

INVESTMENT ADVISER BROCHURE

LIONSTONE PARTNERS, LTD.

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This Investment Adviser Brochure (“Brochure”) provides information about the qualifications and business practices of Lionstone Partners, Ltd., a Texas limited partnership (“Lionstone Partners”). If you have any questions about the contents of this Brochure, please contact us at 713-533-5860 or dd@lionstonegroup.com. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission (the “SEC”) or by any state authority.

Lionstone Partners is an investment adviser registered with the SEC under the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”). However, such registration does not imply a certain level of skill or training.

Additional information regarding Lionstone is also available on the SEC’s website at www.adviserinfo.sec.gov.

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MATERIAL CHANGES

This Brochure contains material changes to the initial Form ADV Part 2 filed by Lionstone Partners, Ltd. on December 23, 2011 (the “**Initial Brochure**”). Immediately below is a discussion of such material changes. Such discussion sets forth only material changes to the Initial Brochure.

This Brochure reflects the following material changes to the Initial Brochure: (1) conforming changes to the amounts of assets under management; (2) the inclusion of additional entities that are affiliated investment advisers of Lionstone Partners, Ltd. and (3) the inclusion of additional entities that are advised by Lionstone Partners, Ltd. or its affiliates.

ADVISORY BUSINESS

The Lionstone Group is a private investment management firm, including a registered investment advisory entity and other organizations affiliated with Lionstone Partners, Ltd., a Texas limited partnership (“**Lionstone Partners**” and, together with such affiliated organizations, collectively, “**Lionstone**”). Lionstone Partners (and its general partner, Lionstone GP, LLC, a Texas limited liability company) is owned and controlled by Thomas G. Bacon, Glenn L. Lowenstein and Daniel R. Dubrowski (the “**Managing Partners**”).

Lionstone Partners is a registered investment adviser that commenced operations in October 2001. Lionstone Partners and its affiliated investment advisers, Cash Flow Asset Management, L.P. (“**CFAM**”), Lionstone CFO One Limited Partnership (“**CFO One GP**”), Lionstone CFO Two Limited Partnership (“**CFO Two GP**”), Lionstone CFRE Partners One, L.P. (“**CFRE GP**”), Lionstone UC One, L.P. (“**LUI One GP**”), Lionstone UC Two, L.P. (“**LUI Two GP**”), Lionstone U.S. Land One GP, L.L.C. (“**USL GP**”), and Lionstone U.S. Land Two GP, L.L.C. (“**USL Two GP**” and together with CFO One GP, CFO Two GP, CFRE GP, LUI One GP, LUI Two GP, and USL GP, the “**General Partners**”, and together with Lionstone Partners and CFAM, collectively, the “**Advisers**”) provide investment advisory services to private investment funds and managed accounts.

CFO One GP, a Texas limited partnership, is the general partner of Lionstone Cash Flow Office One, LP, a Texas limited partnership (together with any feeder vehicles, alternative investment vehicles and other special purpose entities, “**CFO One**”).

CFO Two GP, a Texas limited partnership, is the manager of Lionstone Cash Flow Office Two, LLC, a Texas limited liability company (together with any feeder vehicles, alternative investment vehicles and other special purpose entities, “**CFO Two**”).

CFRE GP, a Delaware limited partnership, is the general partner of Lionstone Cash Flow Real Estate Partners One, L.P., a Delaware limited partnership (together with any feeder vehicles, alternative investment vehicles and other special purpose entities, “**CFRE**”).

LUI One GP, a Delaware limited partnership, is the general partner of Lionstone Urban Investments One, L.P., a Delaware limited partnership (together with any feeder vehicles, alternative investment vehicles and other special purpose entities, “**LUI One**”).

LUI Two GP, a Delaware limited partnership, is the general partner of Lionstone Urban Investments Two, L.P., a Delaware limited partnership (together with any feeder vehicles, alternative investment vehicles and other special purpose entities, “**LUI One**”).

USL GP, a Delaware limited partnership, is the general partner of Lionstone U.S. Land One, L.P., a Delaware limited partnership (together with any feeder vehicles, alternative investment vehicles and other special purpose entities, “**USL**”).

USL Two GP, a Delaware limited partnership, is the general partner of Lionstone U.S. Land Two, L.P., a Delaware limited partnership (together with any feeder vehicles, alternative investment vehicles and other special purpose entities, “**USL Two**”).

The Managing Partners own 100% of the controlling interests (directly or indirectly) in each General Partner.

Lionstone Partners, through its shared control of each General Partner, manages the business and affairs of CFO One, CFO Two, CFRE, LUI One, LUI Two, USL and USL Two (each, a “**Fund**,” collectively, the “**Funds**” and together with any future private investment fund managed by Lionstone Partners, the “**Private Investment Funds**”). The investors of the Funds (other than the General Partners), as applicable, are referred to herein as “**Limited Partners**” and together with the General Partners, the “**Partners**”. Lionstone also manages the business and affairs of CFAM.

The Funds invest through negotiated transactions in real estate assets, securities and operating entities in accordance with the investment criteria and limitations set forth in the each Fund’s limited partnership agreement (“**Limited Partnership Agreement**”) or limited liability company agreement (“**Limited Liability Company Agreement**”). From time to time, Lionstone Partners may also offer discretionary or non-discretionary advice to one or more managed accounts (“**Accounts**”) through an investment management agreement or similar arrangement (“**Investment Management Agreement**”). Unless expressly provided otherwise, references herein to “Funds” include references to “Accounts.”

