their ability to hedge certain exposures and execute transactions to implement their risk management guidelines, and any such limitations may adversely affect the performance of a Private Fund.

Illiquid Investments: Certain investments may be subject to legal or other restrictions on transfer and there may be no liquid market for these investments. This means that the Private Funds may be unable to sell such investments when desired or to realize their previously anticipated fair value when sold. The sale of illiquid assets often requires more time and results in higher selling expenses than does the sale of more liquid assets. In addition, certain illiquid investments may be held by more than one Private Fund, and certain conflicts may emerge in connection with the management and disposition of illiquid investments if those Private Funds have different terms or objectives. A potential exists for investments that cannot be liquidated within the term of the Private Fund to be distributed in-kind to the investors upon the dissolution of the Private Fund. Calculating the fair market value of illiquid investments can be especially difficult.

While both liquid and illiquid investments may be affected by Värde's acquisition of confidential or material, non-public information, illiquid investments create a heightened risk that Värde may acquire such information and may be restricted from initiating transactions in certain securities or selling certain investments at a time when an investment-related action would otherwise have been taken.

Lower Credit Quality Instruments: There are generally no restrictions on the credit quality of the investments that can be purchased by the Private Funds. Instruments in which the Private Funds may invest may be deemed by rating agencies to have substantial vulnerability to default in payment of interest and/or principal. Other instruments may be unrated. Instruments rated below investment grade and those that are unrated are typically subject to adverse changes in general economic conditions, to changes in the financial condition of their issuers and to price fluctuation in response to changes in interest rates. During periods of economic downturn or rising interest rates, issuers of instruments rated below investment grade and those that are unrated may experience financial stress that could adversely affect their ability to make payments of principal and interest and increase the possibility of default. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may also decrease the values and liquidity of lower or unrated instruments especially in a market characterized by a low volume of trading. In addition, the secondary market for lower or unrated instruments may not be as liquid as the secondary market for more highly rated instruments. As a result, the Private Funds could find it more difficult to sell these instruments or may be able to sell them only at prices lower than if they were more widely traded.

In general, the ratings of nationally recognized rating organizations represent the opinions of these agencies as to the quality of instruments that they rate. Ratings, however, are relative and subjective; they are not absolute standards of quality and do not evaluate the market value risk of the instruments. It is also possible that a rating agency might not change its rating of a particular issue on a timely basis to reflect subsequent events.

Non-U.S. Investments: Investing outside the U.S. may involve greater risks than investing in the U.S. There is generally less publicly available information about non-U.S. companies, and there may be less government regulation and supervision of non-U.S. companies and investments. There may also be difficulty in enforcing legal rights outside the U.S. Moreover, non-U.S. companies generally are not subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those that apply to U.S. companies. Security trading practices abroad may offer less protection to investors than those in the U.S.

Additionally, in some non-U.S. countries, there is the possibility of expropriation or confiscatory taxation, limitations on the removal of securities, property or other assets of a Private Fund, political or social instability or diplomatic developments, each of which could have an adverse effect on a Private Fund's investments in non-U.S. countries. Additional risks include: (i) the imposition or modification of foreign exchange controls; (ii) the unpredictability of international trade patterns; (iii) the possible imposition of non-U.S. taxes on income and gains recognized with respect to such non-U.S. investments; (iv) different bankruptcy laws and customs; and (v) less developed corporate laws regarding, among other things, fiduciary duties and the protection of investors. While Värde will seek to take these factors into consideration in making investment decisions, no assurance can be given that Värde will be able to successfully minimize these risks.

In addition, the Private Funds may invest in developing countries or in countries with new or developing capital markets. The considerations noted above are generally intensified for these investments. Certain of these countries may have relatively unstable governments, limited economies and nascent industries and not well developed capital markets. Securities and

obligations of entities located in these countries tend to have volatile prices and may offer significant potential for loss.

Finally, the value of a Private Fund's investments in non-U.S. securities may be significantly affected by changes in currency exchange rates. Some non-U.S. currency values may be volatile, and there is the possibility of governmental controls on currency exchange or governmental intervention in currency markets, which would adversely affect a Private Fund. Although Värde may attempt to hedge against non-U.S. currency exchange rate risks through various instruments, there can be no assurance that Värde will be able to do so successfully.

Sovereign and Governmental Debt: Certain of the Private Funds invest in debt issued by governmental entities, including obligations issued or guaranteed by national, state or provincial governments, political subdivisions or quasigovernmental or supranational entities. Investments in the debt of governments can involve a high degree of risk. The governmental or sovereign issuer that controls the repayment of debt may not be able or willing to repay the principal and/or interest when due in accordance with the terms of such debt. An issuer's willingness or ability to repay the principal and interest due in a timely manner may be affected by, among other factors, its cash flow situation, the extent of its foreign reserves, the availability of sufficient foreign exchange on the date a payment is due, the relative size of the debt service burden to the economy as a whole and the political constraints to which the governmental entity may be subject. Governmental entities also may be dependent on expected disbursements from other governments, multilateral agencies and others abroad to reduce the principal and interest due on their debt. Sovereign states have also increasingly intervened in the markets for their debt for a variety of economic and/or political reasons. Certain governmental and sovereign debt may have non-investment grade ratings or be in distress or even default. Synthetic and derivative investments that provide synthetic exposure to sovereign and governmental debt may expose the Private Funds to additional risks and volatility.

Capital Structure Arbitrage and Spread Trading: The Private Funds may seek to exploit trading inefficiencies through spread or capital structure arbitrage trades. Spread trading generally involves the purchase of a relatively undervalued security and the simultaneous short sale of a relatively overvalued security. For example, a non-investment grade bond is purchased at a discount to its face value and the underlying common or preferred stock is sold short. In certain cases, the Private Funds may purchase a fixed-income security and sell short another fixed income security within the same issuer's capital structure or may hedge the exposure by shorting sovereign debt or more broadly based financial indices. The Private Funds may purchase derivative securities, including credit default swaps, in lieu of selling short a fixed income security in situations where its pricing or availability is more advantageous than selling the underlying security. Arbitrage and spread trading is subject to high risk because of the uncertainty of the outcome of the arbitrage or spread situation, which may depend on the outcome of litigation, changes in the terms of a transaction or regulatory developments or actions. If Värde's evaluation of an anticipated outcome of a situation should prove incorrect, the Private Funds could experience substantial losses as a result of a decline in the market value of securities in which the Private Funds hold a long position or an increase in the value of securities in which the Private Funds hold a short position.

Expedited Transactions: Investment analyses and decisions by Värde will often be undertaken on an expedited basis in order to take advantage of investment opportunities. In these circumstances, the information available to Värde at the time of an investment decision may be limited, and Värde may not have access to the detailed information necessary for a full evaluation of the investment opportunity. In addition, Värde may rely upon independent consultants or other third parties in connection with its evaluation of proposed investments. There can be no assurance that these consultants or other third parties will provide accurate information or advice.

