



Appaloosa LP

Form ADV Part 2A

March 19, 2024

This brochure provides information about the qualifications and business practices of Appaloosa LP ("Appaloosa"), an investment adviser registered with the United States Securities and Exchange Commission (the "SEC"). If you have any questions about the contents of this brochure, please contact us at 973-701-7000. This information has not been approved or verified by the SEC or by any state securities authority. Registration with the SEC as an investment adviser does not imply that Appaloosa or its employees possess a particular level of skill or training.

Additional information about Appaloosa LP also is available on the SEC's website at www.adviserinfo.sec.gov.

Appaloosa LP
51 John F. Kennedy Parkway, 2nd Floor
Short Hills, NJ 07078
Tel: 973-701-7000
Fax: 973-701-7055

Item 2. Material Changes

There have been no material changes made to this Brochure since the Adviser's last update, which was filed on March 23, 2023. The Adviser, however, has made some updates and clarifying changes to the Brochure.

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Item 4. Advisory Business

A. General Description of Firm. Appaloosa, a Delaware limited partnership, is an investment adviser with its principal place of business in Short Hills, New Jersey. Appaloosa commenced operations as an investment adviser on January 1, 2016. On that date, Appaloosa replaced Appaloosa Management L.P. ("AMLP"), a Delaware limited partnership, as investment adviser to Palomino Master Ltd. Appaloosa Capital Inc. is the general partner of Appaloosa. David A. Tepper is the principal owner of Appaloosa, Appaloosa Capital Inc. and AMLP.

B. Description of Advisory Services. Appaloosa provides advisory services on a discretionary basis to two private funds, Palomino Master Ltd. ("Palomino Master"), its feeder fund Palomino Fund Ltd. ("Palomino Fund") and Azteca Partners LLC ("Azteca" and collectively with Palomino Master and Palomino Fund, "Clients" or "Funds"). Palomino Fund is intended for sophisticated investors and institutional investors. Azteca is an investment vehicle primarily for principals and employees of Appaloosa.

Appaloosa is generally granted broad investment authority with respect to the management of the accounts of its Clients. Appaloosa seeks to obtain annual returns substantially in excess of those derived from buy-and-hold strategies for equity securities, investment-grade fixed-income and high-yield debt by purchasing and selling high-yield bonds, bank loans to highly-leveraged companies, sovereign debt and other debt and equity securities, including securities of financially-distressed companies and special purpose acquisition companies (SPACs).

Investors and prospective investors should refer to the confidential private placement memorandum of Palomino Fund and the limited liability company agreement, memorandum and articles of association, and other governing documents for each Fund (the "Governing Documents") for more complete information about the investment objectives and investment restrictions with respect to a particular Fund. There is no assurance that the investment objectives will be achieved.

C. Availability of Tailored Services for Individual Clients. Appaloosa may enter into "side letters" or similar agreements with certain investors in the Funds granting the investor certain specific rights, benefits, or privileges that are not made available to other investors. Investors may not impose restrictions on investing in certain securities or certain types of securities except as agreed to in the Governing Documents.

D. Wrap Fee Programs. Appaloosa does not participate in wrap fee programs.

E. Assets Under Management. As of January 1, 2024, Appaloosa had approximately \$15,174,095,131 in net assets under management, all of which was managed on a discretionary basis.

Item 5. Fees and Compensation

A. Advisory Fees.

All investors should review the Governing Documents for each Fund in conjunction with this brochure for more complete information about the fees and compensation payable to Appaloosa. Investors in Azteca are not subject to any fees or asset-based compensation.

Asset-Based Compensation

Appaloosa charges non-affiliated investors in Palomino Fund an investment management fee at the rate of 2.0% of net assets annually. Investment management fees are charged each quarter in advance based on the total market value of the net assets of each Fund (including net unrealized appreciation or depreciation of investments and cash, cash equivalents and accrued interest) on the first day of the quarter.

Performance-Based Compensation

AMLPLP receives a performance fee each year from Palomino Fund equal to 20% of the net appreciation of the investment of each non-affiliated investor in the Fund.

The fees charged by Appaloosa are not negotiable but may be waived or modified in Appaloosa's sole discretion. Generally, Appaloosa's related persons do not pay performance or advisory fees.

B. Payment of Fees. Appaloosa deducts the investment management fee from Client accounts on a quarterly basis by instructing the Client's custodian.