Lionstone Partners’ investment advisory services to the Funds consist of identifying and evaluating investment opportunities, negotiating investments, managing and monitoring investments and achieving dispositions for such investments. These advisory services are detailed in the applicable private placement memoranda and the supplements thereto (each, a “**Private Placement Memorandum**” and, collectively, the “**Private Placement Memoranda**”) and/or the Limited Partnership Agreement, Limited Liability Company Agreements or Investment Management Agreement of the Funds, as applicable, and are further described below under “Methods of Analysis, Investment Strategies and Risk of Loss.” Lionstone also provides advice to others in connection with their ownership of certain real estate properties and assets, as well as provide management services with respect to certain of such properties.

As of December 31, 2012, Lionstone Partners managed \$1,941,548,331 in client assets on a discretionary basis. Lionstone currently provides to one client, and may in the future provide to more clients, non-discretionary advice with respect to one or more specific

investments as agreed between Lionstone and such clients. As of December 31, 2012, Lionstone Partners managed, through CFAM, approximately \$96,000,000 on a non-discretionary basis.

FEES AND COMPENSATION

The Funds have only investors that are qualified purchasers as defined in section 2(a)(51)(A) of the Investment Company Act of 1940, as amended. Fees and compensation related to the Funds are detailed in the Limited Partnership Agreement or Limited Liability Company Agreement, as the case may be, and the Private Placement Memorandum of the relevant Fund.

PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT

Lionstone Partners does not directly receive a carried interest allocation (“**Carried Interest**”) for its advisory services to the Funds. Rather, each of CFO One GP, CFO Two GP, CFRE GP, LUI One GP, LUI Two GP, USL GP and USL Two GP receive a Carried Interest from each of CFO One, CFO Two, CFRE, LUI One, LUI Two, USL, and USL Two, respectively, as more fully described in the Fund’s Limited Partnership Agreement or Limited Liability Company Agreement, as applicable. The Managing Partners are also investors in each of the foregoing Funds, indirectly through the General Partner of such Fund, and the Managing Partners and certain Lionstone employees also participate in the Carried Interest of each Fund.

Lionstone Partners also receives management fees from each Fund. These management fees are different for each Fund and include fee structures based on a percentage of asset value, cash flow and/or invested or committed capital.

Because of these varying fee structures and Carried Interests, the possibility could exist that the Managing Partners and Lionstone employees could favor one Fund over another, especially if one Fund was deemed more profitable to Lionstone, its Managing Partners or Lionstone employees on a fee or Carried Interest basis. Lionstone seeks to mitigate this risk by appropriately staffing the management of each Fund so as to achieve Lionstone’s key man provisions contained in the applicable Fund’s Limited Partnership Agreement or Limited Liability Company Agreement and Lionstone’s objective of building long-term relationships with each of its investors by maintaining consistent and high fiduciary standards.

TYPES OF CLIENTS

Lionstone Partners provides investment advice to Private Investment Funds. Private Investment Funds may include investment partnerships or other investment entities formed under domestic or foreign laws and operated as exempt investment pools under the Investment Company Act of 1940, as amended. The investors participating in Private Investment Funds may include individuals, banks or thrift institutions, pension and profit-sharing plans, trusts, estates, endowments, charitable organizations, corporations or other business and investment entities and may include, directly or indirectly, employees of Lionstone Partners and its affiliates.

Interests in each existing Funds were offered and sold solely to accredited investors within the meaning of the rules promulgated under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”).

METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS

General

Lionstone is a privately owned real estate investment firm that specializes in researching, conceptualizing and executing national investment strategies based upon proprietary data and ideas. The primary emphasis of the firm is to seek to carefully identify and manage the risks inherent in real estate investing while producing attractive risk-adjusted returns through the Funds.

The Advisers provide investment advisory services to the applicable Funds. As described below and in the applicable Limited Partnership Agreement, Limited Liability Company Agreement and Investment Management Agreement, each Fund has a unique investment methodology and strategy. There can be no assurance that the Advisers will achieve the investment objectives of each of the Funds and a loss of investment may be possible.

Investment and Operating Strategies

The Funds typically pursue their investment strategies by investing through one or more limited partnerships, limited liability companies or other entities that, in turn, invest in the properties described below. Moreover, certain Accounts may also follow one or more of the following investment strategies.

The Cash Flow Office Strategy

The Cash Flow Office Strategy, applicable to CFO One and CFO Two (the “**CFO Funds**”), invests in multi-tenanted office buildings close to amenities with good demographics and strong infrastructure. The CFO Funds invest only in the United States.

The Cash Flow Real Estate Strategy

The Cash Flow Real Estate Strategy is the thematic precursor of the Cash Flow Office Strategy and is applicable to CFRE. CFRE invests in multi-tenanted office buildings, multi-family complexes, industrial warehouse and retail centers in areas close to amenities with good demographics and strong infrastructure. The CFRE Fund invests only in the United States.

The Urban Core Strategy

The Urban Core Strategy, applicable to LUI One and LUI Two (the “**LUI Funds**”), invests in underdeveloped properties in geographically specific areas in select U.S. cities (such investments, “**LUI Projects**”). LUI Projects fall into one of two broad categories: (a) investments designed to increase the cash flow stream associated with the asset through improved management, strengthening market conditions or repositioning, or (b) investments that aim to reduce the risk profile of the assets by redeveloping the asset to a higher and better use, developing new product to meet current market needs, or remarketing the asset to meet current user/developer needs. The LUI Funds invest only in the United States.

The US Land Strategy

The US Land Strategy, applicable to USL, and USL Two, seeks to invest in larger land tracts which have limited buyers at discount prices, and sell smaller, more liquid tracts with multiple uses and a much broader acceptance at premium prices.