Synthetic Investment Strategies: The Private Funds may use customized derivative instruments, such as swap or notional principal contracts and related derivative transactions including, but not limited to, total return swaps, interest rate swaps, credit derivative swaps, the use of forward contracts, put and call options, futures, floors, collars or other similar arrangements and derivative transactions. The Private Funds may be exposed to certain risks should Värde use derivatives as a means to implement synthetically its investment strategies. If the Private Funds enter into a derivative instrument whereby they agree to receive the return of a security or financial instrument or a basket of securities or financial instruments, they will typically contract to receive such returns for a predetermined period of time. During such period, the Private Funds may not have the ability to increase or decrease their exposure. In addition, such customized derivative instruments are expected to be highly illiquid and it is possible that the Private Funds will not be able to terminate such derivative instruments prior to their expiration date or that the penalties associated with such a termination might impact the Private Funds' performance in a material adverse manner. Many of the protections afforded to participants on organized exchanges and in a regulated environment may not be available in connection with these transactions. The swap markets with respect to non-cleared swaps are "principals' markets", in which performance with respect to a swap contract is the responsibility only of the counterparty to the contract, and not of any exchange or clearinghouse. As a result, the Private Funds will be subject to the risk of the inability or refusal to perform with respect to non-cleared swap contracts on the part of the counterparties with whom the Private Funds will trade. If the Private Funds seek to participate through the use of such synthetic derivative instruments, the Private Funds will not acquire any voting interests or other shareholder rights that might be acquired with a direct investment in the underlying securities or financial instruments. Accordingly, the Private Funds would not participate in matters submitted to a vote of the underlying holders. In addition, the Private Funds may not receive all of the information and reports that the Private Funds would receive with a direct investment. Further, the Private Funds may pay the counterparty to any such customized derivative instrument structuring fees and ongoing transaction fees, which would reduce the investment performance of the Private Funds. Finally, certain aspects of the appropriate U.S. federal income tax treatment of such customized derivative instruments are uncertain and, if a Private Fund's U.S. federal income tax treatment of such instruments proves to be inappropriate, the Private Fund's return may be adversely affected.

Use of Leverage: The Private Funds may lever their assets through various types of financings and through various securitization vehicles and repos. The Private Funds may also leverage their assets with repos, options, short sales, swaps, forwards and other derivative instruments.

While leverage presents opportunities for increasing the Private Funds' total return, it has the effect of potentially increasing losses as well. Accordingly, any event that adversely affects the value of an investment by the Private Funds would be magnified to the extent the Private Funds are leveraged. The cumulative effect of the use of leverage by the Private Funds in a market that moves adversely to the Private Funds' investments could result in a substantial loss to the Private Funds, which would be greater than if the Private Funds were not leveraged. Leverage will increase the exposure of the Private Funds to adverse economic factors such as significantly rising interest rates, severe economic downturns or deterioration in the condition of the Private Funds' investments or their corresponding markets.

Bank Loans, Participations and Assignments: The Private Funds' investment program may include investments in significant amounts of bank loans and participations. These obligations are subject to unique risks, including: (i) the possible invalidation of an investment transaction as a fraudulent conveyance under relevant creditors' rights laws; (ii) the possible invalidation of liens; (iii) so-called lender-liability claims by the issuer or creditors of the obligations; (iv) adverse consequences resulting from participating in such instruments with other institutions with lower credit quality; (v) environmental liabilities that may arise with respect to collateral securing the obligations; (vi) limitations on the ability of the Private Fund to directly enforce its rights with respect to participations; and (vii) generation of income that is subject to U.S. federal income taxation. Successful claims by third parties arising from these and other risks will be borne by the Private Funds. In analyzing each bank loan or participation, Värde compares the relative significance of the risks against the expected benefits of the investment.

In the event of the insolvency of the selling institution, the Private Funds, by owning a participation interest, may be treated as a general unsecured creditor of the selling institution and may not benefit from any set off between the selling institution and the borrower. In addition, the Private Funds may purchase a participation interest from a selling institution that does not itself retain any portion of the applicable loan and, therefore, may have limited interest in monitoring the terms of the loan agreement and the continuing creditworthiness of the borrower. When the Private Funds hold a participation interest in a loan, they will not have the right to vote under the applicable loan agreement with respect to every matter that arises thereunder and it is expected that each selling institution will reserve the right to administer the loan sold by it as it sees fit and to amend the documentation evidencing such loan in all respects. Selling institutions voting in connection with such matters may have interests different from those of the Private Funds and may fail to consider the interests of the Private Funds in connection with their votes.

The purchaser of an assignment of an interest in a loan typically succeeds to all the rights and obligations of the selling institution and becomes a lender under the loan agreement with respect to such loan. As a purchaser of an assignment, the Private Funds generally will have the same voting rights as other lenders under the applicable loan agreement, including the right to vote to waive enforcement of breaches of covenants or to enforce compliance by the borrower with the terms of the loan agreement and the right to set off claims against the borrower and to have recourse to collateral supporting the loan. Assignments are, however, arranged through private negotiations between assignees and assignors and, in certain cases, the rights and obligations acquired by the purchaser of an assignment may differ from, and be more limited than, those held by the assigning selling institution.

Assignments and participations are generally sold without recourse to the selling institutions and the selling institutions will generally make no representations or warranties about the underlying loan, the borrowers, the documentation of the loans, or any collateral securing the loans. In addition, the Private Funds will be bound by provisions of the underlying loan agreements, if any, that require the preservation of the confidentiality of information provided by the borrower. Because of certain terms in a loan agreement including lender eligibility requirements and confidentiality provisions, the unique and customized nature of the loan agreement and the private syndication of the loan, loans are not purchased or sold as easily as are publicly-traded securities.

Litigation: Värde's investment activities subject it to the risk of becoming involved in litigation with third parties. This risk is somewhat greater in connection with reorganizations, restructurings, foreclosures and other activist efforts, which can be contentious and adversarial. It is by no means unusual for participants to use the threat of, as well as actual, litigation as a negotiating technique. Värde anticipates that during the term of a Private Fund, Värde and the Private Funds may be named as defendants in civil proceedings. In addition, Värde and the Private Funds may pursue litigation against third parties, including other financial institutions. Pursuing these legal proceedings may not prove successful and could negatively impact broader relationships with these institutions. The expense of defending or pursuing these claims and paying any amounts pursuant to settlements or judgments would generally be borne by the respective Private Fund. Värde and others are entitled to be indemnified by the related Private Fund in connection with such litigation, subject to certain conditions.

Asset Valuation: A portion of each Private Fund's investments may not be in readily marketable securities for which prices are available from third parties. Independent quotations for such positions will not necessarily be available, and, where available, will not necessarily provide a reliable indication of current value. For an investment to constitute a liquid asset, there need only be market quotations available from one independent market maker. These quotations will not assure that the investment is as liquid as investments in the secondary market for more traditional investments, such as stocks and bonds. As a result, if Värde is forced to sell such an investment prematurely, it may not be able to realize the potential underlying value of such investment, and, in some cases, may have to sell such investment at a loss. Investments that do not constitute liquid assets will generally be reflected at fair value as determined in good faith by Värde in accordance with its then current valuation policies and procedures. Investors should be aware that situations involving uncertainties as to the valuation of portfolio positions could have an adverse effect on a Private Fund's net assets if Värde's judgments regarding appropriate valuations should prove incorrect.

There can be no assurance that the value assigned to an investment at a certain time will equal the value that a Private Fund is ultimately able to realize. In the absence of bad faith or manifest error, the value determinations of Värde will be conclusive and binding on all investors in a Private Fund.

For purposes of financial reporting compliant with United States Generally Accepted Accounting Principles ("GAAP"), the Private Funds follow the requirements for valuation set forth in Accounting Standards Codification Topic 820 ("ASC 820"), "Fair Value Measurement" which



defines and establishes a framework for measuring and reporting fair value under GAAP. Additional Financial Accounting Standards Board (“FASB”) Statements and guidance and additional provisions of GAAP that may be adopted in the future may also impose additional, or different, specific requirements as to the valuation of assets and liabilities for purposes of GAAP financial reporting.