C. Other Fees and Expenses. In addition to paying investment management fees and performance-based fees or allocations, Client accounts will also be subject to other investment expenses such as custodial charges, brokerage fees, commissions and related costs; costs of research, pricing, data and similar services; costs of margin accounts and other borrowings; borrowing charges on securities sold short; interest expense; taxes, duties and other governmental charges; transfer and registration fees or similar expenses; costs associated with foreign exchange transactions; costs of any outside appraisers, accountants, attorneys or other experts or consultants engaged in connection with specific investments; any legal fees and costs arising in connection with any litigation or regulatory investigation; other portfolio expenses; and costs, expenses and fees (including, investment advisory and other fees charged by investment advisers with, or funds in, which the Client's account invests) associated with products or services that may be necessary or incidental to such investments or accounts. Investors in each Fund will bear their pro rata share of the Fund's operating and other expenses including, in addition to those listed above: legal expenses; audit and tax preparation expenses; fees and expenses of the administrator; insurance costs; costs of acquiring, licensing or developing accounting, order management and other computer systems and software used or incurred by Appaloosa in connection with its services to the Client; costs of preparing required regulatory filings; and other ordinary operating and out-of-pocket expenses of the Fund. Expenses are allocated among participating accounts in proportion to their participation in a particular investment, in proportion to their respective net asset values, or in such other manner as Appaloosa determines to be equitable. Please refer to Item 12 of this brochure for a discussion of Appaloosa's brokerage practices.

D. Prepayment of Fees.

Appaloosa is authorized under the Governing Documents to charge and deduct management/advisory fees directly from the assets of each Fund. Clients are required to pay Appaloosa's management/advisory fees quarterly in advance.

E. Additional Compensation and Conflicts of Interest.

This question is not applicable.

Item 6. Performance-Based Fees and Side-by-Side Management

Appaloosa and its investment personnel provide investment management services to multiple Clients. Appaloosa or an affiliate of Appaloosa, AMLPLP, is paid performance-based compensation by Palomino Fund. In addition, Appaloosa's investment personnel are typically compensated on a basis that includes a performance-based component. Performance-based compensation arrangements may create an incentive for Appaloosa to recommend investments that may be riskier or more speculative than those that would be recommended under a different fee arrangement. When Appaloosa and its investment personnel manage more than one Client account, a potential exists for one Client account to be favored over another Client account.

Appaloosa has adopted and implemented policies and procedures intended to address potential conflicts of interest relating to the management of multiple accounts, including the allocation of investment opportunities among such accounts. Appaloosa reviews investment decisions for the purpose of ensuring that all Clients with substantially similar investment objectives are treated equitably. The performance of similarly managed accounts is also regularly compared to determine whether there are any unexplained significant discrepancies. In addition, Appaloosa's procedures relating to the allocation of investment opportunities require that similarly managed accounts participate in investment opportunities generally on a pro rata basis based on asset size, subject to any relevant special considerations relating to liquidity requirements, tax status, investment restrictions or other matters as described in Item 16 below, and provided that different accounts may from time to time use different amounts of leverage.

Item 7. Types of Clients

Appaloosa provides advice to pooled investment vehicles. The investors in each Fund may include corporations, endowments, foundations, trusts, estates, individuals and pension and profit sharing plans. Palomino Fund is offered exclusively to investors that meet both the definition of "accredited investors" as defined in Regulation D under the Securities Act of 1933, as amended (the "Securities Act"), and "qualified purchasers" as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended (the "Investment Company Act"). Azteca, an investment vehicle primarily for principals and eligible employees of Appaloosa, is offered to "accredited investors" as defined in Regulation D under the Securities Act. Palomino Fund is not required to register as an investment company under the Investment Company Act in reliance upon the exemption under Section 3(c)(7) of the Investment Company Act and Azteca is not required to register in reliance upon the exemption under Section 3(c)(1) of the Investment Company Act.

The initial and additional subscription minimums, if any, are disclosed in the Governing Documents.

Item 8. Methods of Analysis, Investment Strategies and Risk of Loss**A. Methods of Analysis and Investment Strategies.**

Appaloosa utilizes a variety of methods and strategies to make investment decisions and recommendations. The primary method of analysis is fundamental research.

Appaloosa purchases and sells high-yield bonds, bank loans to highly-leveraged companies, sovereign debt and other debt and equity securities, including securities of financially-distressed companies and SPACs, in an effort to obtain annual returns substantially in excess of those derived from buy-and-hold strategies for investment-grade fixed-income, high-yield debt and equity securities.

These strategies and investments involve risk of loss to investors and investors must be prepared to bear the loss of their entire investment.