Risks of Investment

Each Fund and its investors bear the risk of loss that the applicable Advisers' investment strategy entails. Investors should review each Fund's Private Placement Memoranda and each Fund's Limited Partnership Agreement, Limited Liability Company Agreement or Investment Management Agreement, as applicable, for additional information regarding risks specific to each Fund. An investment in the Funds involves a high degree of risk and, therefore, should be undertaken only by qualified investors whose financial resources are sufficient to enable them to assume these risks and to bear the loss of all or part of their investment.

In general, the risks involved with the Adviser's investment strategy and an investment in the Funds include the risks discussed below. The following risk factors should be considered carefully, but are not meant to be an exhaustive listing of all potential risks associated with an investment in the Funds. Investors should consult with their own financial, legal and tax advisors prior to investing in the Funds.

General Real Estate Risks

An investment in the Funds is subject to risks inherent in real estate investments generally. These risks include adverse consequences resulting from the availability of capital, lease-up risks, tenant defaults, changes in tax laws and accounting principles, lending regulations and reserve requirements, national and international events, energy supplies, the federal government's economic and fiscal policies, interest rates, environmental, health and safety laws, handicapped and accessibility codes and requirements, trends towards corporate downsizing, job-sharing and telecommuting, competition with other properties, competition with non-real estate alternative investment opportunities in the capital markets, casualty and condemnation risks, acts of terrorism and acts of God. There is no assurance that the operations of the Funds will be profitable or that cash from operations will be available for distribution to Limited Partners. Because real estate, like many other types of long-term investments, historically has experienced significant fluctuation and cycles in value, specific market conditions may result in occasional or permanent reductions in the value of the real estate investments of the Funds. The marketability and value of the investments depends on many factors beyond the control of the Funds, including, without limitation, those enumerated above. There is no assurance that there will be a ready market for the Funds' investments because investments in real estate generally are not liquid. General economic conditions in the United States and abroad, as well as conditions of domestic and international financial markets, may adversely affect operations of the Funds. Unemployment, inflation, local recessions or other economic events resulting in a reduction of income or the number of tenants of properties or the financial failure of one or more tenants of properties constituting investments of the Funds could have a material adverse effect on the value of such investments and consequently, the financial position of the Funds. Fluctuation in interest rates or other financial market volatility may restrict the availability of financing for

future prospective purchasers of investments held by the Funds and could significantly reduce the value of such investments.

Future Investments Unspecified

The business of identifying and structuring real estate transactions is highly competitive and involves a high degree of uncertainty. Furthermore, the availability of investment opportunities generally is subject to market conditions. In particular, in light of changes in such conditions, certain types of investments may not be available to the Funds on terms as attractive as those available in the past. In addition, the Funds may face increasing competition for attractive investments from existing and new real estate investors with similar investment objectives. Accordingly, the Funds may be unable to find a sufficient number of attractive opportunities that meet their investment objectives to invest fully their committed capital.

Lack of Current Distributions

It is uncertain as to when profits, if any, will be realized by the Funds. Losses on unsuccessful investments may be realized before gains on successful investments are realized. Even if any of the Funds' investments prove successful, they may not produce a realized return to Limited Partners for a period of several years. The return of capital and the realization of gains, if any, generally occur only upon the partial or complete disposition of an investment. While an investment may be sold at any time by the Funds, it is not generally expected that this will occur for a number of years after the initial investment. Prior to such time, there may be no current return on the Funds' investments. Furthermore, the expenses of operating the Funds (including any acquisition fees payable to the General Partner) may exceed their income, thereby requiring that the difference be paid from the Funds' capital.

Illiquidity

A Partner investing in the Funds bears the risks of such investment for an extended and indefinite period of time. A Partner may be unable to liquidate its investment in the Funds prior to the termination of the Funds. The amount and timing of distributions, if any, a Partner receives from the Funds is uncertain. In addition, cash flow available for distribution during the terms of the Funds cannot be predicted. The Funds' portfolio of assets are illiquid. Liquidity relates to the ability of the owner to dispose of assets readily and the price to be paid for them. Such illiquidity could prevent the sale by the Funds of assets at a time when it otherwise might be desirable to do so. These factors may have an adverse impact on the value of the Funds.

In addition, less marketable or illiquid assets may be more difficult to value due to the unavailability of reliable market quotations. The sale of less marketable assets may require more time and result in lower prices, due to higher brokerage charges and other selling expenses, than the sale of more marketable assets.

Valuations

Because there is no public market for real estate investments, such investments are difficult to value. Therefore, valuations of real estate investments are inherently subjective to a certain extent. In addition, a valuation is only an estimate of value and is not a precise measure

of realizable value. Ultimate realization of an investment depends to a great extent on economic and other conditions beyond the control of the Funds and the General Partners. Further, valuations do not necessarily represent the price at which a real estate investment would sell since market prices of real estate investments can only be determined by negotiation between a willing buyer and seller. If the Funds were to liquidate a particular investment, the realized value may be more than or less than the valuation of such investment.

Yield Assessment Risk

Before pursuing any investment, the General Partners consider the expected yield of the investment and the factors that may influence the yield actually obtained on such investment. These considerations affect the Funds' decision whether to pursue acquisition of such an investment and the price offered for such an investment. Despite management's experience in evaluating potential investments, no assurances can be given that the Funds can make an accurate assessment of the yield to be produced by an investment. Many factors beyond the control of the Funds are likely to influence the yield on the Funds' investments, including, but not limited to, competitive conditions in the local real estate market, and local and general economic conditions.

Leverage

The Funds leverage their investments and anticipate continuing to do so. There can be no assurance, however, as to the availability of leverage on acceptable terms. The cost and availability of leverage is highly dependent on the state of the broader credit markets, which state is difficult to accurately forecast. During times when credit markets are tight, it may be difficult to obtain or maintain the desired degree of leverage. Depending on interest rates and the Funds' hedging strategies, such leverage could either favorably or negatively impact returns to Partners as well as increase the risk of the investment. The leveraged capital structure of the Funds' investments will increase the exposure of the Funds' investments to any deterioration in an investment's condition, competitive pressures, an adverse economic environment or rising interest rates and could accelerate and magnify declines in the value of the Funds' investments in a down market. In the event any investment cannot generate adequate cash flow to meet debt service, the Funds may suffer a partial or total loss of capital invested in the investment, which could adversely affect the returns of the Funds.

