

Värde Management, L.P.

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This Form ADV Part 2A (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.

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 29, 2018. Our material changes are as follows:

- In Item 4, we updated the description of our business to reflect the promotion of two employees to partner and the retirement of one partner;
- In Item 5, we included additional disclosure related to fees, compensation and expenses and amended the existing disclosure to eliminate duplication;
- In Item 8, we updated the description of the firm’s investing philosophy and significant investment strategies, and included additional disclosure regarding risks related to the firm’s significant investment activities;
- In Item 10, we updated the list of the firm’s direct subsidiary sub-advisors, included additional disclosure regarding asset managers, expanded the disclosure to include operating platforms or similar entities, and included additional disclosure regarding affiliate services; and
- In Item 11, we included additional disclosure regarding potential conflicts of interest.

If you are interested in receiving the most current copy of this Brochure, please contact Investor Services by email at 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”), a global alternative investment firm. Värde was founded in 1993 and is headquartered in Minneapolis, Minnesota, with regional headquarters in London and Singapore. Värde also maintains additional offices in Asia Pacific, Europe and North America.

The Firm is managed by a group of senior professionals, including sixteen partners: George G. Hicks, Marcia L. Page, Bradley P. Bauer, Ilfryn C. Carstairs, Jeremy D. Hedberg, Giuseppe Naglieri, Jonathan A. Fox, Scott T. Hartman, Andrew P. Lenk, David A. Marple, Francisco Milone, Timothy J. Mooney, Rick J. Noel, Brian C. Schmidt, Elena Lieskovska and Haseeb K. Malik (together, the “Principals”). The Principals, together with retired partners Gregory S. McMillan and Ali M. Haroon, 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 into two primary categories: “closed-end funds” and “evergreen funds.” The closed-end funds are structured in a “private equity” format, typically having a stated investment period and term. The evergreen funds do not have a defined investment period, but generally permit investors to make redemptions on a periodic basis. In addition, Värde from time to time forms Private Funds that are co-investment vehicles designed to participate in a particular investment or opportunity alongside other 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/or 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 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 are not made generally available to other investors. These side letters or similar agreements generally are disclosed only to investors in the applicable Private Fund that have separately negotiated with

Värde for the right to review such side letters or similar agreements or pursuant to a “most favored nations” provision in the relevant Private Fund governing documents.

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, 2018, Värde’s Regulatory Assets Under Management (as defined in Form ADV Part 1) are \$18.98 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 a 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.

In addition, the Private Funds (directly or indirectly) may engage Värde or its affiliates to provide asset management services or country-specific management or service functions. Värde and/or its affiliates will retain the benefit of the fees paid for such services to the extent set forth in each Private Fund's Offering Documents. The section titled "*Other Financial Industry Activities and Affiliations*" (Item 10 below) includes additional details regarding the services that may be provided.

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, without limitation: (i) organizational and offering expenses of the Private Fund (including, without limitation, organizational and incorporation expenses of the Private Fund and its general partner, legal and accounting fees incurred in connection therewith, expenses incurred in connection with the preparation of the Offering Documents and other documentation related to the organization and offering of the Private Fund and its general partner (including, without limitation, prospectuses, diligence responses, disclosure documents, legal opinions, side letters and similar agreements), expenses incurred to comply with any law or regulation related to the business and activities of the Private Fund and its general partner, and all other expenses with respect to offering interests in the Private Fund (including, without limitation, filing fees and expenses, Travel-Related Expenses (as defined below) (including, without limitation, meetings with prospective investors) and similar costs)); (ii) expenses incurred in connection with the Private Fund's trading and the evaluation, sourcing, structuring, organizing, acquisition, disposition, operating, holding, valuing, carrying, financing, refinancing, discovery, investigation, development, execution or management of investments (whether or not consummated) and related transactions (including follow-on investments), including, without limitation, the fees, costs and expenses of investment banks, legal counsel, tax advisors, brokers, broker-dealers, finders, asset managers, developers, joint venture partners, consultants, third-party research, information services and other third-party fees, work-out specialists, Travel-

Related Expenses, any broken deal expenses, reverse break-up and termination fees, valuation services, software, publication subscriptions, the cost to attend conferences (including Travel-Related Expenses), business entertainment, printing and similar costs of the Firm and its employees and agents; (iii) all sales and brokerage commissions, clearance charges, underwriting commissions and discounts 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 maintenance of the Private Fund's books and records and developing, licensing, implementing, maintaining or upgrading any web portal, extranet tools, computer software or other administrative or reporting tools (including subscription-based services) for the benefit of the Private Fund or the Private Fund investors, and any and all fees, costs and expenses incurred in connection with the preparation, distribution or filing of Private Fund-related and investment-related financial statements or other reports, tax returns, tax estimates, Schedule K-1s (or similar schedules) or any other administrative, compliance, regulatory or other Private Fund-related reporting or filing obligations, including, without limitation, expenses related to the maintenance of an electronic reporting portal for Private Fund investors, and the preparation of other reports by third-party service providers; (v) professional and administration fees and expenses (which, for the avoidance of doubt, may include, without limitation, (A) fees and expenses paid for services received from companies owned by Värde, its affiliates or other Private Funds, (B) consulting and retainer fees and other compensation and expenses of dedicated operating consultants and senior advisors retained to conduct due diligence, provide industry analysis and provide other services (including, without limitation, human resources, finance, commercial, information technology support and operational support services)) with respect to the Private Funds or any of their investments, and (C) amounts paid to other persons and entities acting in a similar capacity, in each case whether or not such persons or entities are engaged by Värde, the Private Funds and/or any affiliate of the Private Funds in a dedicated or exclusive capacity and including fixed fees (such as retainers) and/or performance-based fees and allocations with respect to investments, in each case, whether in the form of cash, options, warrants, stock or otherwise); (vi) compensation and expenses of any other consultants, including, without limitation, (A) environmental, social, governance, insurance, sourcing, operating, research, industry expert and/or subject matter consultants, and other persons and entities acting in a similar capacity, in each case whether or not such persons or entities are engaged by Värde, the Private Funds and/or any affiliate of the Private Funds in a dedicated or exclusive capacity, and (B) third-party consultants retained by Värde on a full-time or part-time basis primarily to provide manufacturing, sales, marketing, legal, technology, human resources, acquisition integration/rationalization and/or other operations services or similar services to the Private Funds or any investment or prospective investment, in each case including fixed fees (such as retainers) and/or performance-based fees and allocations, whether in the form of cash, options, warrants, stock, incentive equity, other stock awards or otherwise; (vii) 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 (including any depositary appointed pursuant to the European Union Directive on Alternative Investment Fund Managers (2011/61/EU) (the "AIFMD") or any law, rule or regulation relating to the implementation thereof in any relevant jurisdiction), any Swiss representative and paying agent (pursuant to the Swiss Collective Investment Schemes Act (as amended) and the implementation thereof) or similar agents in other jurisdictions, custodians, trustees, asset managers, title companies and other agents, if any; (viii) all charges for services and expenses of legal counsel (including

secondees), third-party administrators (if any), outside tax advisors and accountants, and independent auditors in connection with services to the Private Fund (including, without limitation, the “tax matters partner’s” or “partnership representative’s” representation of the Private Fund or the Private Fund investors, as well as responses to questions and inquiries and fulfillment of requests regarding investments, operations and compliance of the Private Fund); (ix) any and all expenses (including legal fees and expenses of outside counsel) incurred to register under or comply with any law, rule or regulation related to the activities of the Private Fund or its general partner (including regulatory and compliance expenses of the Private Fund and the Firm, such as Form PF, all expenses and costs arising pursuant to filings associated with the AIFMD and related European Economic Area national private placement laws, or any law, rule or regulation relating to the implementation thereof in any relevant jurisdiction or similar filings required in other jurisdictions or by other laws, rules or regulations, including those resulting from the United Kingdom ceasing to be part of the European Union and applicable anti-money laundering procedures, laws and/or regulations and know-your-customer procedures, laws and/or regulations, or expenses otherwise related to the registration of Värde, a Private Fund or its general partner under applicable law in connection with the offering of interests in the Private Fund or clearing or distributing subscriptions of the Private Fund through a local broker-dealer or agent under applicable law); (x) such nonrecurring expenses as may arise, including the costs of actual, threatened or otherwise anticipated litigation, actions, suits, proceedings, mediation, arbitration or other dispute resolution process as well as any governmental inquiry, investigation or proceeding to which the Private Fund is a related party or is otherwise involved, including judgments, fines, other awards and settlements paid in connection therewith, and the expenses that the Private Fund may incur as a result of any indemnification obligations or guarantees, including its legal obligation to provide indemnification under the Offering Documents (including any fees, costs and expenses incurred in connection with indemnifying any investor or other person or entity pursuant to the Offering Documents and advancing fees, costs and expenses incurred by any such person or entity in defense or settlement of any claim that is subject to a right of indemnification pursuant to the Offering Documents), the management agreement with VMLP or any other contractual arrangements; (xi) any and all taxes and governmental fees levied against or payable by, or with respect to, the Private Fund, its investments and any special purpose vehicles, to any U.S. federal, state or other governmental authority, domestic or non-U.S., including real estate, stamp or other transfer taxes, including in connection with any tax audit, investigation or review, or any settlement thereof, and, in the discretion of the Firm, certain withholding taxes; (xii) expenses related to complying with the U.S. Foreign Account Tax Compliance Act, the Common Reporting Standard issued by the Organisation for Economic Cooperation and Development, or similar legislation, regulations or guidance enacted in any other jurisdiction, which seeks to implement equivalent tax reporting and/or withholding tax regimes as well as any intergovernmental agreements and other laws of other jurisdictions with similar effect; (xiii) insurance premiums or expenses incurred in connection with the activities of the Private Fund, including, without limitation, general liability, errors, omissions, fidelity, crime, general partner liability, fiduciary, directors’ and officers’ liability, cybersecurity and other coverage; (xiv) expenses incurred in connection with the winding up, dissolution or liquidation of the Private Fund and its related entities, including the Private Fund’s general partner; (xv) management fees payable to the Firm; (xvi) expenses relating to defaults by the Private Fund investors in the payment of any capital contributions; (xvii) expenses incurred in connection with any restructuring or amendments to the constituent

documents of the Private Fund and related entities, including, without limitation, the Private Fund's general partner; (xiii) expenses incurred in connection with any valuation and appraisal of the assets of the Private Fund (including third-party valuation firms and software); (xiv) expenses incurred in connection with the formation, governance and maintenance of alternative investment vehicles to the extent permitted under the Offering Documents (including expenses in connection with raising and putting in place co-investment vehicles where desirable for accomplishing an investment, to the extent not borne by the applicable co-investors and/or co-investment vehicle); (xv) expenses incurred in connection with the formation and maintenance of any feeder vehicles or special purpose vehicles; (xvi) expenses incurred in connection with co-investments (whether or not consummated) that are not borne by co-investors; (xvii) expenses incurred in connection with distributions to the Private Fund investors; (xviii) expenses incurred in connection with any meetings of the Private Fund investors or the Private Fund's advisory committee, if applicable, (including, without limitation, Travel-Related Expenses of the Firm and its representatives and meal and lodging expenses of the Private Fund investors, in each case, incurred in connection with attending such meetings); (xix) out-of-pocket expenses incurred by members (including any non-voting members or persons with observer rights) of the Private Fund's advisory committee, if applicable, and the member's designees in connection with attending advisory committee meetings or otherwise fulfilling their duties pursuant to the Offering Documents, including, without limitation, Travel-Related Expenses incurred in connection with attending advisory committee meetings; (xx) expenses incurred in connection with compliance with the Offering Documents, any side letters or similar agreements and any "most favored nations" election processes; (xxi) extraordinary expenses under U.S. Generally Accepted Accounting Principles ("GAAP"); (xxii) fees paid to directors of the Private Funds and expenses associated with meetings of such directors; (xxiii) any placement fees and expenses; (xxiv) amounts paid by the Private Fund for or resulting from short sales and other derivative contracts or instruments, including those entered into for hedging purposes; (xxv) any principal, interest on (including margin interest expense) and fees and expenses arising out of, in connection with or incident to, borrowings and indebtedness by or on behalf of the Private Fund (including any credit facility) or in connection with any Private Fund activities and any transactions having a similar leveraging effect (including, without limitation, the fees, costs and expenses incurred in arranging financing and indebtedness with respect to Private Fund activities, including, without limitation, obtaining lines of credit, loan commitments and letters of credit for the account of the Private Fund and in guaranteeing the obligations of any portfolio investments or any assets thereof); (xxvi) unreimbursed costs and expenses incurred in connection with any transfer or proposed transfer by any Private Fund investor; (xxvii) any expenses related to protecting the confidential or non-public nature of any information or data; (xxviii) any expenses related to printing, communications, marketing and publicity; (xxix) any third-party experts, including independent appraisers, in connection with the Private Fund considering, making, holding or selling an investment that is held or to be held in the same entity as one or more other Private Funds; and (xxx) any other expenses approved by the Private Fund's advisory committee or investors, or otherwise set forth in the Private Fund's Offering Documents. "Travel-Related Expenses" include, without limitation, costs related to transportation (including the use of air transportation not to exceed commercial-equivalent first class (or comparable tier) airfare), lodging and accommodations, meals and entertainment. To the extent that any of the foregoing expenses relate to the operations of more than one Private Fund, Värde will, unless otherwise set forth in the Offering Documents of such

Private Funds, 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 pays for certain of these expenses out of its own assets and seeks reimbursement from the Private Funds. 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 valuation 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

The general partner of each Private Fund is a Värde-affiliated entity, and the calculation and role of the performance compensation paid by each Private Fund to its general partner, if any, is described in the 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, these conflicts are mitigated by provisions requiring Värde (in its capacity as general partner) to invest at least 1% of the Private Fund investors' capital commitments in each Private Fund (other than certain co-investment vehicles), 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. These conflicts are 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 evergreen 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 the section titled "*Brokerage Practices*" (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 philosophy rests in applying the following set of core principles to opportunities across the Firm's investing platform:

- Search opportunistically for complex situations in less efficient markets where there is a favorable balance in the supply of, and demand for, capital;
- Seek to invest at a price that allows Värde to unlock or create value, with a strong focus on both discount to fundamental value and downside protection;
- Focus on value drivers, the path to unlock value and potential exit strategies, which often require activism or active asset management;
- Assess risk/reward holistically, not looking only for the best value in local markets, but comparing it against the global opportunity set across the Värde platform; and
- Approach investment opportunities with flexible capital that allows Värde to operate across both illiquid and traded/liquid assets and securities as well as both secondary and primary markets.