B. Certain Risks Relating to Investment Strategies.

The investment strategies employed by Appaloosa on behalf of its clients involve significant risks. Prospective investors should carefully review the risks described in the Governing Documents for the relevant Fund, and should evaluate the merits and risks of an investment in the context of their overall financial circumstances. The risk factors below are not intended to be exhaustive and should be considered carefully by prospective investors together with the full text of the applicable Governing Documents.

Distressed Situation Risk. Investment in distressed situations exposes the Client to significant risks, including: the difficulty in obtaining information as to the issuer's true condition; regulatory risk; lender liability and bankruptcy; litigation risk; liquidity risk; and collection risk.

Illiquid Assets. A Fund may invest in "restricted" or non-publicly traded securities and loans or thinly traded securities. It may not be easy to dispose of such non-publicly or thinly traded securities or loans, and in some cases, there may be contractual restrictions preventing the disposal of securities for a specified period of time. Such investments may require a significant amount of time from the date of initial investment before disposition.

The ability of an investor to redeem or withdraw its investment or for a Fund to pay redemption or withdrawal proceeds in respect of redemptions may be adversely affected by illiquidity of the underlying assets. If redemptions exceed the amount of cash or other liquid assets immediately available to fund such redemptions, a Fund may need to liquidate additional assets, which may in turn limit or otherwise affect investment positions and strategies within a portfolio.

Concentration of Investments. Accounts managed by Appaloosa may at times hold relatively few investments. The result of such concentration of investments is that a loss in any such position could materially reduce the value of a Fund.

Leverage. Leverage can be employed in a variety of ways including direct borrowing, margining, short selling and the use of futures, warrants, options, swaps and other derivative products. Generally, leverage is used to increase the overall level of investment in a portfolio. This may expose an investor to increased risk as leverage can increase an account's market exposure and volatility. The risk of leverage in futures contracts, options, warrants, swaps and other derivatives is that small movements in the price of the underlying asset or index can result in large losses or profits. Many derivatives are not traded on any exchange, and no assurance can be given that a liquid market will exist for any particular futures contract or other derivative at any particular time.

Currency Exposure. Certain assets may be invested in securities and other investments that are denominated in currencies other than the US Dollar and in other financial instruments, the price of which is determined with reference to currencies other than the US Dollar. Accordingly, the value of such assets may be affected favorably or unfavorably by fluctuations in currency rates.

Currency exchange rates are highly volatile and subject to severe event risks, as the political situation with regard to the relevant foreign government may itself be volatile. Moreover, if the cash flow from investments is contingent or uncertain, it may be difficult to quantify the attendant cross-currency risk, compounding the risk of changes in underlying currencies by the other risks in the portfolio. Correlations between these risks are difficult to quantify and, therefore, difficult to hedge. An inaccurate estimation of the correlation may lead to a faulty hedge, and a consequent loss in a Fund's portfolio.

Hedging. The Funds may utilize financial instruments such as forward contracts, options, futures and swaps for hedging purposes or as part of its trading strategies. Hedging against a decline in the value of a portfolio position does not eliminate fluctuations in the values of portfolio positions or prevent losses if the values of such positions decline, but establishes other positions designed to gain from those same developments, thus moderating the decline in the portfolio positions' value. Hedging transactions may also limit the opportunity for gain if the value of the portfolio position should increase. The success of the Funds' hedging transactions is subject to the movements in the direction of securities prices and currency and interest rates. The degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio position being hedged may vary. Appaloosa may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent the Funds from achieving the intended hedge or expose the Funds to risk of loss.

Short Selling. Short selling involves trading on margin and accordingly can involve greater risk than investments based on a long position. A short sale of a security involves the risk of a theoretically unlimited

increase in the market price of the security, which could result in an inability to cover the short position and a theoretically unlimited loss. There can be no guarantee that securities or other instruments necessary to cover a short position will be available for purchase.

Derivatives. The Funds may utilize exchange-traded and over-the-counter futures, swaps, “synthetic” or derivative instruments, certain types of options and other customized financial instruments issued by banks, brokerage firms or other financial institutions. A swap is an agreement between an investor and a financial intermediary whereby cash payments periodically are exchanged between the parties based upon changes in the price of an underlying asset (such as an equity security, an index of securities, or another asset or group of assets with a readily determinable value). Swaps and other derivatives are subject to the risk of non-performance by the counterparty, including risks relating to the financial soundness and creditworthiness of the counterparty. Swaps and other forms of derivative instruments may not be guaranteed by an exchange or clearing house or regulated by a U.S. or foreign governmental authority. It may not be possible to dispose of or close out a swap or other derivative position without the consent of the counterparty, and the account may not be able to enter into an offsetting contract in order to be able to cover its risk.