The Funds also expect to liquidate their investments in accordance with the respective Funds' strategy. The availability of debt and the prevailing interest rate climate at the time of such liquidation could materially affect the Funds' ability to liquidate their investments in a timely and profitable manner. If there are borrowings under a credit facility that is secured by, among other things, the Limited Partners' interests in the Funds and obligations to make capital contributions, any inability of the Funds to repay such borrowings could enable a lender to take action against any Limited Partner or its interest in the Funds. Although the Funds will take reasonable action to avoid unrelated business taxable income, certain tax-exempt investors may be subject to unrelated business taxable income because of the Funds' use of leverage.

Tax Considerations

Complex federal, state and local tax laws and regulations, all of which are subject to change, govern a Limited Partner's investment in the Funds. The Funds do not take into account any prospective investor's particular financial or tax situation and assumes an investor is sophisticated in tax matters or is able to retain and consult with a knowledgeable tax advisor. Investors are urged to consult their own tax advisors regarding the possible federal, state and local tax consequences of an investment in the Funds. All statements contained in a Fund's Private Placement Memoranda concerning the federal income tax consequences of an investment in such Fund are based upon existing law, at the time of such Private Placement Memoranda, as contained in the United States Code, the related regulations and administrative and judicial interpretations thereof. The President of the United States, Congress and the Internal Revenue Service are engaging in a continuing review of all tax matters. Therefore, no assurance can be given that the currently anticipated income tax treatment of an investment in the Funds will not be modified by legislative, judicial or administrative changes, possibly with retroactive effect, to the detriment of the Partners.

Environmental Considerations

The Funds conduct customary due diligence to determine whether each prospective investment is impacted by environmental conditions and either do not purchase such property or take such conditions into account in their purchase price for such investment. It is possible, however, that undisclosed and unknown environmental conditions could arise that would materially impact the value of a given property and its suitability for financing, or that changes in environmental laws could give rise to additional liabilities for real estate owners that cannot be fully passed on to the tenants of a given investment.

Past Results Not Indicative of Future Results, Forward Looking Statements

The Funds do not own any interest in any other Fund or the investments made by any prior Funds, and therefore, the results of each Fund will differ from the results of such prior Funds. There can be no assurance that the Funds will achieve similar results to those achieved by the prior Funds. Past, targeted or projected performance is not necessarily indicative of future results, and there can be no assurance that targeted or projected returns will be achieved, that the Funds will achieve comparable results or that the Funds will be able to implement their investment strategies or achieve their investment objectives.

Certain fund documents, due diligence materials and other information prepared by or on behalf of the General Partners regarding the Funds' existing or contemplated future investments contain forward looking statements. While the General Partners believe the expectations reflected in any forward looking statements are reasonable, no assurance can be given that such expectations can be obtained. Factors that could cause actual results to differ materially from the General Partners' expectations include each of the various risk factors identified herein. The Limited Partners have each been given the opportunity to review such statements in detail, to discuss the same with the General Partners and to satisfy themselves as to the information contained therein. The General Partners and the Funds make no commitment to disclose any

revisions to such statements, or any facts, events or circumstances after the date of the documents that may bear upon any such statements.

Lack of Diversification

The Funds may invest in a limited number of properties, and as a consequence, the aggregate returns realized by the Partners may be adversely affected by the unfavorable performance of a small number of investments. The Funds may also make investments that may not be diversified geographically, and poor conditions in a particular market where the Funds have multiple investments could significantly affect the total returns to the Partners.

Dependence upon Key Management

The success of the Funds is dependent upon the continued personal efforts of certain key personnel of Lionstone Partners, including Thomas Bacon, Glenn Lowenstein and Daniel Dubrowski. The Funds are managed exclusively by Lionstone Partners, and Limited Partners will not be able to make any investment or other decision on behalf of the Funds. Although Lionstone maintains key-man life insurance on each of Tom Bacon, Glenn Lowenstein and Dan Dubrowski, it may not be possible to replace these individuals, should one or more of them become incapacitated or in some other way cease to be involved with the Funds, and in such an event the Funds' performance could be materially adversely affected through a diminished capacity to obtain investment opportunities and to structure and execute the Funds' investments.

Reliance on Lionstone Partners

The Funds are managed exclusively by Lionstone Partners. The Funds' Limited Partners will not make decisions with respect to the acquisition, management, disposition or other realization of any investment, or other decisions regarding the Funds' business and affairs.

General Partner's Carried Interest

The General Partners' carried interest may create an incentive to make investments that are riskier or more speculative than would be the case if the General Partners were not receiving such performance-based compensation. In addition, the method of calculating the General Partners carried interest may result in conflicts of interest between the General Partners and the Limited Partners with respect to the management and disposition of investments and the determination of the timing and amount of distributions by the Funds.

Absence of Recourse to General Partner

The Limited Partnership Agreement, Limited Liability Company Agreement or Investment Management Agreement, as applicable, limit the circumstances under which the General Partners can be held liable to the Funds. As a result, investors may have a more limited right of action in certain cases than they would in the absence of this provision.

Uncertain Economic and Political Environment

The current global economic and political climate is one of uncertainty. Prior acts of terrorism in the United States, the threat of additional terrorist strikes and the fear of a prolonged global conflict have exacerbated volatility in the financial markets and can cause consumer, corporate, and financial confidence to weaken, increasing the risk of a “self-reinforcing” economic downturn. A climate of uncertainty may reduce the availability of potential investment opportunities and increases the difficulty of modeling market conditions, reducing the accuracy of the financial projections.