Generally, ASC 820 and other accounting rules applicable to investment funds and various assets they invest in are evolving. As a result, Värde is continuously reviewing the application of relevant FASB Statements and guidance to the valuation of the Private Funds’ assets and liabilities. Such changes may adversely affect the Private Funds. For example, the evolution of rules governing the determination of the fair value of assets to the extent such rules become more stringent would tend to increase the cost and/or reduce the availability of third-party determinations of fair value. This may in turn increase the costs associated with selling assets or affect their liquidity due to inability to obtain a third-party determination of fair value.

In certain circumstances, a Private Fund may pay a service provider for valuation, administration or other services relating to the securities held by such Private Fund that may also be held in the portfolio of other Private Funds. These arrangements may present conflicts of interest because in certain circumstances such other Private Funds may receive an indirect benefit in connection with the services provided to the contracting Private Fund that will be bearing the related expense.

Counterparty Risk: When investing on behalf of the Private Funds, Värde is not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. Although Värde seeks to approve and monitor its material counterparties, there is no assurance these efforts will mitigate all counterparty risks.

In connection with their investment activities, the Private Funds will be dependent upon one or more counterparties. For example, in connection with the completion of liquid investments, the Private Funds will generally be dependent upon one or more prime brokers as well as other traders and financial intermediaries. Certain assets of the Private Funds may also be held by one or more prime brokers or custodians. As evidenced by the bankruptcy of Lehman Brothers Holdings Inc., the failure of a prime broker can have a devastating impact on investment vehicles (like the Private Funds). In connection with the completion of illiquid investments, the applicable Private Funds will generally be dependent upon one or more asset managers and financial intermediaries. Typically, these asset managers’ staff specialize in converting the assets and portfolios into cash and may also assist in acquisition and valuation activities. If any counterparty used by the Private Funds becomes insolvent or files for bankruptcy, the Private Funds could suffer losses and their financial performance could be materially and adversely affected. In addition, the insolvency or bankruptcy of any counterparty that is in possession of any assets of the Private Funds (including any prime broker) could undermine the Private Funds’ access to such assets on a temporary or permanent basis and result in a partial or complete loss of the related investments. The failure of a counterparty to fulfill its obligations may have a material adverse effect on the related investment and the overall performance of the Private Funds.

Some of the markets in which the Private Funds may effect transactions are “over-the-counter” or “interdealer” markets. The participants in such markets are typically not subject to the same credit evaluation and regulatory oversight as are members of “exchange-based” markets. This exposes the Private Funds to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, thus causing the Private Funds to suffer a loss. Such “counterparty risk” is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where the Private Funds have concentrated their transactions with a single or small group of counterparties. The Private Funds are not restricted from dealing with any particular counterparty or from concentrating any or all of its transactions with one counterparty. Moreover, the Private Funds may not accurately evaluate the creditworthiness of their counterparties or such evaluation may prove insufficient. The lack of a complete evaluation of the financial capabilities of the Private Funds’ counterparties and the absence of regulated markets to facilitate settlement may increase the potential for losses by the Private Funds.

The Private Funds are subject to the risk of failure of any of the exchanges on which their positions trade or of their clearinghouses. Because securities owned by the Private Funds that are held by broker-dealers are generally not held in a Private Fund’s name, the bankruptcy of any such broker-dealer could have a greater adverse impact on the Private Funds than if such securities were registered in each Private Fund’s name.

In situations where the Private Funds are required to post margin or other collateral with a counterparty, the counterparty may fail to segregate the collateral or may commingle the collateral with the counterparty’s own assets. As a result, in the event of the counterparty’s bankruptcy or insolvency, the Private Funds’ posted collateral may be subject to the conflicting claims of the counterparty’s creditors, and the Private Funds may be exposed to the risk of a court treating the Private Fund as a general unsecured creditor of the counterparty, rather than as the owner of such collateral.

In addition, the Private Funds may use counterparties located in various jurisdictions outside the U.S. Such local counterparties are subject to various laws and regulations in various jurisdictions that are designed to protect their customers in the event of their insolvency. However, the practical effect of these laws and their application to the Private Funds’ assets are subject to substantial limitations and uncertainties. Because of the large number of entities and jurisdictions involved and the range of possible factual scenarios involving the insolvency of a counterparty, it is impossible to generalize about the effect of their insolvency on the Private Funds and their assets. Investors should assume that the insolvency of any counterparty would result in a loss to the Private Funds, which loss could be material.

**Sector Concentration:** The exposure of a Private Fund may be highly concentrated in credit sensitive assets, and the aggregate return of such Private Fund may be substantially adversely affected by the unfavorable performance of the overall relative performance of the credit sector. Concentration in these types of credit sensitive assets may subject the Private Fund to greater volatility than a more diversified portfolio of investments.

Asset Managers: In connection with many of its private investments in certain of the Private Funds, Värde often employs asset managers that specialize in converting certain types of assets and portfolios of assets into cash. These asset managers may also assist in acquisition and valuation activities. If an asset manager breaches its servicing agreement or otherwise fails to perform its responsibilities adequately, the Private Funds may be adversely affected. In addition, given the specialized nature of these service providers, they may be difficult to replace if needed and transfers of servicing may cause a disruption of cash flow on the related investment.

Portfolio Company Management Team: In the case of investments made by Private Funds in portfolio companies or platforms, each such portfolio company's day-to-day operations will be the responsibility of such company's management team. Although Värde will be responsible for monitoring the performance of each investment and intends to invest in companies operated by strong management, there can be no assurance that the existing management team, or any successor management team, will be able to operate the portfolio company in accordance with the Private Funds' plans or expectations.

Misrepresentation, Fraud and Misconduct: Of significant concern in lending and investing is the possibility of material misrepresentation or omission by a counterparty. Such inaccuracy or incompleteness may adversely affect the valuation of the collateral underlying the investment or may adversely affect the ability of a Private Fund to perfect or effectuate a lien on the collateral securing the investment. Private Funds generally rely upon the accuracy and completeness of representations made by counterparties, but cannot guarantee such accuracy or completeness. Under certain circumstances, payments to a Private Fund may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment.

Instances of fraud and other deceptive practices committed by third parties in connection with any financial asset in which a Private Fund invests may undermine Värde's due diligence efforts with respect to such investments, and if such fraud is discovered, negatively affect the valuation of such Private Fund's investments. In addition, when discovered, financial fraud may contribute to overall market volatility, which can negatively impact a Private Fund's investment program. Misconduct by employees of Värde or third-party service providers could cause significant losses to a Private Fund. Employee misconduct may include binding a Private Fund to transactions that exceed authorized limits or present unacceptable risks and unauthorized trading activities or concealing unsuccessful trading activities (which, in either case, may result in unknown and unmanaged risks or losses). Losses could also result from actions by third-party service providers, including, without limitation, failing to recognize trades and misappropriating assets. In addition, employees and third-party service providers may improperly use or disclose confidential information, which could result in litigation or serious financial harm, including limiting a Private Fund's business prospects or future marketing activities. No assurances can be given that the due diligence performed by Värde will identify or prevent any such misconduct.

Third-Party Involvement: Each Private Fund may co-invest with third parties through partnerships, joint ventures or other entities. These investments may involve risks not present in investments where a third party is not involved, including the possibility that a third party co-venturer or partner may at any time have economic or business interests or goals that are

inconsistent with those of a Private Fund, or may be in a position to take action contrary to the investment objectives of the Private Fund. The Private Fund may, in certain circumstances, also be liable for actions of its third party co-venturer or partner. In addition, the Private Fund's ability to exercise control or significant influence in connection with these cooperative arrangements may be limited and will depend on the nature of the relevant documentation.