Co-Investments with Third Parties. The Funds may co-invest with third parties through joint ventures, participation agreements, special purpose holding vehicles or other entities, which may be affiliates of Appaloosa or entities managed by Appaloosa or its affiliates. Such investments may involve risks in connection with such third-party involvement, including the possibility that a third-party co-venturer may have financial difficulties, may have economic or business interests or goals that are inconsistent with those of the Funds, or may be in a position to take (or block) action in a manner contrary to the Funds’ investment objective. In circumstances where such third parties involve a management group, such third parties may enter into compensation arrangements relating to such investments, including incentive compensation arrangements. Such compensation arrangements will reduce the returns to participants in the investments.

C. Risks Associated with Certain Types of Securities.

Distressed Securities. Investments in high yield and distressed securities, loans, private claims and other obligations of highly leveraged companies, bankrupt entities, entities subject to bankruptcy proceedings or reorganization, or entities experiencing financial difficulties involve substantial risks. A Fund may be required to hold such investments for a long period of time, may lose a substantial portion or all of its investment in such an entity, or may be required to accept cash or securities with a value less than the Fund’s investment. It may be difficult to obtain information as to the true financial condition of entities experiencing significant financial or business difficulties. Investments in distressed companies also may be adversely affected by state and federal laws relating to fraudulent conveyances, voidable preferences, lender liability and the bankruptcy courts’ discretionary power to disallow, subordinate or disenfranchise particular claims. The market prices of instruments issued by distressed companies may be subject to abrupt and erratic market movements and above average price volatility, and the spread between the bid and ask prices of such instruments may be greater than with respect to other investments. It may take a number of years for the market prices of such securities to reflect their intrinsic values. Investing in a company involved in a plan of reorganization may involve additional risks, including risks associated with equity ownership in the reorganized entity. Investments in distressed securities made in connection with an attempt to influence a restructuring proposal or plan of reorganization in a bankruptcy case may involve substantial litigation.

Asset-Backed Securities. Asset-backed securities are subject to interest rate risk and, to a lesser degree, prepayment risk. Asset-backed securities are subject to additional risks in that, unlike mortgage-backed securities, asset-backed securities generally do not have the benefit of a security interest in the underlying collateral. Each type of asset-backed security also entails unique risks depending on the type of assets involved and the legal structure used. In addition, asset-backed securities are subject to credit risk. There is also the possibility that recoveries on repossessed collateral may not be available to support payments on these securities because of the inability to perfect a security interest in such collateral.

Derivatives and Swaps. Certain swaps, options and other custom derivative or synthetic instruments are subject to the risk of nonperformance by the counterparty to such instrument, including risks relating to the financial soundness and creditworthiness of the counterparty. In addition, investments in derivative instruments may involve a high degree of leverage, meaning the overall contract value (and, accordingly, the potential for profits or losses in that value) can be much greater than the modest deposit used to buy the position in the derivative contract. Derivative securities can be highly volatile. The prices of derivative instruments and the investments underlying the derivative instruments may fluctuate rapidly and over wide ranges and may reflect unforeseeable events or changes in conditions, none of which can be controlled by Appaloosa. Further, certain transactions in derivative instruments may not be traded on recognized exchanges, and may expose a Fund to greater risks than regulated exchange transactions that provide greater liquidity and more accurate valuation of securities.

Emerging Markets. The risks of foreign investments typically are greater in less developed countries, sometimes referred to as emerging markets. These countries are more likely to experience high levels of inflation, deflation, or currency devaluation, which can harm their economies and securities markets and increase volatility. Restrictions on currency trading that may be imposed by emerging market countries may have an adverse effect on the value of the securities of companies that trade or operate in such countries.

Equity Securities. The Funds may invest in long and short positions in common stocks, preferred stocks and convertible securities of U.S. and non-U.S. issuers. Equity securities fluctuate in value, often based on factors unrelated to the value of the issuer of the securities. The market price of equity securities may be affected by general economic and market conditions, such as a broad decline in stock market prices, or by conditions affecting specific issuers, such as changes in a company's financial condition or earnings forecasts.

Fixed-Income and Debt Securities. Investment in fixed-income and debt securities, such as bonds, notes and asset-backed securities, involve the risk that the value of the securities will decline because of rising interest rates. Similarly, a Fund that holds such securities is subject to the risk that the Fund's income will decline because of falling interest rates. Investments in these types of securities will also be subject to the credit risk created when a debt issuer fails to pay interest and principal in a timely manner, or that negative perceptions of the issuer's ability to make such payments will cause the price of that debt to decline. Lastly, investments in lower-rated debt securities will also be subject to the risk that the securities may fluctuate more in price, and are less liquid, than higher-rated securities because issuers of such lower-rated debt securities are not as strong financially, and are more likely to encounter financial difficulties and be more vulnerable to adverse changes in the economy.