Market Conditions

Any material change in the economic environment, including a slow-down in economic growth and/or changes in interest rates, could have a negative impact on the performance and/or valuation of the Funds’ investments. The Funds’ performance can be affected by deterioration in public markets and by market events, such as the onset of the credit crisis in the summer of 2007, which can impact the public market comparable earnings multiples used to value privately held investments. Following the onset of the credit crisis, the rate of future investment by funds slowed and may continue to do so as the pricing of new transactions adjusts to reflect the current economic uncertainty and the lack of credit in the markets. Holding periods are also likely to be longer as the rate of realizations slows in light of the deterioration in various market conditions. The impact of the credit crisis may also affect the Funds’ ability to raise funding to support their investment objectives and also the level of profitability achieved on realizations of investments.

Deterioration of Credit Markets May Affect Ability to Finance and Consummate Investments

The deterioration of the global credit markets, such as the credit crisis in the summer of 2007, make it more difficult for real estate funds such as the Funds to obtain favorable financing for investments. A widening of credit spreads, coupled with the deterioration of the sub-prime and global debt markets and a rise in interest rates, has dramatically reduced investor demand for high yield debt and senior bank debt, which in turn has led some investment banks and other lenders to be unwilling to finance new real estate investments or to only offer committed financing for these investments on unattractive terms. The Funds’ ability to generate attractive investment returns may be adversely affected to the extent the Funds are unable to obtain favorable financing terms for their investments. Moreover, to the extent that such marketplace events are not temporary and continue, they may have an adverse impact on the availability of credit to businesses generally and could lead to an overall weakening of the U.S. and global economies. Such marketplace events also may restrict the ability of the Funds to realize their investments at favorable times or for favorable prices.

Hedging and Interest Rate Risks

Changes in interest rates may adversely affect the investments of the Funds. Changes in the general level of interest rates can affect the Funds’ income by affecting the spread between the income on their assets and the expense of their interest-bearing liabilities, as well as, among other things, the value of their interest-earning assets, the capitalization rate at which their real

estate assets are valued in the market and their ability to realize gains from the sale of assets. Interest rates are highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations, fiscal deficits, trade surpluses or deficits, regulatory requirements and other factors beyond the control of the Funds. Certain funds may finance their activities with both fixed and floating rate debt. With respect to their floating rate debt, the Funds' performance may be affected adversely if the Funds fail to limit the effects of changes in interest rates on their operations by employing an effective hedging strategy, including engaging in interest rate swaps, caps, floors or other interest rate contracts, or buying and selling interest rate futures or options on such futures. Should the Funds so elect (and they may be under no obligation to do so), the use of these instruments to hedge a portfolio carries certain risks, including the risk that losses on a hedge position will reduce the Funds' earnings and funds available for distribution to investors and that such losses may exceed the amount invested in such instruments.

Conflicts of Interest

Exclusivity

The Funds may be subject to certain conflicts of interest due to the General Partners' relationship with Lionstone and Lionstone's relationship with other investment programs.

If an investment opportunity meets the investment criteria of more than one Fund, the investment opportunity is allocated to the applicable Fund based upon Lionstone's investment rotation policy. This policy currently only applies to investment opportunities applicable to the CFO Funds, CFRE and the USL Funds. The investment rotation policy is disclosed to the applicable investors in the applicable Fund documents such as the Limited Partnership Agreement, Limited Liability Company Agreement and Investment Management Agreement.

In addition, the Managing Partners may spend a portion of their business time and attention pursuing investment opportunities for Funds that do not fall within the investment objectives of a given Fund. The Managing Partners and Lionstone's investment staff may continue to manage and monitor the other investment programs. Currently, CFRE requires that until the date on which at least 75% of the capital commitments of CFRE have been invested, committed or allocated for investment, used for Fund expenses or organizational expenses of the Fund, any investment vehicle or any subsidiary, or reserved for capital expenditures or reasonably anticipated expenses of the Fund (or such earlier date if the Fund is dissolved): (a) at least 90% of the business time of Daniel R. Dubrowski shall be devoted to the business and affairs of CFRE and the CFO Funds; and (b) at least 50% of the business time of Glenn L. Lowenstein shall be devoted to the business and affairs of CFRE and the CFO Funds.

Lionstone Partners also receives management fees from each Fund. These management fees are different for each Fund and include fee structures based on a percentage of asset value, cash flow and/or invested or committed capital. Because of these varying fee structures and Carried Interests, the possibility could exist that the Managing Partners and Lionstone employees could favor one Fund over another, especially if one Fund was deemed more profitable to Lionstone, its Managing Partners or Lionstone employees on a fee or Carried Interest basis.

The Limited Partners of the Funds include taxable and tax-exempt entities and include persons or entities organized in various jurisdictions. The Limited Partners of the Funds may have conflicting investment, tax and other interests with respect to their investments in the Funds. The conflicting interests of individual Limited Partners may relate to or arise from, among other things, the nature of investments made by the Funds, the structuring of the acquisition of Funds investments and the timing of disposition of investments. Such structuring of Fund investments may result in different returns being realized by different Limited Partners in any Fund. As a result, conflicts of interest may arise in connection with decisions made by Lionstone Partners being more beneficial for one type of Limited Partner than for another type of Limited Partner. In selecting investments appropriate for the Funds and deciding upon the structure of Fund investments, Lionstone Partners will consider the investment and tax objectives of the Fund as a whole in the event there are conflicts among the Limited Partners. Where such conflicts do not exist, Lionstone Partners will consider the tax and other objectives of specific Limited Partners.