Värde may offer co-investment opportunities alongside a Private Fund in its sole discretion. Värde is not expected to offer co-investments with respect to all of a Private Fund's investments and may allocate any such opportunities in its sole discretion, including for example, on the basis of the size of investor commitments to Private Funds, vehicles, and other accounts. The allocation of co-investment opportunities may involve a benefit to Värde including, without limitation, fees or carried interest from the co-investment opportunity and capital commitments to other Private Funds. Värde may form committed co-investment vehicles both during and following a Private Fund's fundraising period to participate alongside a Private Fund in investment opportunities that Värde has determined in good faith exceed prudent diversification levels for such Private Fund.

Investors and prospective investors should note that certain common expenses may relate to one or more Private Funds, co-investment opportunities and/or other participating separate accounts (collectively, "Participating Accounts"), including, without limitation, certain legal costs and investment-related expenses. Such common expenses will generally be borne proportionally by the relevant Participating Accounts or otherwise in a manner that is fair and reasonable under the circumstances based on Värde's good faith consideration of relevant factors and in accordance with its contractual and fiduciary obligations.

"Widening" Risk: For reasons not necessarily attributable to any of the risks enumerated above (for example, supply/demand imbalances or other market forces), the prices of the instruments in which the Private Funds invest may decline substantially. In particular, purchasing assets at what may appear to be "undervalued" levels is no guarantee that these assets will not be trading at even more "undervalued" levels at a time of valuation or at the time of sale. It may not be possible to predict, or to hedge against, "spread widening" and/or exogenous market risks.

Lack of Liquidity: The Private Funds may invest in securities and other financial assets that are subject to legal or other restrictions on transfer or for which no liquid market exists. The market prices, if any, for these instruments tend to be volatile and Värde 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 instruments often requires more time and may sell at a price lower than similar instruments that are not subject to restrictions on resale. Because the markets for these instruments are evolving and contain a limited number of participants, their liquidity may be limited.

Prospective investors should be aware of the long-term nature of their investment, particularly with respect to the Värde "closed-end funds." There is not now and will not be a public market for interests in the Private Funds. Interests in the Private Funds may not be assigned, transferred or encumbered without the prior written permission of the general partner of the applicable Private Fund. Accordingly, an investor may not be able to liquidate its investment and must be

prepared to bear the risks of owning its interest for an extended period of time. The inability to transfer interests in the Private Funds may limit the availability of estate planning strategies. The interests will not be registered under the Securities Act or under the various “Blue Sky” or securities laws of the state or jurisdiction of residence of any investor.

Control Position Risk / Board Participation: A Private Fund may make certain investments that allow the Private Fund to acquire control or exercise influence over management and the strategic direction of a company, platform or other investment. The exercise of control over a company or similar portfolio investment imposes additional risks of liability for environmental damage, product defects, pension liabilities, failure to supervise management and other types of liability in which the limited liability characteristic of business operations may be ignored. The exercise of control over a portfolio investment could expose the assets of the Private Fund to claims by third parties.

In addition, a Private Fund may designate directors (and non-executive chairmen) to serve on the boards of directors (or their equivalent) of companies or other legal entities. Although such board positions in certain circumstances may be important to the Private Fund’s investment strategy and may enhance Värde’s ability to manage investments, they may also have the effect of impairing Värde’s ability to sell the related investments when, and upon the terms, it may otherwise desire and may subject Värde and the Private Fund to claims they would not otherwise be subject to as an investor, including claims of breach of duty of loyalty, securities claims and other director-related claims. In general, the Private Fund will indemnify Värde, as well as any persons holding such board positions at the request of the Private Fund and Värde, from such claims.

A Private Fund may also hold non-controlling interests in certain portfolio investments and, therefore, may have a limited ability to protect its position in such portfolio investments. Further, a Private Fund may have no right to appoint a director and a limited ability to protect its interests in such companies and to influence such companies’ management. Although a Private Fund may not have control over these investments and, therefore, may have a limited ability to protect its position therein, such Private Fund generally expects that appropriate minority investor rights will be obtained to protect its interests to the extent possible. There can be no assurance that such minority investor rights will be available, however, or that such rights will provide sufficient protection of the Private Fund’s interests.

Värde Personnel as Directors of Portfolio Companies: Conflicts of interest may arise because Värde personnel may serve as directors of certain of the Private Fund’s portfolio companies or other legal entities in which Private Funds have invested. In those instances where a Private Fund is not the sole shareholder of the applicable portfolio company or other legal entity, in addition to any fiduciary duties the Värde personnel owe to such Private Fund, as directors of portfolio companies or other legal entities, such personnel may owe fiduciary duties to the shareholders of the portfolio companies or other legal entities and to persons other than such Private Fund. In general, such director positions are often important to the Private Funds’ investment strategy and may have the effect of enhancing the ability of the Värde personnel to manage investments. However, such positions may place the Värde personnel in a position where they must make a decision that is either not in the best interests of a Private Fund or not in

the best interests of the shareholders of the portfolio company or other legal entity. Should a member of the Värde personnel make a decision that is not in the best interest of the shareholders of a portfolio company, such decision may subject Värde and the Private Fund to claims that they would not otherwise be subject to as an investor, including claims of breach of the duty of loyalty, securities claims and other director-related claims. In addition, because of the potential conflicting fiduciary duties, Värde may be restricted in choosing investments for a Private Fund, which could negatively impact returns received by the Private Fund.

Broad Investment Charter; Competition: Each of the Private Funds managed by Värde has a broad investment charter, and there are only a few formal constraints on the type of investments in which a Private Fund may invest. There can be no guarantee that Värde will be able to identify a sufficient number of investment opportunities for each Private Fund to enable it to invest fully its capital in opportunities that satisfy such Private Fund's investment objectives, or that such investment opportunities will lead to successful investments by such Private Fund. The activity of identifying, completing and realizing an attractive investment opportunity is highly competitive and involves a high degree of uncertainty. Värde will compete for the acquisition of investments with many other investors, some of which will have greater resources than Värde. Competitors may include other private investment funds as well as individuals, financial institutions and other institutional investors. Additional funds with similar investment objectives may be formed in the future by other unrelated parties. Increased competition for, or a reduction in the available supply of, qualifying investments could result in higher prices for, and thus lower yields on, investments. In addition, the availability of investment opportunities generally will be subject to market conditions as well as, in some cases, the prevailing regulatory or political climate. Moreover, as proceeds from the sale of a Private Fund's initial investments are realized, the proceeds may be reinvested in investments of a kind other than those in which the Private Fund initially invested. Although in the past Värde has been successful in repositioning its investment focus to segments of the market that provided acceptable risk/reward relationships, there can be no assurance that Värde will be able to identify in the future new segments of the market providing returns that meet each Private Fund's objectives or that such markets will exist.

Hedging Transactions: The markets in which the Private Funds invest are subject to fluctuations as well as the market value of any particular investment may be subject to substantial variation. The entire market, or particular financial assets traded on a market, may decline even if earnings or other factors improve because the prices of such assets are subject to numerous economic, political, procedural and other factors that have little or no correlation to the performance of a particular company or asset. The Private Funds may use a variety of financial instruments, such as derivatives, options, interest rate swaps, caps and floors, futures and forward contracts, both for investment purposes and for risk management purposes. When used for hedging purposes, an imperfect or variable degree of correlation between price movements of the derivative instrument and the underlying investment sought to be hedged may prevent the Private Funds from achieving the intended hedging effect or expose the Private Funds to risk of loss. Although the Private Funds may enter into hedging transactions to seek to reduce risk, such transactions may result in a poorer overall performance for the Private Funds than if they had not engaged in any such hedging transaction. Värde may determine not to hedge a position and may not identify all possible risks to hedge. Moreover, the Private Funds' portfolios will always be exposed to certain risks that cannot be hedged.