Illiquid Instruments. Certain instruments may have no readily available market or third-party pricing. Reduced liquidity may have an adverse impact on market price and a Fund's ability to sell particular securities when necessary to meet liquidity needs or in response to a specific economic event, such as the deterioration of creditworthiness of an issuer. Reduced liquidity in the secondary market for certain securities may also make it more difficult for Appaloosa to obtain market quotations based on actual trades for the purpose of valuing a Fund's portfolio.

Mortgage-Backed Securities. Mortgage-backed securities are subject to credit risk associated with the performance of the underlying mortgage properties. Factors such as consumer spending habits, local economic and competitive conditions, tenant occupancy rates, regulatory or zoning restrictions, or the loss of a major tenant may adversely affect the economic viability of a mortgaged property. In addition, these securities are subject to prepayment risk. Some securities have a structure that makes their reaction to interest rates and other factors difficult to predict, making their value highly volatile.

Non-U.S. Securities. Foreign securities, foreign currencies, and securities issued by U.S. entities with substantial foreign operations can involve additional risks relating to political, economic, or regulatory conditions in foreign countries. These risks include fluctuations in foreign currencies; withholding or other taxes; trading, settlement, custodial, and other operational risks; and the less stringent investor protection and disclosure standards of some foreign markets. All of these factors can make foreign investments,

especially those in emerging markets, more volatile and potentially less liquid than U.S. investments. In addition, foreign markets can perform differently from the U.S. market.

REITs. Investments in REITs may be affected by underlying real estate values, which may have an exaggerated effect to the extent that REITs concentrate investments in particular geographic regions or property types. Investments in REITs are also subject to the risk of interest rate volatility. Rising interest rates may cause investors in REITs to demand a higher annual yield from future distributions, which may in turn decrease market prices for equity securities issued by REITs. REITs are subject to risks inherent in operating and financing a limited number of projects because they are dependent upon specialized management skills, and have limited diversification. REITs depend generally on their ability to generate cash flow to make distributions to investors.

Item 9. Disciplinary Information**A. Criminal or Civil Actions.**

This Item is not applicable.

B. Administrative Proceedings before Regulatory Authorities.

This Item is not applicable.

C. Self-Regulatory Organization (SRO) Proceedings.

This Item is not applicable.

Item 10. Other Financial Industry Activities and Affiliations**A. Broker-Dealer Registration Status.**

This Item is not applicable.

B. Commodities-Related Registration.

Appaloosa is registered with the Commodity Futures Trading Commission as a commodity pool operator and is also a member of the National Futures Association (the "NFA"). Certain management persons of Appaloosa are registered with the NFA as associated persons.

C. Material Relationships or Arrangements with Industry Participants.

Appaloosa and its employees and affiliates, in the course of its investment management and other activities, may serve on the board of directors or a creditors committee, and may come into possession of confidential or material nonpublic information about issuers, including issuers in which Appaloosa or its related persons have invested or seek to invest on behalf of Clients. Appaloosa may be prohibited from disclosing or using such information for its own benefit or for the benefit of any other person, regardless of whether such other person is a Client. As a result, Funds managed by Appaloosa may, under certain circumstances, be prohibited for a period of time from engaging in transactions with respect to the debt or securities of certain issuers. Appaloosa maintains written policies and procedures that prohibit the communication of such information to persons who do not have a legitimate need to know such information and to assure that Appaloosa is meeting its obligations to Clients and remains in compliance with applicable law. In certain circumstances, Appaloosa may possess certain confidential or material, nonpublic information that, if disclosed, might be material to a decision to buy, sell or hold a security, but Appaloosa will be prohibited from communicating such information to the Client or using such information for the benefit of any Client.

In such circumstances, Appaloosa will have no responsibility or liability to the Client for not disclosing such information to the Client (or the fact that Appaloosa possesses such information), or not using such information for the Client's benefit, as a result of following Appaloosa's policies and procedures designed to provide reasonable assurances that it is complying with applicable law.

AMLPLP provides consulting services to Appaloosa.

D. Material Conflicts of Interest Relating to Other Investment Advisers

This Item is not applicable.