Common Legal Counsel for Funds and General Partners

Certain law firms acted as legal counsel to the Funds and the General Partners in connection with the private placement offerings of the Funds. In each such case, the applicable law firm did not act as legal counsel for any Limited Partner or potential investor and such persons are strongly advised to retain and consult with their own legal counsel. It is possible that in the future, the interests of the Funds and the General Partners may preclude such firms from representing both parties. In such a circumstance, additional legal counsel may need to be retained in order to assure all parties that their respective legal interests are adequately represented.

DISCIPLINARY INFORMATION

Lionstone Partners and its management persons have not been subject to any material legal or disciplinary events required to be discussed in this Brochure.

OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Lionstone Partners is not, but may become in the future, affiliated with other investment advisers registered with the SEC under the Advisers Act. These affiliated investment advisers may serve as managers or general partners of the Funds and other pooled vehicles and may share common owners, officers, partners, employees, consultants or persons occupying similar positions.

Lionstone Partners is currently affiliated with the other Advisers. While such other Advisers are not required to be registered under the Advisers Act, they operate in compliance with certain related requirements and undertakings as prescribed by the SEC.

CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING

The Advisers have adopted the Lionstone Code of Ethics and Securities Trading Policy and Procedures (the “Code”), which sets forth standards of conduct that are expected of

Lionstone principals and employees and addresses conflicts that arise from personal trading. The Code requires certain Lionstone personnel to report their personal securities transactions, prohibits or requires pre-clearance for Lionstone personnel from directly or indirectly acquiring beneficial ownership or disposing of securities in an initial public offering, and prohibits Lionstone personnel from directly or indirectly acquiring beneficial ownership of securities with limited exceptions, without first obtaining approval from the Lionstone Chief Compliance Officer. A copy of the Code will be provided to any Limited Partner or prospective limited partner upon request to John Enerson, the Lionstone Chief Compliance Officer, at 713-533-5860. Personal securities transactions by employees who manage client accounts are required to be conducted in a manner that prioritizes the client's interests in client eligible investments.

The Advisers and their affiliated persons may come into possession, from time to time, of material nonpublic or other confidential information about public companies which, if disclosed, might affect an investor's decision to buy, sell or hold a security. Under applicable law, the Advisers and their affiliated persons would be prohibited from improperly disclosing or using such information for their personal benefit or for the benefit of any person, regardless of whether such person is a client of the Advisers.

Accordingly, should the Advisers or any of their affiliated persons come into possession of material nonpublic or other confidential information with respect to any public company, the Advisers would be prohibited from communicating such information to clients, and the Advisers will have no responsibility or liability for failing to disclose such information to clients as a result of following their policies and procedures designed to comply with applicable law. Similar restrictions may be applicable as a result of the Advisers' personnel serving as directors of public companies and may restrict trading on behalf of clients, including the Funds.

Principals and employees of the Advisers and their affiliates may directly or indirectly own an interest in Private Investment Funds, including certain co-investment vehicles. To the extent that co-investment vehicles exist, such vehicles may invest in one or more of the same portfolio companies as the Funds.

The Private Investment Funds may invest together with other funds advised by an affiliated adviser of Lionstone Partners in the manner set forth in their Limited Partnership Agreements, Limited Liability Company Agreement or Investment Management Agreement, as applicable. The Advisers will determine the allocation of investment opportunity in a manner that it believes is fair and equitable to its clients consistent with the Advisers' obligations and may take into consideration factors such as the following: the client's investment restrictions and objectives (including those set forth in the relevant client's governing documents, where applicable), investment and operating guidelines, diversification limitations, tax and regulatory considerations, minimum dollar limits and other relevant factors, including risk.

The Advisers and their affiliates, principals and employees may carry on investment activities for their own account and for family members, friends or others who do not invest in the Funds, and may give advice and recommend securities to vehicles which may differ from advice given to, or securities recommended or bought for the Funds even though their investment objectives may be the same or similar.

The operative documents and investment programs of certain vehicles sponsored by Lionstone (the “**Reference Funds**”) may restrict, limit or prohibit, in whole or subject to certain procedural requirements, investments of certain other vehicles in issuers held by such Reference Funds or may give priority with respect to investments to such Reference Funds. Some of these restrictions could be waived by Limited Partners (or their representatives) in such Reference Funds.

BROKERAGE PRACTICES

The Advisers focus on real estate and real estate related transactions. To date, none of these transactions have involved publicly traded securities or other securities in which the services of a broker-dealer has been retained. However, in the future, the Advisers may distribute securities to investors in a Fund or sell securities, including through using a broker-dealer, if a public trading market exists. Although the Advisers do not intend to regularly engage in public securities transactions, to the extent they do so, they follow the brokerage practices described below.

If any Adviser sells publicly traded securities for a Fund, it is responsible for directing orders to broker-dealers to effect securities transactions for accounts managed by the Adviser. In such event, the Adviser will seek to select brokers on the basis of best price and execution capability. In selecting a broker to execute client transactions, the Advisers may consider a variety of factors, including: (i) execution capabilities with respect to the relevant type of order; (ii) commissions charged; (iii) the reputation of the firm being considered; and (iv) responsiveness to requests for trade data and other financial information.

The Advisers have no duty or obligation to seek in advance competitive bidding for the most favorable commission rate applicable to any particular client transaction or to select any broker on the basis of its purported or “posted” commission rate, but will endeavor to be aware of the current level of the charges of eligible brokers and to reduce the expenses incurred for effecting client transactions to the extent consistent with the interests of such clients. Although the Advisers anticipate that they would, in the context of any public securities transactions, generally seek competitive commission rates, they also anticipate that they might not necessarily pay the lowest commission or commission equivalent. Such transactions may involve specialized services on the part of the broker involved and thereby entail higher commissions or their equivalents than would be the case with other transactions requiring more routine services.

