

Item 1. Cover Page

Brochure of

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This brochure provides information about the qualifications and business practices of Lonestar Capital Management LLC (“Lonestar”). If you have any questions about the contents of this brochure, please contact us at (415) 362-7677 or yedi@L1star.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 securities authority.

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

Item 2. Material Changes

There have been no material changes to this brochure since its last annual update on March 26, 2013.

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Item 4. Advisory Business

Lonestar Capital Management LLC (“Lonestar”) is a Delaware limited liability company that was formed in 2001 and manages U.S. and Cayman investment funds. Lonestar’s current investment fund clients are Lonestar Partners, L.P., a Delaware limited partnership, and Lonestar Partners International, Ltd., a Cayman Islands exempted company (each called a “client” or “fund” throughout this document). Lonestar Partners International, Ltd. invests through Lonestar Partners, L.P. Lonestar’s affiliate, Cottonwood Capital GP LLC, a Delaware limited liability company (“Cottonwood”), serves as general partner to Lonestar Partners, L.P. Lonestar’s and Cottonwood’s Manager and controlling owner is Jerome L. Simon. Mr. Simon has managed Lonestar Partners, L.P. directly and through other entities since 1995. Lonestar also may manage separately managed accounts for individual clients. As of December 31, 2013, Lonestar had total discretionary assets under management of approximately \$877,172,901. Lonestar only manages assets on a discretionary basis.

Lonestar invests in and trades securities, consisting principally, but not solely, of stocks, bonds, notes, options, warrants, rights, private placements, private claims (e.g., bank debt or trade claims), equity and debt derivatives (e.g., options and credit default protection), futures, options on futures and other commodity interests, and other securities and instruments of U.S. and non-U.S. issuers that are traded publicly or privately on behalf of its clients, but is authorized to enter into any type of investment transaction that it deems appropriate under the terms of the client’s partnership or other account agreement. Additional information regarding Lonestar’s investments and strategy is provided in Item 8 below.

The investors in the funds that Lonestar manages have no opportunity to select or evaluate any fund investments or strategies. Lonestar selects all fund investments and strategies.

Lonestar typically does not tailor its services to the individual needs of separately managed accounts, but manages each such account according to the strategy selected by the client. Lonestar’s discretionary authority with respect to any separately managed account may be limited, however, as described in Item 16.

Item 5. Fees and Compensation

Lonestar delivers this brochure only to qualified purchasers as defined in section 2(a)(51)(A) of the Investment Company Act of 1940, as amended. Therefore, information on how Lonestar is compensated for its advisory services and its fee schedule are not included here.

Investors and client accounts bear expenses and, other than accounts for which fees have been waived, a pro rata portion of the management fee and the performance allocation or fee through the withdrawal date or date on which the account is terminated. Management and advisory fees are paid in advance and are automatically deducted from each investor’s account. An investment fund does not refund any management fee previously paid by an investor that withdraws from that fund on a date other than the last day of a quarter. For any separately managed accounts, Lonestar will refund all prepaid but unearned advisory fees on termination of the account.

Each client account is responsible for its own costs and expenses, which generally include, without limitation, (a) all trading costs and expenses (such as, for example, brokerage

commissions and charges, expenses relating to short sales, clearing and settlement charges, option premiums, exchange fees, ticket charges and custodial and service fees), (b) interest and commitment fees on loans and debit balances (on margin or otherwise), (c) the costs and expenses of negotiating and entering into contracts and arrangements and making investments (such as brokerage, legal, accounting and other professional and consulting fees and expenses arising from particular investments and potential investments), and similar expenses in terminating those contracts and arrangements and disposing of the client's investments, (d) costs associated with registering the client's restricted securities, (e) all costs and expenses incurred in attempting to protect or enhance the value of the client's investments (including the costs of instituting and defending lawsuits), (f) income taxes, withholding taxes, transfer taxes and other governmental charges and duties, (g) fees and charges of custodians, clearing agencies and banks, (h) bookkeeping, recordkeeping, legal, accounting, auditing, tax preparation and all professional, expert and consulting fees and expenses arising in connection with the client's activities (including fees and expenses of counsel for the client, the client's general partner, Lonestar or one or more of their officers, partners or managers, service contracts related to on-line research, portfolio management and quotation services and equipment (such as Bloomberg charges and internet fees and including computer hardware and software related thereto) and the expenses of accounting, bookkeeping and recordkeeping services of the administrator or any similar service provider retained by the client's general partner or Lonestar to assist it in performing these services for the client), (i) all fees, costs and expenses of offering and selling interests in the client (including, without limitation, communications costs and travel expenses, such as airfare, hotel accommodations and meals, the costs of printing and distributing offering materials, subscription materials, reports and notices, legal and accounting fees and expenses and governmental and self-regulatory agency filing fees, costs and expenses), (j) insurance policies as the client's general partner or Lonestar considers appropriate, insuring the client, the client's general partner, Lonestar and their affiliates against liabilities that may arise in connection with the business or management of the client, (k) all costs and expenses of proxy voting services and (l) any extraordinary expenses (such as litigation expenses). Lonestar bears its own operating, general, administrative and overhead costs and expenses, other than the expenses described above. Securities brokerage firms and futures commission merchants that execute clients' securities and commodities trades, however, may pay all or part of these costs and expenses, as discussed in Item 12 below.