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

A. Code of Ethics.

Appaloosa has adopted a Code of Ethics (the "Code") that requires Appaloosa and its related persons to put the interests of its Clients before their own interests and to act honestly and fairly in all respects in their dealings with Clients. The Code includes procedures for monitoring the personal securities transactions of all employees as described in greater detail below. The Code also contains policies and procedures regarding the receipt of gifts. All employees must acknowledge the terms of the Code of Ethics annually. Appaloosa will make a copy of the Code available to Clients upon request to the Chief Compliance Officer.

B. Client Transactions in Securities where Appaloosa has a Material Financial Interest.

Appaloosa and its related persons own significant interests in the Funds that it manages.

Appaloosa may cause one or more of its Clients to buy securities from, or sell securities to, other Clients of Appaloosa at current market prices (for example, as part of routine rebalancing of accounts traded using the same investment strategy, to reallocate an investment among the accounts managed by Appaloosa, or where one or more of such accounts was unable to participate directly in the original trade), including accounts in which Appaloosa, its principals or employees are investors or in which such persons may have a financial interest due to the payment of performance-based compensation to Appaloosa (or an affiliate) by such Client. Generally, such transactions are executed at the prevailing market price for such assets at the time of the transaction; however, where no active secondary market exists for the assets, the transaction price for the assets will be set at a level provided by the administrator determined in accordance with Appaloosa's valuation policy. Where applicable, the consent of the appropriate Client (which, in certain circumstances, may be provided by the Client's independent directors or an independent committee established to address conflicts of interest) to such transaction will be obtained in accordance with the Advisers Act and related rules.

C. Investing in Securities Recommended to Clients.

Appaloosa or its related persons may invest in the same securities (or related securities, such as warrants, options or futures) that Appaloosa or a related person recommends to Clients. Such practices may present a conflict where, because of the information Appaloosa has, Appaloosa or its related persons may be in a position to trade in a manner that could adversely affect Clients (for example, by placing their own trades before or after Client trades are executed in order to benefit from any price movements due to the Clients' trades). In addition to affecting Appaloosa's or its related person's objectivity, these practices by Appaloosa or its related persons may also harm Clients by adversely affecting the price at which the Clients' trades are executed. Appaloosa has adopted certain procedures in an effort to minimize such conflicts: Appaloosa requires its access persons to pre-clear with the Chief Compliance Officer or his designee all transactions in their personal accounts involving limited offerings and securities owned by a Client. The Chief Compliance Officer may deny permission to execute the transaction if he believes such transaction will have any adverse economic impact on one of Appaloosa's Clients or otherwise presents a potential conflict of interest. In addition, Appaloosa's Code prohibits Appaloosa or its access persons from executing

personal securities transactions of any kind in any securities on a restricted securities list maintained by the Chief Compliance Officer, unless approved in advance by the Chief Compliance Officer. All of Appaloosa's related persons are required to disclose their securities transactions on a quarterly basis and holdings on an annual basis. All of Appaloosa's related persons are also required to provide a quarterly certification of such transactions. Trading in employee accounts will be reviewed by the Chief Compliance Officer and compared with transactions for the Client accounts and reviewed against the restricted securities list.

D. Conflicts of Interest Created by Contemporaneous Trading.

See the discussion under Item 6 (Performance-Based Fees and Side-by-Side Management) and Item 16 (Investment Discretion).

Item 12. Brokerage Practices

A. Factors Considered in Selecting or Recommending Broker-Dealers for Client Transactions.

Appaloosa considers a number of factors in selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation. Such factors include net price, reputation, financial strength and stability, efficiency of execution and error resolution. In selecting a broker-dealer to execute transactions (or series of transactions) and determining the reasonableness of the broker-dealer's compensation, Appaloosa need not solicit competitive bids and does not have an obligation to seek the lowest available commission cost. Appaloosa's Chief Compliance Officer and traders confer periodically to evaluate the broker-dealers used by Appaloosa to execute Client trades using the foregoing factors.

Research and Other Soft Dollar Benefits.

Appaloosa may receive research or other products or services other than execution from a broker-dealer in connection with Client securities transactions. This is known as a "soft dollar" relationship. Appaloosa does not use soft dollars to pay for third party research. However, Appaloosa may receive research and brokerage services from brokers as permitted under Section 28(e) of the Exchange Act ("Section 28(e)"). Research services within Section 28(e) may include, but are not limited to, research reports (including market research); certain financial newsletters and trade journals; software providing analysis of securities portfolios; corporate governance research and rating services; attendance at certain seminars and conferences; discussions with research analysts and the management of portfolio companies; consultants' advice on portfolio strategy; data services (including services providing market data, company financial data and economic data); advice from broker-dealers on order execution; and certain proxy services. Brokerage services within Section 28(e) may include, but are not limited to, services related to the execution, clearing and settlement of securities transactions and functions incidental thereto (for example, connectivity services between an adviser and a broker-dealer and other relevant parties such as custodians); trading software operated by a broker-dealer to route orders; software that provides trade analytics and trading strategies; software used to transmit orders; clearance and settlement in connection with a trade; electronic communication of allocation instructions; routing settlement instructions; post trade matching of trade information; and services required by the SEC or a self-regulatory organization such as comparison services, electronic confirms or trade affirmations.