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, are set forth in the Offering Documents related to each Private Fund. Subject to the investment parameters set forth in each Private Fund's Offering Documents, Värde pursues investment strategies across geographies in a broad range of assets. Värde's investing activity is conducted by five global investment teams:

- *Corporate and Traded Credit*: This team pursues investments in debt and equity instruments issued by corporate entities as well as government-issued debt.
- *Mortgages*: This team pursues investments in certain real estate mortgages, either directly or indirectly via securities that are backed by underlying real estate assets. This segment also includes investments in companies that originate and/or service such mortgages.
- *Financial Services*: This team pursues investments in the financial services sector, including in companies that originate and/or service commercial and consumer credits, including credit cards, personal loans and equipment finance, as well as direct investments in those credits.
- *Real Estate*: This team pursues investments in real estate assets or companies involved in developing, owning and/or managing property and/or originating certain

real estate loans, investments that arise from lending to entities that develop or manage real property assets, and investments in loans and securities secured by certain real estate assets.

- *Real Assets and Infrastructure:* This team pursues investments in real assets (other than real estate), including loans secured by assets associated with the energy and transportation sectors as well as investments in companies that operate in those sectors, and investments in companies that operate in the infrastructure sector.

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 investments 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. At times, markets may experience extreme levels of stress and dislocation. Such market turbulence may have a material adverse effect on the Private Funds’ investments and, in addition, the response by governments, central banks and other policy makers to financial crisis situations may adversely affect Värde’s ability to effectively execute its investment strategy. Similarly, government intervention may distort market prices or result in

other unanticipated consequences that could adversely affect the performance of the Private Funds.

Highly Volatile Markets: The prices of 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, but not limited to, 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) and this 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 used by the Private Funds in connection with their investment activities. Sustained market turmoil and periods of heightened market volatility may make it more difficult to produce positive 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 transactions, use of negotiated terms with counterparties such as in the use of derivatives and the execution of transactions 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, documenting and settling transactions that result in losses to the Private Funds. See "*Investment and Allocation Errors*" in the section titled "*Brokerage Practices*" (Item 12 below) for details on reimbursement for errors made by Värde personnel.

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.

Debt Generally: The Private Funds may invest in a variety of debt investments. Debt investments are subject to credit and interest rate risks. “Credit risk” refers to the likelihood that a borrower will default in the payment of principal and/or interest on an instrument. Financial strength and solvency of a borrower are the primary factors influencing credit risk. In addition, the lack or inadequacy of collateral or credit enhancement for a debt instrument may affect its credit risk. Credit risk may change over the life of an instrument and debt obligations that are rated by rating agencies are often reviewed and may be subject to downgrade. “Interest rate risk” refers to the risks associated with market changes in interest rates. Interest rate changes may affect the value of a debt instrument indirectly (especially in the case of fixed-rate debt securities) and directly (especially in the case of debt instruments whose rates are adjustable). In general, rising interest rates will negatively impact the price of a fixed rate debt instrument and falling interest rates will have a positive effect on price. Adjustable rate instruments also react to interest rate changes in a similar manner although generally to a lesser degree (depending, however, on the characteristics of the reset terms, including, without limitation, the index chosen, frequency of reset and reset caps or floors, among other factors). Interest rate sensitivity is generally more pronounced and less predictable in investments with uncertain payment or prepayment schedules. In addition, interest rate increases generally will increase the interest carrying costs to the Private Funds of borrowed securities and leveraged investments.

Distressed Investments: The strategies executed by the Private Funds may involve purchasing securities and other obligations of companies that are experiencing significant financial or business distress, including companies involved in bankruptcy or other reorganization and liquidation proceedings. Many of these securities and obligations typically remain unpaid unless and until the company reorganizes and/or emerges from bankruptcy proceedings. In addition, it frequently may be difficult to obtain information as to the conditions of these investments. The market prices of these investments are also subject to abrupt and erratic market movements and above average price volatility, and the spread between the bid and ask prices of such investments may be greater than normally expected. Although such investments may result in significant returns, they can involve a substantial degree of risk and may not show any return for a considerable period of time, if at all.

Distressed Debt: 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 original investment.

Credit Risk; Collateral: The Private Funds' investments may be secured by collateral. If securing first priority liens, collateral generally cannot be pledged, lent, re-hypothecated or otherwise re-used by the borrower. The value of this collateral may initially exceed the principal amount of such investments, but there can be no assurance that the liquidation of any such collateral would satisfy the borrower's obligation in the event of non-payment, or that such collateral could be readily liquidated. In addition, in the event of bankruptcy of a borrower, the Private Funds could experience delays or limitations with respect to their ability to realize the benefits of the collateral securing an investment.

Under certain circumstances, collateral securing an investment may be released without the consent of the Private Funds. Moreover, the Private Funds' security interest (with respect to investments in secured debt) may be unperfected or unexpectedly subordinated for a variety of reasons, including, without limitation, the failure to make required filings by lenders and, as a result, the Private Funds may not have priority over other creditors as anticipated. First priority lien investments made by the Private Funds may, in certain cases, provide a first priority lien over some, but not all, of the assets of the relevant borrower. The Private Funds may also invest in junior lien debt, unsecured debt, marketable and non-marketable common and preferred equity securities and other unsecured investments that involve a higher degree of risk than senior first-lien secured debt investments. Furthermore, a Private Fund's right to payment and its security interest, if any, may be subordinated to the payment rights and security interests of senior lenders (with respect to some or all of the assets of a portfolio investment). The ability of the borrower to repay the principal and/or accumulated interest of an investment may be dependent upon a liquidity event or the long-term success of the borrower, the occurrence of which is uncertain.

In addition, companies in which the Private Funds invest could present a high degree of business and credit risk. Companies in which the Private Funds invest could deteriorate as a result of, among other factors, an adverse development in their businesses, a change in the competitive environment or the continuation or worsening of the current (or any future) economic and financial market downturns and dislocations. As a result, companies that the Private Funds expected to be stable or improve may operate at a loss or have significant variations in operating results, may require substantial additional capital to support their operations or maintain their competitive position, or may otherwise be in a weak financial condition or be experiencing financial distress.

The terms of derivative arrangements entered into by the Private Funds may provide that related collateral given to, or received by, the Private Funds may be pledged, lent, re-hypothecated or otherwise re-used by the collateral taker for its own purposes. If collateral received by the Private Funds is reinvested or otherwise re-used, the Private Funds are exposed to a heightened

risk of loss on that investment. Should such a loss occur, the value of the collateral will be reduced and the Private Funds will have less protection if the counterparty defaults. Similarly, if the counterparty reinvests or otherwise re-uses collateral received from the Private Funds and suffers a loss as a result, it may not be in a position to return that collateral to the Private Funds should the relevant transaction complete, be unwound or otherwise terminate, and the Private Funds are exposed to the risk of loss of the amount of collateral provided to the counterparty.

Senior Secured Loans: Senior secured loans acquired by the Private Funds are generally rated below investment grade or may be unrated. As a result, the risks associated with senior secured loans are similar to the risks of unrated or below investment grade fixed income instruments, although senior secured loans are senior and secured in contrast to other below investment grade fixed income instruments, which are often subordinated or unsecured. Investment in senior secured loans rated below investment grade is considered speculative because of the credit risk of their issuers. Such companies are more likely than investment grade issuers to default on their payments of interest and principal owed to the Private Funds, and such defaults could have a materially adverse effect on the Private Funds' performance. An economic downturn would generally lead to a higher non-payment rate, and a senior secured loan may lose significant market value before a default occurs. Moreover, there is a risk that the collateral securing such loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of the borrower to raise additional capital, and, in some circumstances, the Private Funds' liens could be subordinated to claims of other creditors. Consequently, the fact that a loan is secured does not guarantee that the Private Funds will receive principal and interest payments according to the loan's terms, or at all, or that the Private Funds will be able to collect on the loan should it be forced to enforce its remedies.

There may be less readily available and reliable information about most senior secured loans than is the case for many other types of securities, including securities issued in transactions registered under the Securities Act or registered under the U.S. Securities Exchange Act of 1934, as amended. As a result, Värde will rely primarily on its own evaluation of a borrower's credit quality rather than on any available independent sources. Therefore, the Private Funds will be particularly dependent on the analytical abilities of the Firm.

Subordinated Loans or Securities: Certain of the Private Funds' investments may consist of loans or securities, or interests in pools of loans or securities that, in either case, are subordinated or may be subordinated in right of payment and ranked junior to other securities issued by, or loans made to, obligors. If an obligor experiences financial difficulty, holders of its more senior securities or loans will be entitled to payments in priority to the Private Funds. Some of the Private Funds' asset-backed investments may also have structural features that divert payments of interest and/or principal to more senior classes of loans or securities backed by the same assets when loss rates or delinquency exceeds certain levels. This may interrupt the income the Private Funds receive from investments, which may lead to the Private Funds having less income to allocate or distribute to the investors.

In addition, many of the obligors are highly leveraged and many of the Private Funds' investments may be in securities or loans which are unrated or rated below investment grade. Such investments are subject to additional risks, including an increased risk of default during

periods of economic downturn, the possibility that the obligor may not be able to meet its debt payments and limited secondary market support, among other risks.

Mezzanine Investments: The Private Funds may make mezzanine investments, which may be unsecured and made in companies whose capital structures have significant indebtedness ranking ahead of the investments, all or a significant portion of which may be secured. While the investments may benefit from the same or similar financial and other covenants as those enjoyed by the indebtedness ranking ahead of the investments and may benefit from cross-default provisions and security over the assets of the issuer, some or all of such terms may not apply to particular investments. Moreover, the ability of the Private Funds to influence a borrower's affairs, especially during periods of financial distress or following insolvency, is likely to be substantially less than that of senior creditors. Mezzanine investments are subject to various risks that may be applicable to other types of investments as well, including, without limitation: (i) a subsequent characterization of an investment as a "fraudulent conveyance"; (ii) the recovery as a "preference" of liens perfected or payments made on account of a debt in the 90 days before a bankruptcy filing; (iii) equitable subordination claims by other creditors; (iv) so-called "lender liability" claims by the issuer of the obligations; and (v) environmental liabilities that may arise with respect to collateral securing the obligations.

Convertible Securities: Convertible securities are bonds, debentures, notes, preferred equity or other securities that may be converted into, or exchanged for, a specified amount of common equity of the same or different issuer within a particular period of time at a specified price or formula. A convertible security entitles its holder to receive interest that is generally paid or accrued on debt or a dividend that is paid or accrued on preferred equity until the convertible security matures or is redeemed, converted or exchanged. Convertible securities have unique investment characteristics in that they generally (i) have higher yields than common equity, but lower yields than comparable non-convertible securities, (ii) are less subject to fluctuation in value than the underlying common equity due to their fixed income characteristics and (iii) provide the potential for capital appreciation if the market price of the underlying common equity increases.