In connection with a hedging transaction, the Private Funds may be required to allocate funds or provide a credit line to be used as collateral for the margin capital of the hedge. Such a requirement would tie up a portion of the Private Funds' capital that would otherwise have been available for investment. This would cause the Private Funds to be less invested in their core investment strategy than they would have been absent such hedging transaction, and could possibly result in an adverse effect on the overall returns of the Private Funds.

#### Dependence on Key Personnel:

All decisions with respect to the management of a Private Fund and the investments of a Private Fund will be made by the general partner or manager of such Private Fund and/or its affiliates, and thus the investors must rely on the ability of the general partner, manager and/or their affiliates to make appropriate investments for the Private Funds and to manage and dispose of such investments. In addition, the timing and form of distributions from the Private Funds will generally be subject to the discretion of the general partner or manager. Investors will generally have no right or power to participate in the affairs or investment activities of the Private Funds or to replace the general partner or manager. Accordingly, no person should purchase an interest in a Private Fund unless such person is willing to entrust all aspects of the management of such Private Fund and the investments of such Private Fund to the general partner, manager and/or their affiliates.

The success of the Private Funds will be highly dependent on the financial and managerial expertise of the Principals. The Offering Documents for certain Private Funds contain provisions addressing the departure of one or more of the Principals, including, in some instances, terms whereby the Private Fund's investment period ends upon the departure of certain Principals. The loss of one or more of these individuals could have a material adverse effect on the performance of the Private Funds. The Principals do not intend, and are not required, to devote all of their time to any specific Private Fund. Further, the Principals will be under no contractual obligation to remain with Värde for the term of any specific Private Fund. As a result, the ability of the Private Funds to carry on their activities successfully will be dependent upon the skill and experience of the remaining Principals.

Material, Non-Public Information: By reason of their responsibilities in connection with the Private Funds and other investment activities, and notwithstanding procedural safeguards including, but not limited to, restricted securities lists, personnel of Värde may acquire confidential or material, non-public information that would limit the ability of the Private Funds to buy and sell certain of its investments. The Private Funds' investment flexibility may be constrained due to the inability of Värde to use such information for investment purposes. Moreover, the Private Funds may be restricted from initiating transactions in certain investments, due to their acquisition of confidential or material, non-public information, at a time when Värde would otherwise take such action.

#### Special Purpose Vehicles

Värde and its related persons often form special purpose vehicles to hold Private Fund investments. In certain circumstances, depending on the jurisdiction of organization, applicable

tax treaties and other tax, legal or business considerations, special purpose vehicles through which multiple Private Funds make investments may not provide for complete segregation of assets and liabilities in respect of the applicable Private Funds holding such investments through such special purpose vehicles. Accordingly, if any Private Fund is unable to meet all of its obligations to the underlying investment in which it holds an interest through a special purpose vehicle, other Private Funds that hold investments through such special purpose vehicle may be adversely affected.



## **Item 9 – Disciplinary Information**

Registered investment advisers are required to disclose all material facts regarding any material legal or disciplinary events that would be material to an evaluation of Värde or the integrity of Värde's management. Värde does not have any material legal or disciplinary events to disclose.

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

### ***Other Investment Advisers/Sponsors of Private Funds***

VMLP is the investment manager of each Private Fund. The general partner of VMLP is Värde Management, Inc., a Delaware corporation. Värde Partners Europe, Ltd. is the London-based sub-adviser. Varde Partners Asia Pte., Ltd. is the Singapore-based sub-adviser. Värde Partners Europe, Ltd., Varde Partners Asia Pte., Ltd. and VMLP share compliance personnel, and the personnel of such other Värde entities will be subject to substantially similar compliance policies and procedures and Code of Ethics requirements as the personnel of VMLP (in addition to any other compliance requirements of applicable regulatory authorities in the their respective jurisdictions).

VMLP is affiliated, and has material business relationships, with Värde Partners, L.P. (“VPLP”). VPLP is a Delaware limited partnership and serves as the direct or indirect general partner of each Private Fund. The general partner of VPLP is Värde Partners, Inc., a Delaware corporation (“VPI”). Please see Item 6 above regarding performance-based fees that may be paid by a Private Fund to its general partner. In addition, as disclosed above, the general partner of each Private Fund is generally required to invest at least 1% in each Private Fund.

The investment advisory and fund management business operated by Värde is governed by a Partners Committee, the members of which are the Principals. The Principals are Värde’s primary investment advisory professionals.

### ***Asset Managers***

Certain of the Private Funds have acquired, and may in the future acquire, interests in or complete ownership of one or more asset managers that specialize in converting certain types of assets and portfolios into cash. These asset managers may also assist in acquisitions. These investments have been structured to provide the Private Funds with a range of ownership interests in the asset manager (from minority interests to complete ownership). The board of directors (or its equivalent) of any such asset manager will generally include Värde employees. Certain other control rights may also be retained by the related Private Funds to protect the investments made in or through the asset manager by such Private Funds. The asset managers enter into servicing relationships with the Private Funds (or their investments). All such services are performed by the asset manager’s personnel, not by personnel or other affiliates of Värde and Värde does not exercise day-to-day control over or management of the asset manager. Other than interests held by the Private Funds, Värde itself has no ownership interests in asset managers. Going forward, certain of the Private Funds may acquire additional interests in one or more asset managers, including majority or complete ownership.

To the extent those Private Funds with an ownership interest in the asset manager hire such asset manager to provide services, a proportionate share of any benefits that accrue to the asset manager (including any servicing and origination fees) will also accrue to those Private Funds to the extent consistent with the terms of the asset manager’s organizational documents and the relevant financial agreements between such Private Funds and the asset manager. Having ownership in an asset manager may, however, create the potential for certain conflicts of interest.

First, there is the potential incentive for Värde to pursue unsuitable or unnecessary investments on behalf a Private Fund and then have that Private Fund retain such asset manager in order to generate servicing fees for the asset manager. These additional servicing fees would benefit the Private Funds that have an ownership interest in the asset manager as well as indirectly benefit investors in such Private Funds (including, potentially, Värde's affiliates and employees). As a theoretical matter, to the extent the same Private Funds that have an ownership interest in the asset manager are making the unsuitable or unnecessary asset or portfolio investments, the potential benefit to such Private Funds of the asset manager's increased financial performance will likely always be outweighed by the downside risk resulting from the unnecessary or unsuitable investments. Therefore, the conflict risk is mitigated with respect to those Private Funds with an ownership interest in the asset manager.

If a situation arises in which certain Private Funds did not have an ownership interest in the asset manager, but did have asset or portfolio servicing agreements with such asset manager, the conflict relating to unsuitable or unnecessary investments is more realistic. As a practical matter, however, Värde's suitability obligation with respect to all Private Fund investments (regardless of asset manager ownership) and its disciplined investment process mitigate any potential or actual conflict.