When Appaloosa uses Client commissions to obtain Section 28(e) eligible research and brokerage products and services, Appaloosa's Chief Compliance Officer and traders will confer periodically to review and evaluate its practices to determine whether, with respect to any research or other products or services received from a broker-dealer, the commissions used to obtain those products and services were reasonable in relation to the value of the brokerage, research or other products or services provided by the broker-dealer. This determination may be viewed in terms of either a specific transaction or Appaloosa's overall responsibilities to its Clients.

Research and brokerage services obtained by the use of commissions arising from a Client's portfolio transactions may be used by Appaloosa in its other investment activities, including for the benefit of other Client accounts.

Brokerage for Client Referrals.

Appaloosa does not presently consider referral of Clients or investors as a factor in the selection of brokers, but may do so in the future, subject to Appaloosa's obligation to seek best execution.

Directed Brokerage.

Appaloosa does not accept instructions from Clients to direct brokerage to specific brokers.

B. Order Aggregation.

Appaloosa often purchases or sells the same security for more than one Client at or near the same time and using the same executing broker. It is Appaloosa's practice, where possible, to aggregate Client orders for the purchase or sale of the same security submitted at or near the same time for execution using the same executing broker. Such aggregation may enable Appaloosa to obtain for Clients a more favorable price or a better commission rate based upon the volume of a particular transaction. When an aggregated order is completely filled, Appaloosa allocates the securities purchased or proceeds of sale pro rata among the participating accounts within a strategy, based on the purchase or sale order. Adjustments or changes may be made under certain circumstances, such as to avoid odd lots or excessively small allocations. If the order at a particular broker is filled at several different prices, through multiple trades, generally all such participating accounts will receive the average price and pay the average commission, subject to odd lots, rounding, and market practice. If an aggregated order is only partially filled, Appaloosa's procedures provide that the securities or proceeds are to be allocated in a manner deemed fair and equitable to Clients. Depending on the investment strategy pursued and the type of security, this may result in something other than a pro rata allocation to all participating Clients.

Item 13. Review of Accounts

A. Frequency and Nature of Review.

Each Client account is reviewed by a portfolio manager of Appaloosa daily to determine whether securities positions should be maintained in view of current market conditions. Matters reviewed include specific securities held, adherence to investment guidelines and the performance of each Client account.

B. Factors Prompting a Non-Periodic Review of Accounts

This item is not applicable.

C. Content and Frequency of Regular Account Reports.

The Funds typically provide to investors audited financial statements, periodic unaudited reports and information necessary for United States federal income tax purposes.

Item 14. Client Referrals and Other Compensation

A. Economic Benefits Received from Non-Clients for Providing Services to Clients.

Appaloosa may receive certain research or other products or services from broker-dealers as described in Item 12 above. These arrangements may create an incentive for Appaloosa to select or recommend broker-

dealers based on Appaloosa's interest in receiving the research or other products or services and may result in the selection of a broker-dealer on the basis of considerations that are not limited to the lowest commission rates, and may result in higher transaction costs than would otherwise be obtainable by Appaloosa on behalf of its Clients.

B. Compensation to Non-Supervised Persons for Client Referrals.

Appaloosa does not presently compensate any third parties for the referral of Clients or investors but may do so in the future.

Item 15. Custody

Except as set forth in the next sentences, Appaloosa will not have physical custody of any Client assets, although Appaloosa may be deemed to have custody of the assets of certain of the Funds as a result of the authority of Appaloosa or an affiliate as general partner or managing member. Appaloosa may have custody of certificates representing certain privately offered securities acquired in private transactions.

It is Appaloosa's policy to cause each Fund with assets over which Appaloosa is deemed to have "custody" to be audited annually. Audited financial statements, prepared in accordance with U.S. generally accepted accounting principles, will be distributed to investors in each Fund no later than 120 days after the end of each fiscal year.