The value of a convertible security is a function of its "investment value" (determined by its yield in comparison with the yields of other securities of comparable maturity and quality that do not have a conversion privilege) and its "conversion value" (the security's market value, if converted into the underlying common equity). The investment value of a convertible security is influenced by changes in interest rates, with investment value declining as interest rates increase and increasing as interest rates decline. The credit standing of the issuer and other factors may also have an effect on the convertible security's investment value. The conversion value of a convertible security is determined by the market price of the underlying common equity. If the conversion value is low relative to the investment value, the price of the convertible security is governed principally by its investment value. To the extent the market price of the underlying common equity approaches or exceeds the conversion price, the price of the convertible security will be increasingly influenced by its conversion value. A convertible security generally will sell at a premium over its conversion value by the extent to which investors place value on the right to acquire the underlying common equity while holding a fixed income security. Generally, the amount of the premium decreases as the convertible security approaches maturity.

A convertible security may be subject to redemption at the option of the issuer at a price established in the convertible security's governing instrument or other document. If a convertible security held by the Private Funds is called for redemption, the Private Funds will be required to permit the issuer to redeem the security, convert it into the underlying common equity or sell it to a third party. Any of these actions could have an adverse effect on the Private Funds' ability to achieve their investment objectives.

Loan Origination: Värde may originate loans on behalf of the Private Funds. In making loans, the Private Funds will compete with a broad spectrum of lenders, some of which may be willing to lend money on terms that are more competitive (from a borrower's standpoint) than the Private Funds. Increased competition for, or a diminution in the available supply of, qualifying loans may result in lower yields on such loans, which could reduce returns to the Private Funds.

Zero Coupon and Payment-In-Kind ("PIK") Bonds: Because investors in zero coupon or PIK bonds receive no cash prior to the maturity or cash payment date applicable thereto, an investment in such securities generally has a greater potential for a complete loss of principal compared to an investment in debt securities that makes periodic interest payments. Such investments are more vulnerable to the creditworthiness of the issuer and any other parties upon which performance relies.

Early Prepayment: Certain debt that the Private Funds may invest in, such as senior debt, may be repaid early, so that the actual maturity of such investments is shorter than their stated final maturity calculated solely on the basis of the stated life and repayment schedule. Generally voluntary prepayments are permitted and the timing of prepayments cannot be predicted with any accuracy. The degree to which borrowers prepay debt, whether as a contractual requirement or at their election, may be affected by general business conditions, market interest rates, the borrower's financial condition and competitive conditions among lenders. Prepayments are likely to be made during any period of declining interest rates. Such prepayments may result in the Private Funds receiving a lower than anticipated yield on such investments.

Loan Amortizations: The Private Funds may invest in loans that have limited mandatory amortization requirements. While these loans may obligate an issuer to repay the loan out of asset sale proceeds, annual excess cash flow or similar non-recurring events, repayment requirements may be subject to substantial limitations that would allow an issuer to retain such asset sale proceeds or cash flow, thereby extending the expected weighted average life of the investment. In addition, a low level of amortization of any debt over the life of the investment may increase the risk that the borrower will not be able to repay or refinance the loans held by the Private Funds when it matures.

Debtor-In-Possession ("DIP") Loans: The Private Funds may invest in DIP loans. These loans involve a fundamental credit risk based on the debtor's ability to make principal and interest payments and the inherent risks of the bankruptcy process. DIP loans are subject to a court approval process in which parties-in-interest may be heard but there can be no assurance that the Private Funds would be successful in obtaining favorable results. If the calculations of the Firm as to the outcome or timing of a reorganization are inaccurate, a company that has filed for bankruptcy may not be able to make payments on a DIP loan on time or at all. In addition, DIP loans may be privately negotiated transactions that have individualized terms. These positions may be illiquid and difficult to value. DIP loans may be subject to price volatility due to various

factors including, but not limited to, changes in interest rates, market perception of the creditworthiness of the debtor and general market liquidity.

Lender Liability and Equitable Subordination: A number of judicial decisions in the United States have upheld the right of borrowers to pursue lending institutions and others on the basis of various evolving legal theories (collectively termed “lender liability”). Generally, lender liability is founded upon the premise that a lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower that creates a fiduciary duty owed to the borrower or its other creditors or shareholders. Because of the nature of certain of the Private Funds’ investments, the Private Funds could be subject to allegations of lender liability.

In addition, under common law principles in the United States that in some cases form the basis for lender-liability claims, if a lender (a) intentionally takes an action that results in the undercapitalization of a borrower or issuer to the detriment of other creditors of such borrower or issuer, (b) engages in other inequitable conduct to the detriment of such other creditors, (c) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (d) uses its influence as a stockholder to dominate or control a borrower or issuer to the detriment of other creditors of such borrower or issuer, a court may elect to subordinate the claim of the offending lender or bondholder to the claims of the disadvantaged creditor or creditors (a remedy called “equitable subordination”). The Firm does not intend to have the Private Funds engage in conduct that would form the basis for a successful cause of action for lender liability, including the equitable subordination doctrine; however, because of the nature of the debt obligations, the Private Funds may be subject to claims from creditors of an obligor that debt obligations of such obligor which are held by the Private Funds should be equitably subordinated or that the Private Funds should otherwise be liable for claims of lender liability.

With respect to the investments in a non-U.S. issuer, laws of certain non-U.S. jurisdictions may also impose liability upon lenders or bondholders under factual circumstances similar to those described above, with consequences that may or may not be analogous to those described above under U.S. federal and state laws.

Sovereign and Governmental Debt: The Private Funds may invest in debt issued by governmental entities, including, without limitation, 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.

Loans to Private Companies: The Private Funds may pursue loans to private, small and middle market companies. These loans may involve a number of particular risks that may not exist in the case of large public companies, including that: (i) these companies may have limited financial resources and may be unable to meet their obligations under the debt that the Private Funds hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of the Private Funds realizing on any guarantees the Private Funds may have obtained in connection with an investment; (ii) these companies typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns; (iii) limited public information exists about many of these companies, and the Private Funds are required to rely on the ability of the Firm's investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies, and if the Firm is unable to uncover all material information about these companies, it may not make a fully informed investment decision, and the Private Funds may lose money on such investments; (iv) these companies are more likely to depend on the management talents and efforts of a small group of persons and, as a result, the death, disability, resignation or termination of one or more of these persons could have a negative impact on these companies' ability to meet their obligations; (v) these companies generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence and may require substantial additional capital to support their operations finance expansion or maintain their competitive position; and (vi) these companies may have difficulty accessing the capital markets or obtaining financing to meet future capital needs, which may limit their ability to grow or to repay their outstanding indebtedness upon maturity, and may also increase the risk of their defaulting on their obligations, leaving creditors such as the Private Funds dependent on any guarantees or collateral they may have obtained. The impact of these risks on loans made by the Private Funds will be more pronounced when the loans are not secured by the company's assets.

Investments in Loans: The Private Funds may invest in loans, including real estate, consumer and commercial loans. These loans may be at the time of acquisition, or may thereafter become, sub-performing or 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. However, even if a restructuring were successfully accomplished, a risk exists that upon maturity of such loan, replacement "takeout" financing will not be available. Purchases of participations in loans raise many of the same risks as investments in loans and also carry risks of illiquidity and lack of control.

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. The value of the loan will be adversely impacted by a decline in the value of the underlying collateral, which is likely to be beyond the control of the Private Funds. Finally, there is unlikely to be a liquid secondary market for these types of investments. Consequently, the Private Funds may not be able to dispose of these investments at prices that reflect their value or cost. Changes in the market may adversely affect the value of the collateral and thereby lower the value to be derived from a liquidation. In addition, adverse changes in the market increase the probability of default, as the incentive of the borrower to retain equity in the property declines.

Risks Associated with Investments related to Bankruptcy Proceedings: The Private Funds may invest in companies that are, or become, subject to formal bankruptcy proceedings and/or informal out-of-court restructurings. There are a number of significant risks when investing in companies involved in bankruptcy proceedings or restructurings, 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 in certain circumstances as a result of bankruptcy proceedings, including 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 the underwriters or advisors involved in the transaction. 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 generally not 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 (but not limited to) residential mortgage-backed securities ("RMBS"), commercial mortgage-backed securities ("CMBS") and other mortgage-backed securities ("MBS"), collateralized debt obligations ("CDOs") and collateralized loan obligations ("CLOs"). 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, which may include (without limitation) consumer receivables, commercial loans, investment grade credit, high-yield credit and leveraged loans. ABS can also be subject to interest rate, foreign exchange, liquidity and counterparty risk. The Firm may actively expose the Private Funds to these risks through ABS investments; however, there can be no guarantee that Värde will be successful in making the right selections. 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 of RMBS 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 may affect the ability to refinance, 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: The Private Funds may invest in residential mortgage loans and RMBS. Residential mortgage loans may be subject to various U.S. 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 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.

Risks Relating to Commercial Mortgage Loans and CMBS: The Private Funds may invest in commercial mortgage loans and in CMBS and other MBS, including subordinated tranches of such securities.

Commercial mortgage loans are subject to the effects of: (i) the ability of tenants to make lease payments, (ii) the ability of a property to attract and retain tenants, which may in turn be affected by local conditions such as oversupply of space or a reduction in demand for rental space in the area, the attractiveness of properties to tenants, competition from other available space and the ability of the owner to pay leasing commissions, provide adequate maintenance and insurance, pay tenant improvement costs and make other tenant concessions, (iii) interest rate levels and the availability of credit to refinance such loans at or prior to maturity, (iv) compliance with regulatory requirements and applicable laws, including environmental controls and regulations and (v) increased operating costs, including energy costs and real estate taxes. Commercial mortgage loans generally are non-recourse to borrowers and generally lack standardized terms, which may complicate their structure and increase due diligence costs. Repayment of loans secured by commercial properties often depends on the ability of the related real estate: (i) to generate income that is sufficient to pay the debt service, operating expenses and leasing commissions and to make necessary repairs, tenant improvements and capital improvements; and (ii) to retain sufficient value to permit the borrower to pay off the loan at maturity (in the case of loans that do not fully amortize over their terms). Any factor that affects the ability of the underlying real estate to generate sufficient cash flow could have a material adverse effect on the value of such loans. In addition, in the case of commercial properties that have a single user or tenant or few tenants, it may be difficult and costly to liquidate such properties or attract new tenants. Some such properties may not be readily convertible (or convertible at all) to alternative uses if those properties become unprofitable for any reason. Also, there may be costs and delays involved in enforcing rights of a property owner against tenants in default under the terms of leases with respect to commercial properties and such tenants may seek the protection of the bankruptcy laws which can result in termination of lease contracts. Income from and values of properties are also affected by such factors as the quality of the property manager, applicable laws, including, without limitation, tax laws, interest rate levels, the availability of financing for owners and tenants and the impact of and costs of compliance with environmental controls and regulations.

The value of CMBS will be influenced by factors affecting the value of the underlying real estate portfolio, and by the terms and payment histories of such CMBS.

Some or all of the CMBS contemplated to be acquired by the Private Funds may not be rated, or may be rated lower than investment-grade securities, by one or more nationally recognized statistical rating organizations. Lower-rated or unrated CMBS, or “B-pieces,” have speculative characteristics and can involve substantial financial risks as a result. The prices of lower credit quality securities have been found to be less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic or real estate market conditions or individual issuer concerns. Securities rated lower than “B” by the rating organizations can be regarded as having extremely poor prospects of ever attaining any real investment standing and may be in default. Existing credit support and the owner’s equity in the property may be insufficient to protect the Private Funds from loss. As an investor in subordinated CMBS in particular, the Private Funds will be first in line among debt holders to bear the risk of loss from delinquencies and defaults experienced on the collateral.

The Private Funds may acquire subordinated tranches of CMBS issuances. In general, subordinated tranches of CMBS are entitled to receive repayment of principal only after all

principal payments have been made on more senior tranches and also have subordinated rights as to receipt of interest distributions. Such subordinated tranches are subject to a greater risk of nonpayment than are senior tranches of CMBS or CMBS backed by third-party credit enhancement. In addition, an active secondary market for such subordinated securities is not as well developed as the market for certain other MBS. Accordingly, such subordinated CMBS may have limited marketability and there can be no assurance that a more efficient secondary market will develop.

The value of CMBS and other MBS in which the Private Funds may invest generally will have an inverse relationship with interest rates. Accordingly, if interest rates rise, the value of such securities will decline. In addition, to the extent that the mortgage loans that underlie specific MBS can be prepaid, the value of such mortgage securities may be negatively affected by increasing prepayments, which generally occur when interest rates decline.