A second potential conflict relates to the decision to hire the asset manager. At least with respect to those Private Funds with an ownership interest, they have a financial interest in hiring the asset manager. Theoretically, such Private Funds could retain the asset manager even if it demonstrated poor performance or an inability to provide the services for which it had been retained. However, such poor performance or inability to perform would hurt the performance of the serviced assets or portfolios and so as a practical matter, such a conflict is mitigated. The same conclusion applies with respect to those conflicts that might arise were Värde to use its influence to retain such an asset manager on behalf of Private Funds without any ownership interest in the asset manager. In any event, given the importance of asset managers generally, Värde monitors the performance of all asset managers and conducts periodic on-site audits to ensure compliance with performance targets and contractual obligations. Värde applies the same standards in considering and monitoring the asset managers in which the Private Funds have an ownership interest as it does when considering and monitoring third-party asset managers.

Finally, conflicts could arise if an asset manager owned by certain Private Funds breaches its servicing agreement, or otherwise fails to perform its responsibilities adequately, resulting in harm or damages to the Private Funds. In this type of situation with a third-party asset manager, the affected Private Funds would be free to pursue appropriate remedies, up to and including litigation. Where the asset manager is owned (in whole or in part) by the same Private Fund or other Private Funds advised by Värde, the affected Private Funds have a potential conflict in determining what action to take against the asset manager. Värde will seek to resolve these conflicts using its best judgment considering all factors it deems relevant including the best interests of each of the affected Private Funds. In addition, Värde may request that the third-party, non-Private Fund owners of the asset manager (if any) agree to indemnify and hold harmless the Private Fund owners in connection with the asset manager's performance of its services.

### ***Sponsors of Limited Partnerships***

Värde and its related entities are, directly or indirectly, the general partners, limited partners and/or managing members of the general partner of each of the Private Funds. This can create conflicts in the allocation of time, resources and investment opportunities among the Private Funds. Värde believes these conflicts of interest are mitigated by its allocation procedures. Investors are requested to refer to the Offering Documents of each Private Fund for complete information on the requisite time commitments of Värde and its related persons to the Private Funds.

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

### ***Code of Ethics***

Värde maintains a Code of Ethics (the “Code”) designed to reinforce the fiduciary principles that govern the conduct of Värde and its personnel. The Code, among other things, requires all employees to act with integrity, competence, dignity and in an ethical and professional manner.

The Code requires pre-clearance of personal securities transactions involving initial public offerings, limited offerings or private placement securities, investments in current client holdings and sales involving previous client holdings and requires personal securities transactions reporting and review. The Code also requires that employees direct their brokers to forward copies of all personal securities transactions confirmations as well as brokerage statements for every account in which they or their immediate family members have a beneficial interest. These confirmations and statements are submitted to and reviewed by the Chief Compliance Officer or her designee.

Requests for trading authorization will be denied when, among other reasons, the proposed personal transaction would be contrary to the provisions of the Code. In addition to the pre-clearance requirements, the Code contains several provisions that subject such personnel to various trading restrictions and reporting obligations. These include disclosure of accounts in which Värde’s personnel have a beneficial interest, and disclosure of conflicts of interests by investment personnel before making a recommendation to any Private Fund concerning a security in which the investment person has an interest. Reportable transactions are reviewed for compliance with the Code.

In certain situations, Värde and/or related persons of Värde may purchase interests in the same securities in which one or more Private Funds is investing or has invested or, conversely, a Private Fund may purchase interests in a security in which Värde and/or related persons of Värde are investing or have invested. Because Värde does not prohibit employees from investing in the same securities in which the Private Funds invest (unless such securities are on Värde’s restricted list as discussed below, in which case no employees are allowed to transact in them), in addition to the pre-clearance described above, Värde reviews the periodic personal securities transactions and holdings reports in an effort to ensure that employees do not personally benefit from, or try to take advantage of, their knowledge of upcoming buys and sells within the Private Funds.

The Code of Ethics also addresses the fiduciary duties expected of the persons subject to the Code, including gift and entertainment opportunity policies as well as charitable and political contribution policies. A copy of the Code is available to any investor or prospective investor upon request.

Any partner, member, officer, director or employee of Värde who fails to comply with the Code risks sanctions up to and including dismissal and personal liability.

### ***Insider Trading***

Värde and its related persons may, from time-to-time, come into possession of material, non-public and other confidential information which, if disclosed, might affect an investor's decision to buy, sell or hold a security. Under applicable law, Värde and its related persons are prohibited from improperly disclosing or using such information for their own benefit or for the benefit of any other person, regardless of whether the other person is a Private Fund.

By reason of its responsibilities to the Private Funds and other investment activities, and notwithstanding procedural safeguards including restricted securities lists, Värde may acquire material, non-public or other confidential information that would limit its ability to direct the purchase or sale of certain investments. Moreover, Värde may be restricted from initiating transactions in certain instruments or selling certain investments, due to its possession of material, non-public or other confidential information, at a time when it would otherwise take such action. At times, Värde, in an effort to avoid investment restrictions with respect to the Private Funds, may elect not to receive information that other market participants or counterparties are eligible to receive or have received.

### ***Additional Conflicts of Interest***

One or a subset of Private Funds may invest in assets that are eligible for purchase by the other Private Funds, which raises potential conflicts. Conflicts may also arise if a Private Fund makes an investment in which another Private Fund has already invested, including conflicts related to investing in different or overlapping levels of an entity's capital structure. For example, if a Private Fund is investing in debt securities, it may have an interest in restructuring these securities in a manner that another Private Fund, as an existing equity owner, may not find desirable. In addition, 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 or not to enforce claims, whether or not to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work-out or restructuring raise conflicts of interest. A Private Fund may also participate in restructuring or recapitalization transactions (including those requiring additional investments of capital) involving companies in which other Private 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. There can be no assurance that the return on one Private Fund's investments will not be less than the returns obtained by other Private Funds participating in the same overall capital structure.

Specifically, investors should be aware of the inherent conflicts of interest that arise if a Private Fund is required or desires to liquidate an investment that is also held by one or more other Private Funds. Especially with regard to illiquid investments, the Private Fund might not be able to liquidate such investment at the time it is required or would like to do so. Alternatively, if the Private Fund is able to sell its portion of the illiquid investment, such sale might impact the value of the investment held by the other Private Funds and may be at a price and/or on other terms

that are more or less favorable than the price and/or other terms received by such other Private Funds when liquidating such investments.

Certain of the Private Funds may also make investments in entities or assets in which they have already invested (e.g., an additional investment) or that are held by other Private Funds. The purchase, holding or sale of these investments may enhance profitability of such investments to the related Private Funds and therefore present conflicts of interests with respect to the investing Private Fund.

To date, Värde has not made any investments alongside the Private Funds. As noted above, however, Värde (in its capacity as general partner) is required to invest at least 1% in each Private Fund and qualified employees of Värde are also permitted to invest in certain of the Private Funds. Additional conflicting interests can arise in connection with these investments.

Conflicts of interest may arise because Värde personnel may serve as directors of certain companies or other legal entities in which the Private Funds have invested. In those instances where the Private Funds are not the sole owners of the applicable company or other legal entity, in addition to any fiduciary duties the Värde personnel owe to the Private Funds, as directors of companies or other legal entities, such personnel may owe certain duties to the owners of the companies or other legal entities and to persons other than the Private Funds. In general, such director positions are often important to the Private Funds' investment strategy and may have the effect of enhancing the ability of Värde personnel to manage investments. However, such positions may place Värde personnel in a position where a decision must be made that is either not in the best interests of the Private Funds or not in the best interests of the owners of the company or other legal entity. Should such Värde personnel make a decision that is not in the best interest of the owners of a company, such decision may subject Värde and the Private Funds to claims that they would not otherwise be subject to as an investor, including claims of breach of the duty of loyalty, securities claims and other director-related claims. In addition, because of the potential conflicting duties, Värde may be restricted in choosing investments for the Private Funds, which could negatively impact returns achieved by the Private Funds.