Item 16. Investment Discretion

Appaloosa provides investment advisory services on a discretionary basis to Clients. Prior to assuming full discretion in managing a Client's assets, Appaloosa enters into an investment management agreement or other agreement that sets forth the scope of Appaloosa's discretion.

Appaloosa has the authority to determine (i) the securities to be purchased and sold for the Client account (subject to restrictions on its activities set forth in the investment management agreement or any other applicable documents including any written investment guidelines) and (ii) the amount of securities to be purchased or sold for the Client account. Because of the differences in Client investment objectives and strategies, risk tolerances, tax status and other criteria, there may be differences among Clients in invested positions and securities held. The portfolio managers may consider the following factors, among others, in allocating securities among Clients: (i) Client investment objectives and strategies; (ii) Client risk profiles; (iii) tax status and restrictions placed on a Client's portfolio by the Client or by applicable law; (iv) size of the Client account; (v) nature and liquidity of the security to be allocated; (vi) size of available position; (vii) current market conditions; and (viii) account liquidity, account requirements for liquidity and timing of cash flows. Although it is Appaloosa's general policy to allocate investment opportunities to eligible Client accounts within a strategy on a pro rata basis (based on the value of the assets of each participating account relative to value of the assets of all participating accounts, plus any additional leverage with respect to any account managed using a greater amount of leverage), these factors may lead a portfolio manager to allocate securities to Client accounts in varying amounts. Even Client accounts that are typically managed on a *pari passu* basis may from time to time receive differing allocations of securities.

Securities acquired by Appaloosa for its Clients through initial public offerings (IPOs) and secondary offerings will be allocated pursuant to the procedures set forth in Appaloosa's allocation policy. The policy provides that: (i) if Appaloosa receives a full allocation of securities in an IPO, the securities will generally be allocated by the trader to eligible participating Client accounts pro rata among funds with the same or substantially similar investment strategy, or (ii) if Appaloosa receives less than a full allocation of securities in an IPO, the securities will be allocated by the trader to eligible participating Client accounts based upon, among other factors, the assets, account size, investment guidelines, risk profile and tax status of each participating Fund. IPOs will generally not be allocated to Azteca as its investors are comprised primarily

of employees and former employees of Appaloosa. The portfolio manager will determine the proposed allocations of IPO securities after considering the factors described above with respect to general allocations of securities. Only those investors that have established their eligibility to participate in IPOs may participate in IPO allocations.

Securities acquired by Appaloosa for its Clients through a limited offering will be allocated pursuant to the procedures set forth in Appaloosa's allocation policy. The policy provides that the portfolio manager will determine the proposed allocation of limited offering securities after considering the factors described above with respect to general allocations of securities and determining those Client accounts eligible to hold such securities. Eligibility will be based on the legal status of the Client and the Client's investment objectives and strategies.

Appaloosa and its affiliates may purchase on behalf of its Clients different classes of debt and/or equity of the same borrower or issuer. These and other investments may be deemed to create a conflict of interest. Appaloosa may be required to take certain actions for some Clients with respect to one class of debt or equity that may be adverse to other Clients who hold other classes of debt or equity of the same borrower or issuer.

If it appears that a trade error has occurred, Appaloosa will review the relevant facts and circumstances to determine an appropriate course of action. Appaloosa has discretion to resolve a particular error in any appropriate manner. In the event that a Client account incurs a trade error as a result of Appaloosa's gross negligence, willful misconduct, or fraud, the trade error will be corrected by Appaloosa as soon as practicable, in a manner such that the Client incurs no loss. Trade errors that result other than as a result of Appaloosa's gross negligence, willful misconduct, or fraud are borne by the Client account.

Item 17. Voting Client Securities

Appaloosa's proxy voting policies and procedures are designed to ensure that in cases where Appaloosa votes proxies with respect to Client securities, such proxies are voted in the best interests of its Clients.

Appaloosa reviews the relevant facts in an effort to determine whether or not a material conflict of interest may arise due to business or other relationships of Appaloosa and its related persons. If a material conflict of interest between Appaloosa and a Client exists, Appaloosa will determine whether voting in accordance with the guidelines set forth in the proxy voting policies and procedures is in the best interests of the Client or take some other appropriate action, which may include abstaining or disclosing the conflict of interest to the Client (such as the board of directors of a Fund) and deferring to the Client's voting recommendation. Depending on each Client's particular circumstances, Appaloosa may vote one Client's securities differently than it votes those of another Client, or may vote differently on identical or similar proposals.

Appaloosa will make its proxy voting policies and procedures and information about how Appaloosa has voted Client proxies available to Clients upon request.

Item 18. Financial Information

This item is not applicable.