Mortgage loans on commercial properties underlying CMBS often are structured so that a substantial portion of the loan principal is not amortized over the loan term but is payable at maturity and repayment of the loan principal, and thus, often depends upon the future availability of real estate financing from the existing or an alternative lender and/or upon the then-current value and salability of the real estate. Therefore, the unavailability of real estate financing may lead to default. Many commercial mortgage loans underlying CMBS are effectively nonrecourse obligations of the borrower, meaning that there is no recourse against the borrower's assets other than the collateral. If borrowers are not able or willing to refinance or dispose of encumbered property to pay the principal and interest owed on such mortgage loans, payments on the subordinated classes of the related CMBS are likely to be adversely affected. The ultimate extent of the loss, if any, to the subordinated classes of CMBS may only be determined after a negotiated discounted settlement, restructuring or sale of the mortgage note, or the foreclosure (or deed in lieu of foreclosure) of the mortgage encumbering the property and subsequent liquidation of the property. Foreclosure can be costly and delayed by litigation and/or bankruptcy. Factors such as the property's location, the legal status of title to the property, its physical condition and financial performance, environmental risks and governmental disclosure requirements with respect to the condition of the property may make a third party unwilling to purchase the property at a foreclosure sale or to pay a price sufficient to satisfy the obligations with respect to the related CMBS. Revenues from the assets underlying such CMBS may be retained by the borrower and the return on investment may be used to make payments to others, maintain insurance coverage, pay taxes or pay maintenance costs. Such diverted revenue is generally not recoverable without a court-appointed receiver to control collateral cash flow.

Equity Securities Issued by CDOs and CLOs: A portion of the Private Funds' assets may consist of equity securities issued by any one or more CDOs or CLOs. These equity securities are subject to substantial risks including the following:

Leveraged investment: CDO or CLO equity tranches represent leveraged investments in the underlying collateral held by the CDO or CLO issuer. This leverage is designed to increase the cash flow available in respect of the amount invested by the holders as compared with the cash flow that would be available in respect of a comparable investment in a non-leveraged transaction. Such increased cash flow will directly affect the yield on the CDO or CLO equity tranches. However, the use of leverage also creates risk for the holders because the leverage increases their exposure to losses with respect to the collateral. As a result, the occurrence of

defaults with respect to only a small portion of the collateral could result in the substantial or complete loss of the investment in the CDO or CLO equity tranches. Due to the existence of leverage, changes in the market value of the CDO or CLO equity tranches could be greater than the changes in the values of the underlying collateral of the relevant issuer, which itself may be subject to, among other things, credit and liquidity risk. Although the use of leverage creates an opportunity for increased returns on the CDO or CLO equity tranches, it increases substantially the likelihood that the holders of the CDO or CLO equity tranches could lose their entire investment if the pool of collateral held by such CDO or CLO entity is adversely affected.

Limited sources for dividends and other distributions on CDO or CLO equity: The CDO or CLO equity tranches represent equity interests in the relevant CDO/CLO issuer only. Like other securities issued by CDOs or CLOs, they are payable solely from and to the extent of the available proceeds from the collateral held by the issuer. The CDO or CLO equity tranches are part of the issued share capital of the issuer and are not secured. Except for the issuer, no person is obligated to pay dividends or any other amounts with respect to the CDO or CLO equity tranches. Consequently, holders of the CDO or CLO equity tranches must rely solely upon distributions on the collateral. If distributions on such collateral are insufficient to pay required fees and expenses, to make payments on the debt securities of the issuer or to pay dividends or other distributions on the CDO or CLO equity tranches, all in accordance with the applicable priority of payments, no other assets of the CDO/CLO issuer or any other person will be available for the payment of the deficiency. Once all proceeds of the collateral have been applied, no funds will be available for payment of dividends or other distributions on the CDO or CLO equity tranches. Therefore, whether holders of the CDO or CLO equity tranches receive a return equivalent to the repayment of the purchase price paid for the CDO or CLO equity tranches and any additional return thereon will depend upon the aggregate amount of dividends and other distributions paid on the CDO or CLO equity tranches prior to any final redemption date and the amount of available funds on the final redemption date available for distribution to holders of the CDO or CLO equity tranches.

Subordination of the CDO or CLO equity tranches: Payments of principal of, and interest on, debt issued by CDOs and CLOs, and dividends and other distributions on CDO or CLO equity tranches, are subject to priority of payments. CDO or CLO equity tranches are subordinated to the prior payment of all obligations under debt securities. Further, in the event of default under any debt securities issued by a CDO or CLO, holders of the CDO or CLO equity tranches generally have no right to determine the remedies to be exercised. To the extent that any elimination, deferral or reduction in payments on debt securities occurs, such elimination will be borne first by the CDO or CLO equity tranches and then by the debt securities in reverse order of seniority. Thus, the greatest risk of loss relating to defaults on the collateral held by CDOs and CLOs is borne by the CDO or CLO equity tranches. To the extent that a default occurs with respect to any collateral and such collateral is sold or otherwise disposed of, it is likely that the proceeds of such sale or other disposition will be less than the unpaid principal and interest on such collateral. Excess funds available for distribution to the CDO or CLO equity tranches will be reduced by losses occurring on the collateral, and returns on the CDO or CLO equity tranches will be adversely affected.

Legal status of the CDO or CLO equity tranches: The CDO or CLO equity tranches will rank behind all of the creditors, whether secured or unsecured and known or unknown, of the issuer, including the holders of all the classes of debt securities issued by the CDO/CLO issuer.

Payments in respect of such CDO or CLO equity tranches are subject to certain requirements imposed by Cayman Islands law or the other relevant jurisdiction of a CDO/CLO issuer. All payments to holders of CDO or CLO equity, other than payments made on the final redemption date, will be paid as dividends in accordance with the corporate law of the issuer. Therefore, any amounts paid as dividends or other distributions on CDO or CLO equity will be payable only if the issuer has sufficient distributable profits and/or share premium and meets any other application restrictions imposed on the issuer. In addition, such distributions (including any distribution upon redemption of equity securities) will be payable only to the extent that the issuer is and remains solvent after such distributions are paid. Under Cayman Islands law, a company is generally deemed to be solvent if it is able to pay its debts in the ordinary course of its business as they come due.

To the extent the requirements under Cayman Islands or other applicable law described in the preceding paragraph are not met, amounts otherwise payable to the holders of the CDO or CLO equity are generally held until, in the case of a distribution by way of dividend, the next succeeding payment date on which such requirements are met.

Yield, maturity, distributions and other performance considerations: The amount of distributions on the CDO or CLO equity tranches will be affected by, among other things, the timing of purchases of collateral, the rates of repayment of or distributions on the collateral, the timing of reinvestment in substitute collateral and the interest rates available at the time of reinvestment. The longer the period of time before reinvestment of cash in collateral, the greater the adverse impact may be on the aggregate interest collected, thereby lowering yields and otherwise affecting performance of the CDO or CLO equity tranches. The amount of distributions on CDO or CLO equity tranches may also be affected by rates of delinquencies and defaults on and liquidations of the collateral, sales of collateral and purchases of collateral having different payment characteristics. The yield and other measures of performance may be adversely affected to the extent that the issuer incurs any significant unexpected expenses.

Real Estate Assets: Investments may be made, directly or indirectly, in real estate. Such real estate investments will be subject to the risks generally incident to the ownership of real property, including, without limitation, uncertainty of cash flow to meet fixed and other obligations; adverse changes in market conditions, population trends, community conditions, general economic conditions, local employment conditions, interest rates and real estate tax rates; changes in fiscal policies; competition from other properties; and uninsured losses and other risks that are beyond the control of the Firm and their consequences. With respect to equity investments, there can be no assurance of profitable operations because the cost of owning the investments may exceed the income produced, particularly since certain expenses related to real estate and its development and ownership, such as property taxes, utility costs, maintenance costs and insurance, tend to increase over time or remain fixed regardless of occupancy or change in value of the underlying real estate and are largely beyond the control of the owner. The ultimate performance and value of the real estate equity investments depend upon, in large part, each investment's ability to provide sufficient cash flows necessary to pay the Private

Funds' equity investment and a return on such investment, or to pay interest and principal due to the Private Funds as lenders.

The Private Funds may pursue real estate strategies that include seeking to improve, refurbish, reposition, re-gear and/or redevelop real estate. Such strategies are subject to many of the same risks as new development and, accordingly, the success of such strategies will depend on a variety of factors, including, without limitation, the cost of construction and improvement projects, the availability of regulatory and zoning approvals, the availability of appropriate personnel and the availability of financing. In addition, the Private Funds may invest in the equity of companies involved in the development, operation or management of real estate, and such investments will be subject to the risks attendant to investments in real estate assets as well as the risks associated with equity investments in operating companies.

With respect to debt investments, changes in the real estate market may adversely affect the value of the collateral and thereby lower the value to be derived from liquidation. In addition, adverse changes in the real estate market increase the probability of default, as the incentive of the borrower to retain equity in the property declines. Furthermore, the properties which will secure loans originated or purchased by the Private Funds may be suffering varying degrees of financial distress or may be located in economically distressed areas.

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), the availability of both construction and permanent financing on favorable terms and the availability of mortgage financing for the ultimate buyer. 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.

Sale-Leaseback Transactions: The Private Funds may enter into sale-leaseback transactions, whereby they would lease properties they purchased back to the sellers of such properties. A transaction structured as a sale-leaseback may be re-characterized as either a financing or a joint venture, either of which outcome could adversely affect the Private Funds from a business and financial perspective. If the sale-leaseback were re-characterized as a financing, the Private Funds might not be considered the owners of the property, and as a result, would have the status of creditors in relation to the tenant. In that event, the Private Funds would no longer have the right to sell or encumber their ownership interests in the property. Instead, the Private Funds would have claims against the tenant for the amounts owed under the lease, with the claim arguably secured by the property. The tenant/debtor might have the ability to propose a plan

restructuring the term, interest rate and amortization schedule of its outstanding balance. If confirmed by the bankruptcy court, the Private Funds could be bound by the new terms, and prevented from foreclosing their liens on the property. If the sale-leaseback were re-characterized as a joint venture, the Private Funds and their tenant could be treated as co-ventures with respect to the property. As a result, the Private Funds could be held liable, under some circumstances, for debts incurred by the tenant relating to the property. Either of these outcomes could adversely affect the Private Funds' cash flows and the amount available for distributions to their investors.

Environmental Hazards: Under environmental laws in certain jurisdictions, owners of property may be liable for the clean-up and removal of hazardous substances even where the owner was not responsible for placing the hazardous substances on the property or where the property was contaminated prior to the time the owner took title to the property. The costs of removal and clean-up of hazardous substances and wastes can be extremely expensive and, in some cases, can exceed the value of a property. If any property acquired by the Private Funds (whether through foreclosure or otherwise) subsequently was found to have an environmental problem, such acquiring entity could incur substantial costs and suffer a complete loss of its investment in such property, as well as of other assets. Similarly, real estate is subject to loss due to so-called "special hazards" (e.g., floods, earthquakes and hurricanes). It may be impractical or impossible to fully insure against such events and, should such an event occur, the Private Funds could incur substantial costs and suffer a complete loss of their investment in such property.

Transportation, Energy and Infrastructure Assets: The Private Funds may make investments related to the transportation, energy and infrastructure sectors. The value of these investments is subject to volatile commodity markets and is significantly affected by shifts in general economic activity. Investments in these industries carry additional risks such as catastrophic events, significant and increasing regulation and large upfront capital investments which are not generally involved in other industries.

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, the Private Funds may not be able to dispose of these investments at prices that reflect their value or the amount paid by the Private Funds for them.

Specialty Finance: The Private Funds may invest in companies and operating platforms that originate and/or service commercial and consumer credits, including credit cards, personal loans and equipment finance, and may also invest directly in those credits. Pricing and optimizing the value of such credits requires strong analytics and extensive infrastructure. The form of investment may vary and may require reliance on networks of asset managers to provide the resources necessary to originate new receivables, manage portfolios of performing receivables and work-out portfolios of stressed or non-performing receivables. These loans may not be secured and may be subject to increasing regulation. The Private Funds may also invest in leasing businesses, companies that provide services to specialty finance companies (e.g., credit scoring agencies and corporate trust services) and other companies that have business models related to the specialty finance sector.

Investments in Equity Generally: The Private Funds' 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 equity investments 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 equity investments, and investors must expect fluctuations in the 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.

Equity or equity-related investments by their nature involve business, financial, market and/or legal risks. While such investments offer the opportunity for significant capital gains, they also involve a high degree of risk that can result in partial or total losses and investors must be prepared to bear such capital losses that may result from such investments. There can be no assurance that the Firm will correctly evaluate the nature and magnitude of the various factors that could affect the value of such investments. Prices of such investments may be volatile, and a variety of other factors that are inherently difficult to predict, such as United States or other international economic and political developments, may significantly affect the results of the Private Funds' activities.