Consistent with the Advisers seeking best execution, any such brokerage commissions on client transactions might be directed to brokers in recognition of research furnished by them, although the Advisers generally do not make use of such services at the current time and have not made use of such services since their inception. Such research services could include economic research, market strategy research, industry research, company research, fixed income data services, computer-based quotation equipment and research services and portfolio performance analysis. As a general matter, it is expected that research provided by these brokers would be used to service all of the Advisers’ Private Investment Funds. However, each and every research service might not be used for the benefit of each and every Private Investment Fund managed by the Advisers, and brokerage commissions paid by one Private Investment Fund might apply towards payment for research services that might not be used in the service of

such Private Investment Fund. Research services might be shared among the Advisers and their affiliates.

The Advisers do not anticipate employing any agreement or formula for the allocation of brokerage business on the basis of research services; however, the Advisers may, in their discretion, cause the Private Investment Funds to pay such brokers a commission for effecting portfolio transactions in excess of the amount of commission another broker adequately qualified to effect such transactions would have charged for effecting such transactions. This may be done where the Advisers have determined in good faith that such commission is reasonable in relation to the value of brokerage and research services received. In reaching such a determination, the Advisers would not be required to place or attempt to place a specified dollar value on the brokerage or research services provided by such broker.

To the extent brokers are used, the Advisers will periodically determine which brokers have provided research that has been helpful in the management of Private Investment Funds. To the extent consistent with the Advisers' goal to seek best execution for the Funds, the Advisers may seek to place a portion of the trades that they direct with the brokers who are identified through this process.

To the extent that the Adviser allocates brokerage business on the basis of research services, it may have an incentive to select or recommend broker-dealers based on the interest in receiving such research or other products or services, rather than based on its Private Investment Funds' interest in receiving most favorable execution.

The Advisers do not anticipate engaging in public securities transactions; however, to the extent that the Advisers engage in any such transactions, orders for purchase or sale of securities placed first will be executed first, and within a reasonable amount of time of order receipt. To the extent that orders for Private Investment Funds are completed independently, the Advisers may also purchase or sell the same securities or instruments for several Private Investment Funds simultaneously. From time to time, the Advisers may, but are not obligated to, purchase or sell securities for several client accounts at approximately the same time. Such orders may be combined or "batched" to facilitate obtaining best execution and/or to reduce brokerage commissions or other costs. Batched transactions are executed in a manner intended to ensure that no participating Private Investment Fund of the Advisers is favored over any other Private Investment Fund. When an aggregated order is filled in its entirety, each participating Private Investment Fund generally will receive the average price obtained on all such purchases or sales made during such trading day.

When an aggregate order is partially filled, the securities purchased or sold will normally be allocated on a *pro rata* basis to each Private Investment Fund participating in such buy or sell order in accordance with the amount of securities originally requested for such Private Investment Funds.

Each Private Investment Fund generally will receive the average price obtained on all such purchases or sales made during such trading day. Exceptions to *pro rata* allocations are permissible provided they are fair and equitable to Private Investment Funds over time.

REVIEW OF ACCOUNTS

The investments made by the Funds are generally private, illiquid and long-term in nature. Accordingly, the review process is not directed toward a short-term decision to dispose of securities. However, Lionstone Partners closely monitors companies in which the Funds invest, and the Lionstone Chief Compliance Officer periodically checks to confirm that each Private Investment Fund is maintained in accordance with its stated objectives.

Each Fund (other than any Account) will provide to each of its Limited Partners (i) annual GAAP audited and quarterly unaudited financial statements, (ii) annual tax information necessary for each Limited Partner's tax return and (iii) at the time of delivery of the financial statements, reports providing a description of all investments held by the Funds and a narrative summary of the status of each such investment. An Adviser may agree to different reporting for any investor in any Account.

CLIENT REFERRALS AND OTHER COMPENSATION

Lionstone Partners and/or its affiliates may provide certain business or consulting services to companies in each Fund's portfolio and may receive compensation from these companies in connection with such services. As described in the Funds' Limited Partnership Agreements, Limited Liability Company Agreements or Investment Management Agreement, as applicable, this compensation may, in many cases, offset a portion of the management fees paid by Funds. However, in other cases (*e.g.*, reimbursements for out of pocket expenses directly related to a portfolio company), these fees may be in addition to management fees.

From time to time, the Advisers may enter into solicitation arrangements pursuant to which they compensate third parties for referrals that result in a potential Limited Partner becoming a Limited Partner in a Fund or other Private Investment Fund. Any such fees and expenses payable to any such placement agents will be borne by Lionstone Partners.

CUSTODY

Lionstone Partners maintains custody of the Funds' assets held in each Fund's name with the following qualified custodians:

CFO One – JPMorgan Chase Bank NA; Amegy Bank; Wells Fargo Bank; and Bank of America.

CFO Two – Wells Fargo Bank; Amegy Bank.

CFRE – Amegy Bank; Wells Fargo Bank NA; Frost Bank.

LUI One – JPMorgan Chase Bank NA; Amegy Bank; Wells Fargo Bank; Bank of America.

LUI Two – JPMorgan Chase Bank NA; Wells Fargo Bank.

US Land – Amegy Bank; Vectra Bank; Cardinal Bank; JPMorgan Chase Bank NA.

US Land Two – Amegy Bank.

Additionally, Lionstone Partners maintains custody of certain assets in connection with which it, through CFAM, provides non-discretionary advice to one client and such assets are held in such client's name (or the name of an affiliate of such client) with the following qualified custodians: JPMorgan Chase Bank NA and First Tennessee Bank.