Värde, in connection with investments by the Private Funds, may represent creditors or debtors in proceedings under Chapter 11 of the U.S. Bankruptcy Code or prior to such filings. From time-to-time, Värde may serve as advisor to, or a member of, creditor or equity committees. This involvement may limit or preclude the flexibility that the Private Funds may otherwise have to participate in restructurings or the Private Funds may be required to liquidate any existing positions of the applicable issuer. In similarity to the potential conflicts that can arise from serving on the board of directors of a company, Värde personnel that serve as members of a bankruptcy committee may owe fiduciary or other legal duties to other stakeholders in the bankruptcy.

While Värde endeavors at all times to act in the best interests of the Private Funds, investors should be aware that the types of transactions described above create potential conflicts of interest with respect to Värde and the Private Funds. Värde will seek to resolve the conflicts of interest discussed above using its best judgment and in a manner that it believes to be fair and reasonable to the Private Funds in accordance with its duties as an investment adviser. Värde

also believes that these conflicts of interest are mitigated by its allocation procedures and its disciplined investment process.



## Item 12 – Brokerage Practices

### *Selection Criteria for Brokers-Dealers*

The primary selection criterion employed by Värde in connection with selecting brokers is the brokers' ability to provide best execution. In assessing best execution, and its overall broker relationships, Värde considers a variety of factors including trading cost, performance, trade settlement efficiency, availability of product and electronic communication proficiency. Värde generally gives primary consideration to obtaining the most favorable price and efficient execution. Värde may, however, pay a higher commission than would otherwise be necessary for a particular transaction when, in Värde's opinion, to do so would further the goal of obtaining the best available execution on an aggregate basis for the related investment. 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.

Värde may also use an Electronic Communications Network ("ECN") or Alternative Trading System ("ATS") to effect over-the-counter trades when, in Värde's judgment, the use of an ECN or ATS may result in equal or more favorable overall executions for the transactions. Värde will pay a commission to an ECN or ATS that, when added to the price, is believed to be better than the overall execution price that might have been attained trading "net" with a market maker.

Värde endeavors to be aware of current charges of eligible broker-dealers and to minimize the expense incurred for effecting portfolio transactions. Although Värde generally seeks competitive commission rates, it will not necessarily pay the lowest commission or commission equivalent. Transactions may involve specialized services or unique sourcing considerations on the part of the broker-dealer involved, resulting in higher commissions or their equivalents than would be the case with transactions requiring more routine services. The reasonableness of commissions is based on the broker's ability to provide professional services, competitive commission rates and other services that will help Värde in providing investment management services to clients. The limited availability of a particular investment may also impact the selection of a broker-dealer and the related commission.

Certain of the Private Funds participate in a loan that has been extended to a special purpose vehicle that is affiliated with a third party broker-dealer through which a limited number of Private Fund transactions are placed. Värde believes the broker-dealer does not directly benefit financially from the loan and the special purpose vehicle does not directly benefit financially from the broker-dealer's trading activity with the Private Funds. To the extent both the broker-dealer and the special purpose vehicle are affiliated, they may be deemed to benefit indirectly. However, the existence of the loan to the special purpose vehicle is not a factor in the selection of the broker-dealer to execute Private Fund transactions and Värde at all times seeks best execution of Private Fund transactions. Värde also specifically monitors its transactions with the broker-dealer firm in an effort to mitigate any potential conflicts of interest.

From time-to-time, Värde's prime broker offers us opportunities to meet with potential investors and advisory clients as part of conferences or meetings it sponsors (commonly known as capital introduction services). Värde is not charged a fee nor is it obligated to provide any other form of consideration in connection with this service, and the prime broker is not acting as a placement agent or underwriter. Värde used the prime broker for several years before considering any capital introduction opportunities and intends to continue to use the prime broker regardless of Värde's use of such services, or their success, as long as Värde believes the prime broker is capable of providing the services necessary for Värde to fulfill Värde's obligations to clients. As such, any capital introduction services are not a factor in our continued use of the prime broker.

### ***Soft Dollar and Directed Brokerage Policies***

Värde may receive proprietary research from the broker-dealers with which it does business, although Värde generally does not request such research, does not have any arrangements to "pay up" for such research and does not consider such research when directing brokerage transactions for client accounts to broker-dealers. Värde does not receive third-party research or any brokerage services (except proprietary research) paid for with client commissions. Should Värde decide to do so at some future time, Värde will adopt specific procedures for implementing any soft dollar policy. Värde also does not participate in directed brokerage commission arrangements and will not accept directed brokerage instructions from any investor.

### ***Cross Trades and Principal Trades***

The Private Funds may trade assets between the Private Funds (although to date they have rarely done so). Any such cross trades will generally be valued and priced at fair market value and will be conducted on terms as favorable to each Private Fund involved in the transaction as would be the case in a transaction with an independent third party and in accordance with any fiduciary obligation of Värde under applicable law and subject to any conditions or required consents under a Private Fund's Offering Documents.

Värde and/or certain related persons of Värde may, directly or through one or more entities, sell securities in which they have a direct or indirect ownership interest to certain Private Funds in connection with certain "warehousing" or other transactions, provided that the sale is consistent with Värde's fiduciary obligations to the Private Funds. Such transactions will be fully disclosed and the written consent of the appropriate Private Fund (which, in certain circumstances, may be provided by the Private Fund's advisory committee) will be obtained prior to the consummation of any such transactions in accordance with Section 206(3) of the Investment Advisers Act of 1940, as amended, (to the extent such transactions constitute "principal transactions") and all other applicable state and federal securities laws.

### ***Allocation of Investment Opportunities***

Värde allocates investment opportunities to each Private Fund in a manner that in its judgment it believes to be appropriate and equitable in light of the investment objectives, liquidity, diversification and other similar factors applicable to the Private Funds. As a general practice, Värde endeavors to allocate investment opportunities pro rata among each of the actively investing Private Funds (after taking into account the factors noted below) based on the amount of capital each has available for investment, and thereafter based on any investment restrictions

that may be applicable to a particular Private Fund (e.g., asset restrictions). In certain cases, however, investment opportunities may be made available other than on a pro rata basis. In making its allocation decisions, Värde generally takes into account the following factors: (i) the investment objectives of each Private Fund; (ii) the liquidity position and anticipated liquidity needs of each participating Private Fund; (iii) the size and anticipated liquidity of the investment; (iv) diversification and/or concentration considerations; (v) maturity or duration considerations; (vi) applicable transfer or assignment provisions; (vii) the proximity of a Private Fund to the end of its investment period (if applicable); (viii) tax considerations; (ix) regulatory considerations; and (x) such other factors as Värde may reasonably deem relevant. Värde monitors allocations made on an other than pro rata basis in an effort to ensure that over time all Private Funds are treated fairly in light of their specific situations.

Trades are executed by approved personnel. Generally, Värde purchases and sells the same securities for two or more Private Funds and may bunch orders where Värde deems this to be appropriate and consistent with Värde's fiduciary duties. The decision to aggregate is only made after Värde determines that: it does not intentionally favor any Private Fund over another; it does not systematically advantage or disadvantage any Private Fund; Värde does not receive any additional compensation or remuneration solely as the result of the aggregation; and each participating Private Fund will receive the average investment price and will share pro rata in the transaction costs. When a bunched order is filled in its entirety, each participating Private Fund will participate at the average investment price for the bunched order on the same business day. Transaction costs generally will be shared pro rata based on each Private Fund's participation in the bunched order. When a bunched order is only partially filled, the investments purchased generally will be allocated on a pro rata basis to each Private Fund participating in the bunched order or in such other manner that is consistent with Värde's allocation policy.