The Private Funds may from time to time make investments in private companies without an active trading market. Traditional exit opportunities for such investments have consisted primarily of initial public offerings and acquisitions by other companies as well as limited secondary market trades. The ability of the Private Funds to sell securities and realize investment gains will depend upon a variety of factors, including favorable market conditions. Initial public offering and merger and acquisition opportunities may be limited or non-existent for extended periods of time, whether due to economic, regulatory or other factors. In addition, general fluctuations in the market prices of securities may affect the value of the investments held by the Private Funds. Therefore, there is no assurance that the Private Funds will be able to realize liquidity for such investments in a timely manner, if at all.

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: The Private Funds 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: The Private Funds may invest in certain investments that may be subject to legal or other restrictions on transfer and for which there is no liquid market. 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, and, in some instances, a Private Fund may not be able to dispose or

distribute in-kind an asset before the end of the Private Fund's term. Calculating the fair 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: The Private Funds may invest in companies, issuers or assets principally located or whose revenues are substantially derived outside the U.S. 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. For example, security trading practices abroad may also offer less protection to investors than those in the U.S. There may also be difficulty in enforcing legal rights outside the U.S.

Moreover, non-U.S. companies may not be subject to uniform accounting, auditing and financial reporting standards, practices and requirements comparable to those that apply to U.S. companies. Assets and profits appearing on the financial statements of a company with respect to which a Private Fund has made an investment or proposes to make an investment may not reflect its financial position or results of operations in the way they would be reflected had such financial statements been prepared in accordance with International Financial Reporting Standards. Furthermore, investments in some non-U.S. countries are prone to fraud and false

reporting practices. In certain cases, managers of the companies with respect to which a Private Fund makes investments and/or other third parties might deliberately falsify or cover up certain company reports or practices, and the Private Fund may be misinformed regarding its investments. It is also possible that such managers or third parties may, after a Private Fund has made an investment, engage in acts that are in violation of their agreements with the Private Fund, or otherwise engage in certain acts that damage the interests of the Private Fund. Any of these issues may undermine the performance of the Private Fund's investments.

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 or foreign investment limitations; (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) the imposition of regulatory limits on debt issuance, holdings or concentration; (v) different bankruptcy laws and customs; (vi) less developed corporate laws regarding, among other things, fiduciary duties and the protection of investors; (vii) price volatility; and (viii) fluctuations in currency exchange rates. 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.

To the extent that a Private Fund makes any investment in one or more emerging markets, it may be subject to certain risks and special considerations that are not typically associated with investing in more established economies or markets, including, among other things, (i) a higher dependence on exports and the corresponding importance of international trade; (ii) greater risk of inflation; (iii) an inability to exchange local currencies for U.S. dollars; (iv) an increased likelihood of governmental involvement in and control over the economy; (v) governmental decisions to cease support of economic reform programs or to impose centrally planned economies; (vi) less developed compliance culture; (vii) risks associated with differing cultural expectations and norms regarding business practices; (viii) longer settlement periods for transactions and less reliable clearance and custody arrangements; (ix) less developed, reliable or independent judiciary systems for the enforcement of contracts or claims; (x) greater regulatory uncertainty; (xi) risks associated with the maintenance of the Private Fund's investments with non-U.S. broker-dealers, securities depositories, asset servicers or custodians; and (xii) threats or incidents of corruption or fraud, all of which may adversely affect the return on the Private Fund's investments. For example, a Private Fund and/or its investments may have difficulty in successfully pursuing claims against an entity with which it transacts business or its directors, officers or shareholders in certain non-U.S. countries compared to a country with a more developed legal system. A Private Fund and/or its investments may have limited legal recourse in the event of a dispute, and remedies might have to be pursued in the courts of the country in question where it may be difficult to obtain and enforce a judgment, especially against governmental entities. Further, the laws and regulations in some non-U.S. countries can be vague, contradictory, not comprehensive and subject to varying interpretation, any of which may expose the Private Fund and/or its investments to losses.

Certain non-U.S. countries have in the past, and may in the future, experience political, religious and social instability that could adversely affect the Private Funds' investments in such countries,

including resulting from, among other things (many of which may be unforeseeable): (i) authoritarian governments or military involvement in political and economic decision-making; (ii) changes in government or governmental policies; (iii) popular unrest and internal insurgencies associated with demands for improved political, economic and social conditions; (iv) adverse relations with other countries; (v) ethnic, racial and religious conflict; or (vi) public health issues. Such instability could also result from, among other things, opposition to government policies that facilitate direct investments in such countries. The availability of attractive investment opportunities for the Private Funds is expected to depend in part on governments in these countries continuing to liberalize their policies regarding investments in such countries and to encourage further private sector initiatives. There is no assurance that such countries will continue to liberalize or will maintain the existing policies in their current form which may have a material adverse effect on the performance of the Private Funds. In recent years, certain countries have witnessed various terrorist attacks, civil unrest and other acts of violence, and it is possible that in the future such events, as well as other adverse social, economic or political events in a Private Fund's target markets, may adversely affect the value and prospects of such Private Fund's investments. Changes in governmental policy may affect ownership of assets, taxation, rates of exchange, environmental protection, repatriation of income and return of capital, with potentially adverse effects on a Private Fund's investments. There is also the possibility of nationalization, exchange control regulations, expropriation or confiscatory taxation, political changes, government regulation, restrictions on repatriation of capital, renunciation of national debt, political, economic or social instability or other economic or diplomatic developments, which could adversely affect the economies of such countries or the value of a Private Fund's investments in those countries.

Corruption remains a significant problem in some non-U.S. countries in which the Private Funds invest and its effects seriously constrain the development of local economies, erode stability and trust and its macro-economic and social costs are immense. There often exists insufficient anti-corruption legislation and coordination of anti-corruption initiatives. Specifically, in some countries, there is a greater acceptance than in the United States of government involvement in commercial activities, and of the resulting potential for corruption. Värde, the Värde professionals and the Private Funds are committed to complying with the U.S. Foreign Corrupt Practices Act ("FCPA") and other anti-corruption, anti-bribery and anti-boycott laws and regulations, including under U.S. and non-U.S. law, to which they are subject. As a result, the Private Funds may be adversely affected because of an unwillingness to participate in transactions that violate such laws or regulations. Such laws and regulations may make it difficult in certain circumstances for the Private Funds to act successfully on investment opportunities and for investments to obtain or retain business. While Värde has developed and implemented policies and procedures designed to ensure strict compliance by Värde and its personnel with the FCPA and other applicable laws, such policies and procedures may not be effective in all instances to prevent violations. In addition, notwithstanding Värde's policies and procedures, affiliates of portfolio investments, particularly in cases where the applicable Private Fund does not control such portfolio investment, may engage in activities that could result in violations of the FCPA or other applicable laws. Any determination that Värde has violated the FCPA or other applicable anti-corruption, anti-bribery or anti-boycott laws could subject Värde and/or the Private Funds to, among other things, civil and criminal penalties, material fines, profit disgorgement, injunctions on future conduct, securities litigation and a general loss of investor confidence, any one of which could adversely affect Värde's business prospects and/or

financial position, as well as the ability of the Private Funds to achieve their investment objectives and/or conduct their operations.

Some non-U.S. countries may experience substantial rates of inflation, which may have negative effects on the economies and markets of their economies. Governmental efforts to curb inflation (such as price controls) may involve drastic economic measures affecting the level of economic activities. There can be no assurance that the relevant governments will be able to continue to exercise effective control over inflation rates or that a high rate of inflation will not have a materially adverse effect on the Private Funds' investments.

The market and the economy of a particular country in which the Private Funds may invest may be influenced by economic and market conditions in other countries in the region. A significant adverse change in the economy of one country, or a loss of investor confidence in the financial systems of markets generally, could cause increased volatility in the economies and financial markets of such country and countries throughout the region and the world and, as a result, have an adverse effect on the investments of the Private Funds. Events of this nature may adversely affect the economies of impacted countries in both the near and long term. No assurances can be given that a Private Fund's portfolio will not be adversely affected by such events and, as a result, the performance of the Private Fund may be materially adversely affected.

Businesses and investments in some non-U.S. countries may be dependent upon the grant, renewal or continuance in force of appropriate contracts, licenses, permits, and regulatory approvals and consents, which may be valid only for a defined time period, may be subject to limitations and may provide for withdrawal in certain circumstances. There can be no assurance that such contracts, licenses, permits and regulatory approvals and consents would be granted, renewed or continue in force or, if so, on what terms. These may be susceptible to revision or cancellation and legal redress may be uncertain or delayed. There can be no assurance that licenses, applications or other legal arrangements will not be adversely affected by the actions of government authorities or others, and the effectiveness and enforcement of such arrangements cannot be assured.

Foreign investment in the assets and/or securities of entities in some non-U.S. countries may be subject to varying degrees of restrictions or controls, which may at times limit or preclude foreign investment in such assets and/or entities, limit the types of investments that foreign persons may hold, or limit foreign investors to special investment structures, which may increase the costs and expenses of the Private Funds. Foreign persons may also be precluded from investing in certain economic sectors (such as communications or natural resources). While Värde believes its investment structures will not subject the Private Funds' investments to the most prohibitive of such foreign investment and repatriation restrictions, there can be no assurance that authorities in such countries will agree that such investment structures do not trigger such restrictions, or that the law will not change such that additional governmental approvals are required, investments are restricted or prohibited, or repatriation of proceeds are taxed, restricted or otherwise prohibited. The Private Funds could be adversely affected by delays in, or a refusal to grant, any required governmental approval for repatriation of principal or interest on loans held by such Private Funds. The corporate law, property law and foreign investment related law and regulations of some non-U.S. countries may permit less flexibility in structuring transactions than comparable transactions in more developed markets.

Sales into Emerging Markets: The Manager, on behalf of the Private Funds, may seek to realize gains on certain of the Private Funds' investments by selling into the public markets of an emerging market country. Trading activity on the exchanges of some emerging market countries may vary in substantial ways from operations on larger, more international public markets, and may be less liquid and more volatile, with less sophisticated settlement systems. This may affect the Private Funds' ability to dispose of investments at the price and time it wishes to do so. The trading markets of some emerging market countries may be susceptible to being influenced by large investors trading significant blocks of securities. Commissions for trading on exchanges in some emerging market countries can be higher than commissions for trading on stock exchanges in certain other markets. In addition, these markets may have less rigorous disclosure standards or otherwise be less regulated than larger, more international, public markets and any regulatory supervision that is in place may be subject to manipulation or control. In addition to their smaller size, reduced liquidity, less developed settlement systems and lower regulation, the individual markets of some emerging market countries are, to varying degrees, influenced by economic and market conditions in other markets in the region. Although economic conditions are different in each country, investors' reaction to developments in one country can have effects on issuers in other countries in the region. There can be no assurance that individual markets will not continue to be affected negatively by events elsewhere, or that such events will not adversely affect the value of the Private Funds' investments.

U.S. Government Sanctions and Intervention Risks: Economic sanction laws in the United States may prohibit Värde, Värde's professionals and/or the Private Funds from transacting with or in certain countries and with certain individuals and companies. In the United States, the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC") administers and enforces laws, Executive Orders and regulations establishing U.S. economic and trade sanctions. Such sanctions prohibit, among other things, transactions with, and the provision of services to, certain foreign countries, territories, entities and individuals. These entities and individuals include specially designated nationals, specially designated narcotics traffickers and other parties subject to OFAC sanctions and embargo programs. The lists of OFAC prohibited countries, territories, persons and entities, including the List of Specially Designated Nationals and Blocked Persons, as such list may be amended from time to time, can be found on the OFAC website. In addition, certain programs administered by OFAC prohibit dealing with individuals or entities in certain countries regardless of whether such individuals or entities appear on the lists maintained by OFAC. Many of the regulators to which Värde, the Private Funds and their respective affiliates are expected to be subject, including governmental agencies and self-regulatory organizations, are empowered to conduct investigations and administrative proceedings that can result in fines, suspensions of personnel or other sanctions, including censure, the issuance of cease-and-desist orders or the suspension or expulsion of applicable licenses or members. Even if an investigation or proceeding did not result in a sanction, or the sanction imposed is small in monetary amount, the adverse publicity relating to the investigation, proceeding or imposition of these sanctions could harm Värde, the Private Funds or their respective affiliates' reputations that may adversely affect the investment performance of the Private Funds by hindering their ability to obtain desired financing or consummate a potentially profitable investment. In addition, the enactment of new U.S. economic and trade sanctions could significantly restrict a Private Fund's investment activities, or require the divestment of existing Private Fund investments.