INVESTMENT DISCRETION

Lionstone Partners has discretionary authority to manage the investments on behalf of each Fund pursuant to the Limited Partnership Agreement, Limited Liability Company Agreement or Investment Management Agreement, as applicable, described under "Advisory Business." As a general policy, the Advisers do not allow clients to place limitations on this authority. Pursuant to the terms of the Limited Partnership Agreements or Limited Liability Company Agreements, as applicable, the Advisers may enter into "side letter" arrangements with certain Limited Partners whereby the terms applicable to such Limited Partners' investment in the Funds may be altered or varied, including, in some cases, the right to opt-out of certain investments for legal, tax, regulatory or other similar reasons.

VOTING CLIENT SECURITIES

Although the Advisers have no investments that require proxy voting, in the event they do so in the future, the Advisers have adopted Proxy Voting Policies and Procedures (the "**Proxy Policy**") to address how they will vote proxies, as applicable, for each Fund's (and any Private Investment Fund's) portfolio investments. The Proxy Policy seeks to ensure that the Advisers vote proxies (or similar instruments) in the best interest of the Funds, including where there may be material conflicts of interest in voting proxies. Each of the Advisers generally believes its interests are aligned with those of the Funds' Limited Partners through the principals' beneficial ownership interests in the Funds and therefore will not seek Limited Partner approval or direction when voting proxies. In the event that there is or may be a conflict of interest in voting proxies, the Proxy Policy provides that the Adviser may address the conflict using several alternatives, including by seeking the approval or concurrence of the Funds' advisory boards on the proposed proxy vote or through other alternatives set forth in the Proxy Policy. Additionally, the Funds' advisory boards may approve the Adviser's vote in a particular solicitation. The Advisers do not consider service on portfolio company boards by Lionstone personnel or their receipt of management or other fees from portfolio companies to create a material conflict of interest in voting proxies with respect to such companies. In addition, the Proxy Policy sets forth certain specific proxy voting guidelines followed by the Advisers when voting proxies on behalf of the Funds. If you would like a copy of the Adviser's complete Proxy Policy or information regarding how the Advisers voted proxies for particular portfolio companies, please contact John Enerson, the Lionstone Chief Compliance Officer, at 713-553-5860 and it will be provided to you at no charge.

FINANCIAL INFORMATION

Lionstone Partners does not require prepayment of management fees more than six months in advance or have any other events requiring disclosure under this item of the Brochure.

SUPPLEMENTAL INFORMATION ABOUT CERTAIN PRINCIPALS OF LIONSTONE PARTNERS

Thomas G. Bacon

Educational Background and Business Experience

Thomas G. Bacon, born October 29, 1955, is a founding partner of Lionstone. Mr. Bacon is a member of Lionstone's investment committee and is responsible for Lionstone's national Urban Investments and US Land investment programs. Prior to forming Lionstone, Mr. Bacon was a senior officer with Hines. Mr. Bacon is a graduate of the University of Texas School of Architecture and received his MBA from Rice University in 1984.

Disciplinary History

There are no legal or disciplinary events to disclose with respect to Mr. Bacon.

Other Business Activities

Mr. Bacon is not engaged in any investment-related business outside of his roles with Lionstone Partners and its affiliates.

Additional Compensation

Mr. Bacon does not receive any additional compensation that is required to be disclosed.

Supervision

As a partner of Lionstone, Mr. Bacon is responsible for implementing and overseeing the investment strategy of its clients. Mr. Bacon is not subject to the supervision of any other individual other than Glenn Lowenstein and Daniel Dubrowski and, with respect to compliance matters, the Lionstone Chief Compliance Officer.

Glenn L. Lowenstein

Educational Background and Business Experience

Glenn L. Lowenstein, born September 29, 1959, is a founding partner of Lionstone. Mr. Lowenstein is a member of Lionstone's investment committee and is its Chief Investment Officer. Prior to forming Lionstone, Mr. Lowenstein was a senior officer at Hines. Mr. Lowenstein is a graduate of Georgetown University and received an MBA from New York University.

Disciplinary History

There are no legal or disciplinary events to disclose with respect to Mr. Lowenstein.

Other Business Activities

Mr. Lowenstein is not engaged in any investment-related business outside of his roles with Lionstone Partners and its affiliates.

Additional Compensation

Mr. Lowenstein does not receive any additional compensation that is required to be disclosed.

Supervision

As a partner of Lionstone, Mr. Lowenstein is responsible for implementing and overseeing the investment strategy of its clients. Mr. Lowenstein is not subject to the supervision of any other individual other than Thomas Bacon and Daniel Dubrowski and, with respect to compliance matters, the Lionstone Chief Compliance Officer.

Daniel R. Dubrowski

Educational Background and Business Experience

Daniel R. Dubrowski, born January 28, 1963, is a founding partner of Lionstone. Mr. Dubrowski is a member of Lionstone's investment committee and is responsible for Lionstone's national Cash Flow Office and Cash Flow Real Estate program. Prior to forming Lionstone, Mr. Dubrowski was a senior officer with Hines. Mr. Dubrowski is a graduate of Georgetown University and received his MBA from Harvard Business School.

Disciplinary History

There are no legal or disciplinary events to disclose with respect to Mr. Dubrowski.

Other Business Activities

Mr. Dubrowski is not engaged in any investment-related business outside of his roles with Lionstone Partners and its affiliates.

Additional Compensation

Mr. Dubrowski does not receive any additional compensation that is required to be disclosed.

Supervision

As a partner of Lionstone, Mr. Dubrowski is responsible for implementing and overseeing the investment strategy of its clients. Mr. Dubrowski is not subject to the supervision of any other individual other than Thomas Bacon and Glenn Lowenstein and, with respect to compliance matters, the Lionstone Chief Compliance Officer.