Värde will evaluate any investment or allocation errors to ensure that they are corrected by the appropriate party. Värde identifies and corrects any investment and allocation error affecting any Private Fund as expeditiously as possible. As a general practice, any error that results in a gain accrues to the benefit of the Private Fund in which the error was made; any error that results in a direct loss will be reimbursed by Värde to the Private Fund in which the error was made; and if more than one error is made in any given Private Fund within reasonable proximity of each other, any error resulting in a gain may be netted against any error resulting in a loss within the Private Fund in determining the net loss required to be reimbursed by Värde. However, in no event will gains and losses be netted across multiple Private Funds.

### **Item 13 – Review of Accounts**

Värde's investment and business professionals are responsible for ongoing diligence and reviews of investments entered into on behalf of the Private Funds. These 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.

An independent auditor annually audits each Private Fund's financial statements.

Each investor in a Private Fund generally receives in writing monthly performance return information, capital statements, a quarterly letter, and a copy of the quarterly unaudited and annual audited financial statements for each Private Fund in which it is invested.

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

Värde and related persons of Värde may enter into cash compensation arrangements with unaffiliated placement agents or third parties for introducing investors to a Private Fund. Any sales charge or placement fees associated with such arrangements will ultimately be payable by Värde and/or its related persons, either directly or through an offset of the management fee payable by the relevant Private Fund to Värde. Notwithstanding the foregoing, reasonable out-of-pocket expense reimbursements and indemnification payments (if any) to such placement agents or third parties may be borne by the relevant Private Funds and not by Värde. Additionally, if an investor that is placed in a Private Fund by one of the placement agents retained by Värde has a brokerage, banking or other relationship with that placement agent, that investor may pay additional fees to the placement agent based on the terms of that relationship.

As noted above, Värde's only clients are the Private Funds. In the future, to the extent Värde intends to provide cash compensation to a party for the referral of separate account clients, Värde will comply with the requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940, as amended. These requirements include that the referring party be eligible to receive such compensation under the rule, the existence of a written agreement between Värde and the referring party and the referring party's providing the prospective clients with a separate written disclosure statement describing, among other things, that Värde will be paying the referring party and the terms of such compensation arrangement.

In connection with investments made by Private Funds, Värde (or persons associated with Värde) may receive a management fee and/or monitoring, consulting, directors' or other fees (whether in cash or options or other securities) from a portfolio investment while the applicable Private Fund continues to hold such investment. Värde may also receive commitment, structuring and/or other transaction fees from counterparties or portfolio investments in which one or more of the Private Funds invests or intends to invest. The amount of any fees that Värde or any of its associated persons receives from portfolio investments or counterparties is determined by negotiations between Värde and the applicable portfolio companies.

These types of arrangements present potential conflicts of interest. To help mitigate potential conflicts, such benefits received by Värde or its employees in connection with services rendered are generally offset in whole or substantial part against (and therefore reduce) management fees payable by the relevant Private Fund, to the extent provided in and subject to certain exceptions described in the Offering Documents of such Private Fund. For purposes of management fee offsets, Värde will generally allocate such benefits among Participating Accounts based on the relative amounts invested or proposed to be invested in the applicable portfolio investment by such Participating Accounts or on such other basis as Värde may determine is equitable and appropriate under the circumstances. Investors and prospective investors should note that in the event a specific Participating Account does not charge a management fee or its Offering Documents otherwise permit, Värde and its associated persons may retain such participating account's proportional share of commitment, structuring or other transaction fees as additional compensation (with no corresponding offset to management fees). Such situations present potential conflicts of interest and provide Värde with an incentive to recommend investments based on compensation received rather than the best interests of the Participating Accounts.

## **Item 15 – Custody**

Värde does not serve as the qualified custodian of any of the assets owned by the Private Funds and does not maintain physical custody of any securities or cash owned by the Private Funds (other than certain privately offered securities to the extent permitted by the Investment Advisers Act of 1940, as amended, and related SEC interpretive guidance). However, Värde is deemed by the applicable regulatory rules to have constructive custody of the assets of each Private Fund as a result of its position as an affiliate of the general partner (or equivalent control person) of each Private Fund.

Värde satisfies the applicable regulatory requirements related to custody by, among other things, ensuring that each Private 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 that audited financial statements for each Private Fund are provided to its respective investors within the applicable required time frame. For these Private Funds, investors will not receive account statements from the bank or other qualified custodian holding physical custody of such Private Fund's assets.

## **Item 16 – Investment Discretion**

Each Private Fund retains Värde to exercise broad investment discretion in accordance with the investment objectives and investment mandates of each Private Fund without investor consultation or consent, all as set forth in the applicable Offering Documents. This authority is established through the subscription documents completed and signed by each investor as well as the management agreements between VMLP and each Private Fund. The exercise of Värde's investment discretion includes (without limitation) 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 (or with which) investments are bought, sold or managed.
- The commission rates (or other fees) at which investment transactions are effected.
- 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.
- The amount of research and/or due diligence that may be conducted and whether the transaction may be pursued on an expedited basis.
- How to manage the investments after acquisition, including (for example) whether to pursue an activist role with respect to any investment or whether to engage an asset manager or other third-party service provider.

## Item 17 – Voting Client Securities

Because Värde has the authority for investments held by the Private Funds, it has adopted written proxy voting policies and procedures. These policies and procedures generally provide that Värde will vote investments for the exclusive benefit, and in the best economic interest, of the relevant Private Funds and their beneficiaries, as determined by Värde in good faith. Värde's voting responsibilities will be exercised in a manner that is consistent with the general anti-fraud provisions of the Investment Advisers Act of 1940, as amended, as well as with Värde's fiduciary duties under federal and state law to act in the best interests of the Private Funds. Värde considers each issue presented in a proxy on its merits and votes on a case-by-case basis consistent with the Private Funds' best economic interests. On occasion, Värde may determine not to vote a particular proxy. This may be done, for example where: (1) the cost of voting the proxy outweighs the potential benefit derived from voting; (2) a proxy is received with respect to securities that have been sold before the date of the shareholder meeting and are no longer held in a client account; (3) the terms of an applicable securities lending agreement prevent Värde from voting with respect to a loaned security; (4) despite reasonable efforts, Värde receives proxy materials without sufficient time to reach an informed voting decision and vote the proxy; or (5) the terms of the security or any related agreement or applicable law preclude Värde from voting. It is possible Värde may have a conflict of interest in connection with voting on a particular matter. If a conflict exists that cannot be otherwise addressed, Värde may choose one of several options including: (1) voting in accordance with its standard proxy procedures, if it involves little or no discretion; (2) voting as recommended by a third-party service, if employed by Värde; (3) "echo" or "mirror" voting the proxies in the same proportion as the votes of other proxy holders that are not Värde clients; (4) if possible, erecting information barriers around the person or persons making the voting decision sufficient to insulate the decision from the conflict; or (5) abstaining from voting. Investors in the Private Funds may request a copy of Värde's written proxy voting policies and procedures as well as information about how Värde has voted securities for the Private Fund in which an investor has invested.



## **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. Värde does not have any adverse financial conditions to disclose and has not been the subject of a bankruptcy proceeding.