Additionally, a major U.S. governmental intervention into industry, including, without limitation, newly implemented or modified tariffs or other trade agreements applicable to certain products, industries or countries, the nationalization of an industry, or the assertion of control over one or more industry sectors or related assets, could result in a loss to the Private Funds, including if a Private Fund investment is canceled, unwound, acquired or otherwise adversely affected (which could be without what Värde considers to be adequate compensation). These types of interventions may significantly restrict the Private Funds' investment activities in certain industries or countries.

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 their 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.

Due Diligence: The Firm will conduct, and may use third parties to conduct, due diligence on prospective investments. In conducting such due diligence, the Firm's investment professionals may use publicly available information as well as information from their relationships with former and current management teams, consultants, competitors and investment bankers. Such level of due diligence may not, however, reveal all matters and issues, material or otherwise, relating to prospective investments.

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 to synthetically implement their investment strategy. These may include swap or notional principal contracts and related derivative transactions including, but not limited to, total return swaps, interest rate swaps, credit default swaps, the use of forward contracts, put and call

options, futures, floors, collars or other similar arrangements and derivative transactions that are valued in relation to one or more underlying securities, commodities, financial benchmarks, indices or other assets. Markets for such instruments may be illiquid, highly volatile and subject to interruption. The value of a derivative depends largely upon price movements in the underlying asset. Therefore, many of the risks applicable to trading the underlying asset are also applicable to derivatives trading.

The Private Funds may be exposed to certain risks should Värde use derivatives as a means to synthetically implement 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 use such synthetic derivative instruments, the Private Funds will typically 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, an investor's after-tax return from its investment in the Private Fund may be adversely affected.

Use of Leverage: The Private Funds may employ leverage in the acquisition, operation and ownership of their investments and may refinance their investments, if desirable. The Private Funds may lever their assets through various types of financings and through various securitization vehicles and repurchase agreements. With respect to the Private Funds' real estate investments, debt could take the form of mortgage or other financing at the property level or ownership level. Subject to any limitations set forth in the Offering Documents of a particular Private Fund, the Private Funds are also typically permitted to guaranty indebtedness (such as a guaranty of an investment's debt) and to enter into recourse and non-recourse borrowings, primarily from banks, securities firms and other providers of capital, in such amounts and on such terms and conditions as Värde, in its sole discretion, deems appropriate. The Private Funds

may also leverage their assets with options, short sales, swaps, forwards and other derivative instruments. The Private Funds may incur leverage on a joint and several basis or on a cross-collateralized basis with one or more other Private Funds or other Värde accounts and may have a right of contribution, subrogation or reimbursement from or against such entities.

A Private Fund's assets, including any investments made by the Private Fund and any capital held by the Private Fund, may be available to satisfy all liabilities and other obligations of the Private Fund. If a Private Fund or an underlying portfolio company investment defaults on secured indebtedness, for example, the lender may foreclose and the Private Fund could lose its entire investment in the security for such loan. If the Private Fund itself becomes subject to a liability, parties seeking to have the liability satisfied may have recourse to the Private Fund's assets generally and will not be limited to any particular asset, such as the investment giving rise to the liability. The investors in a Private Fund will not be personally liable for the Private Fund's obligations under any borrowing arrangements. However, such borrowing arrangements may be secured by, among other things, the right of the Private Fund's general partner to call capital and capital commitments made by (and/or enforce other payment obligations of) the Private Fund's investors and to recall distributions previously made to the Private Fund's investors, and the inability of the Private Fund to repay borrowings under a credit facility secured by such rights could enable a lender to take action against any investor in the Private Fund to the extent of its unfunded commitment and other payment obligations in respect of the Private Fund (including being required to make capital contributions or other payments or return distributions directly to one or more lenders instead of the Private Fund).

Net internal rates of return in respect of investment and performance data, as reported by the Private Funds from time to time, are based on the payment date of capital contributions received from and distributions returned to the investors of each such Private Fund. This treatment also applies in instances where a Private Fund utilizes borrowings under such Private Fund's subscription-based credit facility in advance of receiving capital contributions from the investors, or under such Private Fund's post-investment period credit facility to return capital to the investors prior to the receipt of investment proceeds. As a result, use of a subscription-based or post-investment period credit facility will (in a positive return scenario and to the extent not offset by expenses associated with the use of such facility) result in a higher reported internal rate of return than if the facility had not been utilized and instead the investors' capital had been contributed at the inception of an investment and/or distributions returned upon receipt of investment proceeds.

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.

In addition to leverage employed by the Private Funds, CLO equity tranches represent leveraged investments in the underlying collateral held by the CLO issuer. Although the use of leverage creates an opportunity for increased returns on the CLO equity tranches, it increases substantially the likelihood that the holders of the CLO equity tranches could lose their entire investment if the pool of collateral held by such CLO entity is adversely affected.

There can be no guarantee that (i) debt facilities will be available at commercially attractive rates throughout the term of a Private Fund or when due for refinancing, and accordingly the Private Fund or the applicable portfolio company may be exposed to less favorable terms or rates upon a refinancing, or (ii) any facilities negotiated will be fully utilized. If a Private Fund is unable to obtain desired financing for its investments or maintain a desired or optimal amount of financial leverage, the Private Fund may have to maintain a larger than expected capital allocation to the investments and may realize lower than expected returns from such investments that could adversely affect the Private Fund's ability to generate investment returns for its investors. Any failure by lenders to provide previously committed financing could also expose the Private Fund to potential claims by sellers of assets that the Private Fund may have been contracted to purchase.

Highly Leveraged Companies: The Private Funds' investment program is expected to include investments in companies whose capital structures may have significant leverage (including, to the extent the Private Funds hold junior debt interests, certain leverage senior to the Private Funds' investment). Such investments are inherently more sensitive to declines in revenues, competitive pressures and increases in expenses and interest rates. The leveraged capital structure of such companies will increase their exposure to adverse economic factors, such as downturns in the economy or deterioration in the condition of the companies or their industries, and, to the extent the Private Funds hold junior debt interests therein, such companies may be subject to restrictive financial and operating covenants in more senior debt instruments and contracts that adversely impact the Private Funds' investments. If the companies of a portfolio investment cannot generate adequate cash flow to meet debt obligations, the companies may default on its loan agreements or be forced into bankruptcy resulting in a restructuring of the company's capital structure or liquidation of the company. Furthermore, to the extent companies in which the Private Funds invested have become insolvent, the Private Funds may determine, in cooperation with other debtholders or on their own, to engage counsel and other advisors in connection therewith.

Bank Loans, Participations and Assignments: The Private Funds' investment program may include investments in significant amounts of bank loans and/or loan participations. These obligations are subject to unique risks, including, without limitation: (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 or syndicated loans; and (vii) generation of income that is subject to 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 creditor of such selling institution and may not have any exclusive or senior claim with respect to the selling institution's interest in, or the collateral with respect to, the secured loan. Consequently, the Private Funds may be subject to the credit risk of the selling institution as well as of 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, without limitation, 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: The Private Funds' investment activities subject them 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 liquid assets, *i.e.* 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. In addition, for an investment to be deemed by Värde as a liquid asset for valuation purposes, there need only be market quotations available from one independent market source at the time of investment. 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 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 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 an 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 investments 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 certain investments, Värde 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 with 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 company in accordance with Värde's plans or expectations. Many of the Private Funds' investments will represent minority and/or non-voting positions in portfolio companies, and, although a Private Fund may, in certain circumstances, have representatives that serve on the boards of directors, such representative may not have the power individually to exert significant control over such portfolio companies' boards of directors and management. In such cases, the Private Funds will rely significantly on the existing management and boards of directors of such portfolio companies, which may

include unseasoned directors, managers and representatives of other investors with whom the Private Fund is not affiliated and whose interests or views may conflict with the interests of the Private Fund. 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. To the extent that the management of a portfolio company performs poorly, or if a director or key manager of a portfolio company engages in misconduct in his or her duties, commits material errors in carrying out such duties, or terminates his or her employment or association with such company, the applicable Private Fund's investment in such company will be adversely affected.

Misrepresentation, Fraud and Misconduct: Of significant concern in lending and investing is the possibility of material misrepresentation or omission by a counterparty or other parties involved in the transaction. Such misrepresentation or omission may adversely affect the valuation of the collateral underlying the investment or may adversely affect the ability of a Private Fund to realize a return on its investment. Private Funds generally rely upon the accuracy and completeness of representations made by counterparties, but cannot guarantee such accuracy or completeness. 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, portfolio company employees or third-party service providers could also 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.

Co-Investments: To the extent that a particular investment opportunity exceeds the desired allocation to a Private Fund, or there are prospective investors that Värde believes will be of benefit to the Private Funds or that may provide a strategic, sourcing or similar benefit to Värde, the Private Funds or one or more of their respective affiliates due to industry expertise, end-user expertise or otherwise, Värde may, in its discretion, offer the opportunity to co-invest alongside the Private Funds to one or more such co-investors or any other person or entity (including existing investors in the Private Funds, employees of the Firm, a portfolio company's management team members, consultants or advisors, or other third parties). In any event, no Private Fund investor should have any expectation of receiving a co-investment opportunity or to be owed any duty or obligation in connection therewith.

Värde will select co-investors and allocate co-investment opportunities based on a number of relevant factors, including those specific to the investment opportunity. These factors may include, but are not limited to: any requirements or restrictions relating to co-investment opportunities in any relevant governing agreements or side letters; the strategic value of a prospective co-investor to the underlying investment opportunity; how quickly a prospective co-investor is able to conduct its own due diligence and provide a commitment with respect to the investment opportunity; whether the prospective co-investor has the financial and other resources to make the investment; whether the prospective co-investor has indicated a desire to make investments of the type offered by the investment opportunity; any relevant confidentiality restrictions or obligations relating to the investment opportunity; Värde's past experience and relationship with the potential co-investor; the size of the potential co-investor's commitment to any Private Fund; Värde's belief that allocating all or a portion of the co-investment opportunity to a potential co-investor will help establish, strengthen and/or cultivate a relationship that may provide indirect benefits to any existing or future Private Funds; whether the profile or characteristics of the potential co-investor may have an impact on the viability of the proposed investment and the ability of the applicable Private Funds to pursue the opportunity; and any other factor reasonably determined by Värde to be relevant to the relationship of a particular investment opportunity to a given prospective co-investor.

Co-investors will typically bear their pro rata share (relative to capital invested) of fees, costs and expenses related to the discovery, investigation, development, acquisition or consummation, ownership, maintenance, monitoring, hedging and disposition of their co-investments and may be required to pay their pro rata share of fees, costs and expenses related to potential investments that are not consummated, such as breakup fees or broken deal expenses. Although Värde endeavors to allocate such fees, costs and expenses on a fair and reasonable basis, there can be no assurance that such fees, costs and expenses will in all cases be allocated proportionately. In addition, co-investors may not agree to pay or otherwise bear fees, costs or expenses related to unconsummated co-investments. In such event, such fees, costs and expenses (including broken deal expenses) will be considered operating expenses of and be borne by the applicable Private Funds that participate or intended to have participated in the applicable investment. Investments made with co-investors also may involve a portion of transaction or other fees being allocated to such co-investors or, in lieu of such fees being allocated to such co-investors, to Värde and/or its affiliates.

Co-investments may be funded or committed before or after the time that the applicable Private Funds make their funding or commitment. Any co-investment may be provided on such terms and conditions as Värde and the co-investors participating therein agree. Some of the co-investors with whom a Private Fund may co-invest could also have pre-existing investments with Värde, and the terms of such pre-existing investments may differ from the terms upon which such persons or entities may co-invest with the Private Fund.

In order to facilitate certain co-investments, Värde has formed Private Funds that are co-investment vehicles designed to allow co-investors to invest alongside other Private Funds in a particular investment or opportunity, and Värde expects to form such vehicles again in the future. To the extent agreed upon with co-investors, co-investment vehicles may be allocated a pro rata share (relative to capital invested) of transaction fees, portfolio monitoring fees, management fees and any similar payments from portfolio companies or assets. To the extent also agreed

upon with co-investors, Värde and/or its affiliates may earn carried interest, receive a management fee and/or retain transaction fees or portfolio monitoring fees or other remuneration allocated to co-investors, and/or receive other compensation with respect to such co-investment, and such remuneration or compensation will in some circumstances be retained by Värde and/or its affiliates and will not reduce the compensation paid to Värde by the Private Funds. The Firm or any of its affiliates or employees may make an investment, or otherwise participate, in any co-investment entity.

Other Party Involvement: The Private Funds may from time to time enter into joint venture, consortium, “club deal” or other arrangements with one or more third parties to act as co-investors, developers or asset managers in connection with the acquisition, development, construction, operation or renovation of investments. In addition, a Private Fund will frequently participate in investment opportunities alongside other Private Funds with overlapping, similar or identical investment objectives (as discussed in the section titled “*Allocation of Investment Opportunities*” in Item 13 below). The commitments of any such other party that invests alongside a Private Fund may be substantial and such arrangements may involve risks not present in investments where another party is not involved, including the possibility that: (i) the Private Fund and such other party may reach an impasse on a major decision that requires the approval of both parties, including with respect to the management and disposition of the investment, which would increase the risk of deadlocks, which in turn could delay the execution of the business plan for the investment or require the Private Fund to engage in a buy-sell of the venture with such other party or conduct the forced sale of such investment; (ii) such other party may at any time have economic or business interests or goals that are inconsistent with those of the Private Fund (including, in the case of another Private Fund, different return and duration expectations, as well as different investors with accordingly different economic or business interests or goals) and may accordingly take a different view from Värde as to the appropriate strategy for an investment; (iii) the other party may encounter liquidity or insolvency issues or may become bankrupt or otherwise experience financial, legal or regulatory difficulties; (iv) the other party may (including due to its pro rata interest, the negotiated terms of its participation or its operation control of such investment) be in a position to control major decisions with respect to such investment or to otherwise take action with respect to such investment, and such actions may be contrary to the Private Fund’s investment objective; (v) the Private Fund may rely upon the abilities and management expertise of such other party; (vi) the other party may take actions that subject the property (or other assets) to liabilities in excess of, or other than, those contemplated; or (viii) in certain circumstances, the Private Fund may be liable for actions or obligations (including obligations entered into on a joint and several basis) of such other party. As a result of these risks, the Private Fund may be unable to fully realize its expected return on any such investment.

In circumstances where such other parties include a member of a portfolio company’s management team, operating consultants, senior advisors or other joint venture partners serving on the portfolio company’s board of directors or in another professional capacity with such portfolio company, such other parties partners may receive compensation arrangements relating to the arrangement, including, without limitation, incentive compensation arrangements, which compensation expenses will be borne directly or indirectly by the Private Fund. Such other parties could have pre-existing investments in the opportunity and the terms of such pre-existing investment may differ from the terms upon which the Private Fund invests.

“Widening” Risk: For reasons not necessarily attributable to any of the risks enumerated herein (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 instruments 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 the Private Funds may not be able to sell them when it desires to do so or to realize what it perceives to be their fair value in the event of a sale. The sale of restricted and illiquid 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.

Additional Capital: Portfolio companies or other investments acquired by the Private Funds may require additional financing to satisfy their working capital requirements, capital expenditures and acquisition strategies or in response to market developments and regulatory requirements. The amount of additional financing needed will depend upon the maturity and objectives of the particular investment. If the funds provided are not sufficient, such investment may have to raise additional capital at a price unfavorable to existing investors, including the Private Funds. In addition, the Private Funds may make additional debt and equity investments or exercise warrants, options or convert convertible securities that were acquired in the initial investment in order to preserve the Private Funds’ proportionate ownership when a subsequent financing is planned or to protect the Private Funds’ investment. The availability of capital is generally a function of capital market conditions that are beyond the control of the Private Funds or any investment. There can also be no assurance that Värde will be able to predict accurately the future capital requirements necessary for success or that additional funds will be available from any source.

Need for Follow-On Investments: The Private Funds may be called upon to provide follow-on funding for an investment or have the opportunity to increase its original investment. There can be no assurance that the Private Funds will wish to make follow-on investments or that the Private Funds will have sufficient funds to do so. Any decision by the Private Funds not to make follow-on investments or its inability to make them may have a substantial negative impact on an investment or may diminish the Private Funds’ ability to influence the investment’s future

development. Moreover, to the extent that a Private Fund does not make such investment, capital may be provided by co-investors and/or other Private Funds; any such arrangements with such co-investors and/or other Private Funds could rank senior to, and/or cause the dilution of, the investment by a Private Fund. In addition, such follow-on investments may occur under circumstances in which an investment is performing poorly, in which case the follow-on investment may be riskier than the initial investment, or when such investment is performing well and needs growth capital.

Control Position Risk / Board Participation: The Private Funds may make certain investments that allow the Private Funds 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 Funds to claims by third parties.

In addition, the Private Funds 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 Funds' 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 Funds to claims they would not otherwise be subject to as an investor, including, without limitation, claims of breach of duty of loyalty, securities claims and other director-related claims. In general, the Private Funds will indemnify Värde, as well as any persons holding such board positions at the request of the Private Funds and Värde, from such claims.

The Private Funds 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, the Private Funds 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. Where the Private Funds take such non-controlling interests, they will generally seek to obtain minority investor rights to protect their 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 Funds' 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 Funds' portfolio companies or other legal entities in which Private Funds have invested. In those instances where the Private Funds are not the sole equity holders of the applicable portfolio company or other legal entity, in addition to any fiduciary duties the Värde personnel owe to such Private Funds, 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 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 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 the Private Funds 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 or other legal entity to whom they owe fiduciary duties, such decision may subject Värde and the Private Funds to claims that they would not otherwise be subject to as an investor, including, without limitation, 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 or be required to abstain from voting or otherwise participating in portfolio company decisions, which could negatively impact returns received by the Private Funds.

Operating and Financial Risks of a Portfolio Company: Portfolio companies in which the Private Funds invest could deteriorate as a result of, among other factors, an adverse development in their business, a change in their competitive environment or an economic downturn. As a result, portfolio companies that the Private Funds expected to be stable may operate at a loss or have significant variations in operating results, may require substantial additional capital to support their operations or to maintain their competitive positions or may otherwise have a weak financial condition or be experiencing financial distress. In some cases, the success of the Private Funds' investment strategy and approach will depend, in part, on the ability of the Private Funds to effectively execute a business plan, effect improvements in the operations of a portfolio company and/or recapitalize its balance sheet. The activity of identifying and implementing business plans, operating improvements and/or recapitalization programs at portfolio companies entails a high degree of uncertainty. There can be no assurance that the Private Fund will be able to successfully identify and implement such business plans, operating improvements and/or recapitalization programs.

Cybersecurity / Business Continuity: Värde, the Private Funds, their respective affiliates and their respective service providers are subject to risks associated with a breach in cybersecurity. Cybersecurity is a generic term used to describe the technology, processes and practices designed to protect networks, systems, computers, programs and data from both intentional cyberattacks and hacking by other computer users, as well as unintentional damage or interruption that, in either case, can result in damage and disruption to hardware and software systems, loss or corruption of data and/or misappropriation of confidential information, despite the efforts of Värde, its service providers, its counterparties and other market participants on whom Värde relies to adopt technologies, processes and practices intended to mitigate these risks and protect the security of their computer systems, software, networks and other technology assets, as well as the confidentiality, integrity and availability of information belonging to the Private Funds and/or their investors. While Värde intends to maintain insurance to protect against certain cybersecurity-related losses, Värde and the Private Funds may experience losses that are outside the scope or exceed the amount of such coverage. It is expected that all or a portion of the expenses related to maintaining such insurance will be allocated to the Private Funds. Cybersecurity attacks are evolving and include malicious software, attempts to gain unauthorized access to data and other electronic security breaches that could lead to disruptions in critical systems, unauthorized release of confidential or otherwise protected information, including information regarding the investors in and investment activities of the Private Funds, and corruption of data. Such damage or interruptions to information technology systems may cause losses to the Private Funds or their investors by interfering with the processing of transactions,

affecting the Private Funds' ability to conduct valuations or impeding or sabotaging trading. The Private Funds may also incur substantial costs as the result of a cybersecurity breach, including, without limitation, those associated with forensic analysis of the origin and scope of the breach, increased and upgraded cybersecurity, identity theft, unauthorized use of proprietary information, litigation, adverse investor reaction, the dissemination of confidential and proprietary information and reputational damage. Any such breach could expose the Private Funds and Värde to civil liability as well as regulatory inquiry and/or action. Investors in the Private Funds could also be exposed to losses resulting from unauthorized use or dissemination of their personal information.

The Private Funds depend on Värde to develop and implement appropriate systems for their activities. Värde relies heavily on computer programs and systems (and may rely on new systems and technology in the future) for various purposes in connection with its activities on behalf of its investors, including, without limitation, to trade, clear and settle transactions, to evaluate certain financial instruments, to monitor its portfolio and net capital and to generate risk management and other reports that are critical to the oversight of such investors' activities. Certain of Värde's and the Private Funds' and their respective service providers' activities will be dependent upon information technology systems operated by third parties, including prime brokers, market counterparties and other service providers. Notwithstanding the diligence that Värde and the Private Funds perform on their service providers, Värde and the Private Funds may not be in a position to verify the risks or reliability of such information technology systems. The failure, corruption or breach of one or more systems (including as a result of the occurrence of a disaster such as a cyber-attack, a natural catastrophe, an industrial accident, a terrorist attack or war, events unanticipated in Värde's disaster recovery systems or a support failure from external providers) or the inability of such systems to satisfy investor's needs, including the execution of orders, could have a material adverse effect on Värde's ability to conduct its and the Private Funds' business, particularly if those events affect Värde's computer-based data processing, transmission, storage and retrieval systems or destroy Värde's data. If a significant number of Värde's personnel were to be unavailable in the event of a disaster or other event, Värde's ability to effectively conduct the Private Funds' business could be severely compromised.

Similar types of operational and technology risks are also present for many portfolio companies, which could have material adverse consequences for such portfolio investments, and may cause the Private Funds' investments to lose value.

Broad Investment Charter; Competition: The Private Funds managed by Värde have broad investment charters, allowing them to pursue the investment objective stated in their Offering Documents with only a few formal constraints on the type of investments in which they 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 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 and 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 and other Värde employees. The Offering Documents for certain Private Funds contain provisions addressing the departure of one or more of the Principals and, in some instances, other key employees, including terms whereby the Private Fund's investment period ends upon the departure of certain Principals and, in some instances, other key employees. The loss of one or more of these individuals could have a material adverse effect on the performance of the Private Funds. The Principals and other employees do not intend, and are not required, to devote all of their time to any specific Private Fund and will work on other projects. Conflicts may arise as a result of such other activities. Further, the Principals and other employees 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 and employees.

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. VMLP's direct subsidiary sub-advisers are: Värde Partners Europe Limited, Varde Partners Asia Pte. Ltd, Värde Partners Australia LLC, Varde Partners Hong Kong Limited, Varde Partners Japan and Varde India Investment Adviser Private Limited. In addition, VMLP has other subsidiaries established in certain other jurisdictions to support its operations. VMLP and its direct and indirect subsidiaries 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. Please see the section titled “*Performance-Based Fees and Side-By-Side Management*” (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 (other than certain co-investment vehicles).

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.

Investments in Asset Managers, Operating Platforms and Similar Entities

Certain of the Private Funds have acquired, and may in the future acquire, interests in or complete ownership of one or more asset managers, operating platforms or similar entities (each, a “Platform”). These Platforms (1) provide, and may in the future provide, various services that are purchased by the Private Funds, including (without limitation) converting certain types of assets and portfolios into cash; providing collection, due diligence and underwriting services; or otherwise servicing financial assets and/or (2) originate assets that are subsequently purchased by one or more Private Funds, including commercial loans and consumer receivables. The Private Funds' investments in Platforms have been structured to provide the Private Funds with a range of ownership interests (from minority interests to complete ownership). The board of directors (or its equivalent) of any such Platform 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 Platform by such Private Funds. The Platforms typically enter into servicing relationships with the Private Funds (or their investments). All such services are performed by the Platform's personnel, not by personnel or other affiliates of Värde and Värde does not exercise day-to-day control over or management of the Platform. Other than interests held by the Private Funds, Värde itself has no ownership interests in these Platforms. Going forward, certain of the Private Funds may acquire additional interests in one or more Platforms, including majority or complete ownership.

To the extent those Private Funds with an ownership interest in a Platform (1) hire such Platform to provide services and/or (2) purchase originated assets from such Platform, a proportionate share of any benefits that accrue to the Platform (including any servicing and origination fees) will also accrue to those Private Funds to the extent consistent with the terms of the Platform's organizational documents and the relevant financial agreements between such Private Funds and the Platform. Having ownership in a Platform 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 of a Private Fund in order to generate fees for the Platform and/or purchase unsuitable or unnecessary investments from a Platform on behalf of a Private Fund to generate proceeds for a Platform. These additional fees or proceeds would benefit the Private Funds that have an ownership interest in the Platform 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 Platform are making or purchasing the unsuitable or unnecessary asset or portfolio investments, the potential benefit to such Private Funds of the Platform's increased financial performance often outweighs 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 Platform in such circumstances.

If a situation arises in which certain Private Funds did not have an ownership interest in the Platform, but did have servicing agreements with, or purchased assets from, such Platform, 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 a decision to hire a Platform to provide services. At least with respect to those Private Funds with an ownership interest, they have a financial interest in hiring the Platform. Theoretically, such Private Funds could retain the Platform 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 a Platform on behalf of Private Funds without any ownership interest in the Platform. In any event, given their importance, Värde monitors the performance of all Platforms and conducts periodic on-site audits to ensure compliance with performance targets and contractual obligations.

Finally, conflicts could arise if a Platform owned by certain Private Funds breaches its contractual obligations, 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 Platform, the affected Private Funds would be free to pursue appropriate remedies, up to and including litigation. Where the Platform 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 Platform. 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 Platform (if any) agree to indemnify and hold harmless the Private Fund owners in connection with the Platform's performance of its obligations.

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.

Affiliate Services

Värde has established affiliates to provide real estate asset management services that include due diligence, industry analysis and identification, acquisition, holding, improvement and disposition of such portfolio companies, including operational aspects of such companies, to the Private Funds and third parties. In addition, Värde has entered into a joint venture to provide services with respect to investments in stressed and distressed assets in India, and may in the future establish one or more other affiliates to provide country-specific management or service functions in one or more countries in which the Private Funds may invest. Värde, as an extension of its investment management services, may also from time to time form or acquire businesses to provide other services to the Private Funds, including providing loan origination or loan servicing, or otherwise serving as sourcing platforms for assets that may be of interest to the Private Funds. Värde and/or such affiliates may charge fees, costs or expenses for their services to the Private Funds and/or portfolio companies, and Värde and its affiliates shall be entitled to retain the economic benefit of such amounts to the extent set forth in the Private Funds' Offering Documents. In addition, Värde and its affiliates may receive an indirect economic benefit (including, for example, creating a business with independent enterprise value) from providing such services, even in circumstances where the amounts received by Värde and its affiliates result in a management fee offset. As a result, Värde may be incentivized to favor service providers affiliated with the Firm even if a better price and/or quality of service provider could be obtained from another person or entity. Värde may also have a conflict of interest in determining the costs of such services that will be charged to the Private Funds. The conflicts of interest described above with respect to Platforms would also apply to such affiliate services.

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 reporting and review of personal securities transactions in accounts in which employees and certain family and household members have an interest. These confirmations and statements are submitted to and reviewed by the Global 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 securities lists 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 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

Liquidation of Investments: 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. 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.

Investments with Respect to Which Other Accounts May Benefit: Certain of the Private Funds have made, and will in the future 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.

Investments in Which Other Accounts have a Different Interest: Conflicts may also arise if the Private Funds invest in the same portfolio investment at different times, valuations or risk-return profiles or in different 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.

Joint Financing: Conflicts of interest may arise in connection with entering into financing arrangements for the Private Funds. The Private Funds may obtain joint financing with respect to their investments, and as a result, one Private Fund may be compelled to bear the liabilities incurred in respect of another Private Fund. For example, if two Private Funds enter into a financing facility that is secured by investments owned by the two Private Funds, and the assets owned by one Private Fund are insufficient to satisfy the Private Fund's obligations under the financing, the lender could, depending on the terms of the financing, look to the other Private Fund's investments to satisfy such unsatisfied obligation. In addition, a Private Fund may guarantee a credit facility obtained for investments in which it participates with other Private Funds and may also guarantee (on a joint or several basis with such special purpose vehicles and/or other Private Funds) certain payment, indemnification and/or other obligations in connection with investment transactions.

Financing arrangements and other transactional agreements entered into by the Private Funds may contain a number of common covenants that, among other things, might restrict their ability to: acquire, dispose of or market for sale assets or businesses; solicit investors or personnel from counterparties; compete with counterparties; disclose or use confidential information; incur additional indebtedness; make expenditures, distributions or capital calls; create liens on assets; enter into leases, investments or acquisitions; consent to transfers; make amendments to the governing documents; or engage in certain transactions with affiliates, and otherwise restrict activities of the Private Funds, their subsidiaries and their investments without the consent of the applicable counterparties. In addition, such a transaction may require the Private Funds, their subsidiaries and/or their investments to maintain specified financial ratios and comply with tests, including, without limitation, minimum interest coverage ratios, maximum leverage ratios, minimum net worth and minimum equity capitalization requirements. A default by one Private Fund or such Private Fund's inability to meet such ratios or comply with such tests may limit the activities of such other Private Funds or have other adverse consequences on such other Private Funds, including triggering cross-default provisions and providing the lender with recourse against such other Private Funds and their assets.

Management Conflicts with Other Accounts: The governing documents of certain Private Funds set forth procedures whereby, upon the occurrence of certain events and/or with the approval of a certain percentage of investors in such Private Funds, Värde may be removed as investment manager and/or general partner (or equivalent managing entity) for such Private Funds and replaced with a controlling entity unaffiliated with Värde and/or such Private Funds may be dissolved and proceed into liquidation. If several Private Funds jointly own investments, the removal of Värde as manager and/or general partner of some, but not all, of the Private Funds that jointly own investments (or the failure of the Private Funds to appoint a single third party as a replacement of Värde as manager and/or general partner) will present risks in the ongoing management of the jointly owned investments, including in that (i) the Private Funds may reach an impasse on a major decision that requires the approval of all parties, including with respect to the management and disposition of an investment, which would increase the risk of deadlocks and could delay the execution of the business plan for the investment or require the Private Fund

to conduct the forced sale of such investment; and (ii) the general partner and/or manager of certain Private Funds would be in a position to take action contrary to the investment objectives or strategy of the general partner and/or manager of other Private Funds.

Värde does not generally make investments alongside the Private Funds. As noted above, however, Värde (in its capacity as general partner) is generally required to invest at least 1% in each Private Fund (other than certain co-investment vehicles) 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.

Fund and Portfolio Company Services: Conflicts may arise in connection with the engagement of advisors, consultants and other service providers. Certain advisors (including accountants, administrators, lenders, bankers, broker-dealers, attorneys, investment or commercial banking firms and certain other advisors and agents), consultants (including with respect to manufacturing, sales, marketing, technology, human resources, acquisition integration/rationalization and/or other operations services) and other service providers, or their affiliates, to the Private Funds or their investments may also provide goods or services to or have business, personal, financial or other relationships with Värde. Such service providers may be investors in the Private Funds, sources of investment opportunities or co-investors or counterparties therewith. These relationships may influence Värde in deciding whether to select or recommend such a service provider to perform services for the Private Funds (the cost of which will generally be borne directly or indirectly by the Private Funds). In certain circumstances, such service providers, or their affiliates, may charge different rates or have different arrangements for services provided to Värde as compared to services provided to the Private Funds, which may result in more favorable rates or arrangements than those payable by the Private Funds. The compensation of such service providers may be structured as fixed fees and/or as performance-based fees and allocations with respect to investments. Notwithstanding the foregoing, investment transactions for the Private Funds that require the use of a service provider will generally be allocated to service providers on the basis of Värde's judgment as to best execution, as described in the section titled "*Brokerage Practices*" (Item 12 below). In addition, Värde may from time to time enter into business arrangements with service providers to operating companies whereby Värde will recommend the service provider to operating companies held by one or more Private Funds in circumstances deemed appropriate by Värde, and the service provider will agree to provide services to all such operating companies at a discounted rate. Although Värde does not receive a referral fee or other direct compensation in connection with such arrangements, such arrangements present a conflict of interest given the potential recommendation of a service provider that is providing other operating companies (in some cases, owned by other Private Funds) with services (at a discounted rate or otherwise).

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 or other legal entity to whom they owe fiduciary duties, 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 or be required to abstain from voting or otherwise participating in portfolio company decisions, 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 or refrain from selling 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.

Allocation of Expenses and Liabilities: Värde may from time to time cause Private Funds to incur expenses on a collective basis or incur (or commit to incur) liabilities and other obligations on a joint and several or cross-collateralized basis or otherwise provide direct or indirect credit support for the benefit of other Private Funds. Although Värde will attempt to allocate such expenses or the related repayment obligations or other related liabilities so that each person bears its pro rata share of the applicable expense or liability or other obligation, there can be no assurance that such expenses, repayment obligations and other related liabilities will be in all cases allocated appropriately.

In connection with the business or activities of a Private Fund, Värde personnel may use private aircraft, including aircraft in which it has a proprietary interest. Värde may allocate expenses related to such use to the Private Funds as Travel-Related Expenses as described in the section titled “*Fees and Compensation*” (Item 5 above), it being understood that any such expenses allocated to the Private Funds in connection with travel to a specific destination shall not exceed commercial-equivalent first-class (or comparable tier) airfare to such destination.

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 Broker-Dealers

The primary selection criterion employed by Värde in connection with selecting broker-dealers is the broker-dealers' ability to provide best execution. In assessing best execution, and its overall broker-dealer relationships, Värde considers a variety of factors including, without limitation, pricing, market/asset knowledge, market access, reliability, settlement risk, integrity/confidentiality, financial stability, infrastructure (technology/operations) and access/responsiveness. 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-dealer on the basis of the quality and quantity of execution services that the broker-dealer provides, in light of 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 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-dealer'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 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 it 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 Transactions, Warehousing and Principal Transactions

The Private Funds may trade assets between the Private Funds. Any such cross transactions will generally be valued and priced at fair value and will be conducted on terms no less favorable to each Private Fund involved in the transaction than 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 participating Private Fund's Offering Documents. Moreover, in order to facilitate an investment, certain Private Funds (the "Initial Funds") may make (or commit to make) such investment with a view to selling a portion of such investment to other Private Funds or other parties prior to or within a brief period after the closing of the acquisition ("Warehoused Investments"), and other Private Funds (the "Acquiring Funds") may commit to acquire such Warehoused Investments from the Initial Funds on terms set forth in the Operative Documents of such Acquiring Funds. In such event, the Initial Funds will bear the risk that any or all of the excess portion of any such Warehoused Investment may not be sold or may only be sold on unattractive terms and that, as a consequence, the Initial Funds may bear the entire portion of any breakup fee or other fees, costs and expenses related to such Warehoused Investment, hold a larger than expected portion of such Warehoused Investment or may realize lower than expected returns from such Warehoused Investments. Värde endeavors to address such risks by requiring such Warehoused Investments to be in the best interests of the Initial Funds, regardless of whether any sell-down ultimately occurs.

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 Warehoused Investments 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 (assuming the investment satisfies the objectives of each such Private Fund) based on the amount of capital each has available for investment in such investment opportunity. 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.

Transaction Aggregation

Transactions 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; it 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.

Investment and Allocation Errors

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 by Värde personnel 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 by Värde personnel 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. Any damages (net of recovery expenses) received from a counterparty in connection with any losses sustained due to counterparty errors will be for the benefit of the Private Funds. However, Värde will not be responsible for reimbursing the Private Fund for any losses sustained due to counterparty errors in the absence of recovery from the counterparty. See “Execution Risks” in the section titled “*Methods of Analysis, Investment Strategies and Risk of Loss*” (Item 8 above) for details on Värde’s recourse against counterparties in connection with any such errors.

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 report 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.

Värde and its affiliates may provide certain real estate asset management services and country-specific management functions with respect to certain investments for compensation. See the section titled "*Other Financial Industry Activities and Affiliations*" (Item 10 above) for additional information about these arrangements. In addition, 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, and/or 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, including whereby Värde may be incentivized to favor itself or its affiliates to provide such services over other service providers. To help mitigate potential conflicts, the benefits received by Värde or its employees in connection with services rendered will be disclosed in the Offering Documents of the Private Funds, and in some instances such benefits will be offset in whole or substantial part against (and therefore reduce) management fees payable by the relevant Private Funds. To the extent a benefit results in a management fee offset, Värde will generally calculate the applicable offset amount for each Private Fund by allocating the corresponding benefits among the Private Funds based on the relative amounts invested or proposed to be invested in the applicable portfolio investment by each Private Fund or on such other basis as Värde may determine is equitable and appropriate under the circumstances. Notwithstanding the foregoing, investors and prospective investors should note that in the event a specific Private Fund does not charge a management fee or its Offering Documents otherwise permit, Värde and its associated persons may retain such Private Fund's proportional share of such amounts as additional compensation (with no corresponding offset to management fees).

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; and
- 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: (i) the cost of voting the proxy outweighs the potential benefit derived from voting; (ii) 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; (iii) the terms of an applicable securities lending agreement prevent Värde from voting with respect to a loaned security; (iv) despite reasonable efforts, Värde receives proxy materials without sufficient time to reach an informed voting decision and vote the proxy; or (v) 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: (i) voting in accordance with its standard proxy procedures, if it involves little or no discretion; (ii) voting as recommended by a third-party service, if employed by Värde; (iii) "echo" or "mirror" voting the proxies in the same proportion as the votes of other proxy holders that are not Värde clients; (iv) if possible, erecting information barriers around the person or persons making the voting decision sufficient to insulate the decision from the conflict; or (v) 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.