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

Lonestar currently manages only accounts that pay performance-based allocations as described in Item 5. It does not manage accounts that do not pay performance-based allocations.

Item 7. Types of Clients

Lonestar provides investment advice to private investment funds. Investors in the funds are required to invest a minimum of \$5,000,000, which Lonestar may waive in its discretion. Lonestar does not currently offer separately managed accounts, but will establish a minimum investment requirement if it decides to do so. The investors in Lonestar's funds and any separate account clients may include high-net-worth individuals, institutions, trusts, endowments and pension plans.

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

Investment Strategy

Generally. Lonestar's guiding principle is a rejection of the "efficient market" hypothesis. Lonestar attempts to exploit material mispricing among investments by knowing more than the market does about its targeted investment opportunities.

Investment Focus. Lonestar invests in debt and equity securities based on a value-oriented approach. Investment targets include hard-asset industrial and commodity-based businesses, and include bankruptcy and turnaround situations, energy and transportation companies, agricultural concerns and real estate securities. Lonestar is authorized to invest in securities of any kind, including, but not limited to, illiquid securities, private claims of distressed companies, and investments based on its macroeconomic analysis, which are typically made through buying or selling sovereign debt or credit default swaps, interest rate swaps or other currency or commodity related instruments. Lonestar may become actively involved in the restructuring processes of its targeted investments such as becoming an official member of a creditors' or equity committee and may join in efforts to unseat management, file proxy materials, and take other similar actions. Scrutiny of a target company's balance sheet and cash flow statement is of prime consideration in developing the investment thesis. Lonestar continually engages in a search for secular, industry-wide trends so that multiple investments can be made upon a common theme.

Lonestar invests on both the long and short sides of the market. Particular focus is paid to companies with complicated balance sheets that may result in multiple as well as arbitrated investment positions within a single company's capital structure. Lonestar also seeks out intra-industry hedged positions when material mispricing is observed.

Lonestar may retain other investment managers to manage a portion of a client's investment portfolio, either by investing directly in an investment vehicle managed by that investment manager or by engaging that investment manager to manage a separate account in the client's name. Lonestar also may invest directly in the sub-management firms that manage the investment pools described above. Those managers may employ a strategy that is different from the strategy Lonestar uses to manage its portion of the client's portfolio.

The investment strategies summarized above represent Lonestar's current intentions, are general in nature and are not exhaustive. Potential investors should review the offering materials for the applicable Lonestar fund for a more detailed description of Lonestar's investment strategy. There are no limits on the types of securities in which Lonestar may take positions on behalf of its clients, the types of positions that it may take, the concentration of its investments or the amount of leverage that it may use. Lonestar may use any trading or investment techniques for its clients' accounts, whether or not contemplated by the expected investment strategies described above. In addition, there are limitations in describing any investment strategy due to its complexity, confidentiality and indefinite nature. Depending on conditions and trends in securities and commodities markets and the economy generally, Lonestar may pursue any objectives or use any techniques that it considers appropriate and in its clients' interests.

Risk Factors

Investing in securities and commodities involves risk of loss that clients should be prepared to bear. Below are brief summaries of some of the risks that clients and investors should consider before investing in any fund or account that Lonestar manages. Any or all of such risks could materially and adversely affect investment performance and the value of any account or any security or commodity held in an account, and could cause investors to lose substantial amounts of money. Potential investors in a fund should review such fund's offering circular carefully and in its entirety, and consult with their professional advisers before deciding whether to invest. A potential client or fund investor should discuss with Lonestar's representatives any questions that such person may have before opening an account or investing in a fund that Lonestar manages.

- Client accounts may not achieve their investment objectives. A strategy may not be successful and investors may lose some or all of their investment.
- Lonestar invests a substantial portion of client assets in the securities of companies with micro-to-small-sized market capitalizations, which companies have substantially higher risks in many respects than do investments in larger companies, including the risks of bankruptcy or insolvency. Such securities may also be illiquid.
- Lonestar invests in private claims and obligations of companies experiencing significant financial or business difficulties, most of which are not publicly traded and involve a substantial degree of risk. Such claims and obligations may be highly illiquid. In addition, Lonestar may have difficulty obtaining information as to the true condition of the underlying companies and their ability to repay the claims and obligations.
- Lonestar's investments in private claims and obligations may be adversely affected by state and federal laws relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and a bankruptcy court's discretionary power to disallow, subordinate or disenfranchise particular claims.
- Lonestar invests in the securities of companies that are in financial distress or emerging from financial distress, including companies that have undergone or are undergoing major restructurings or bankruptcy reorganizations. These securities may have very limited liquidity, which could prevent Lonestar from selling such securities in time to realize profits or avoid losses. In addition, any major restructuring or reorganization will likely be subject to applicable bankruptcy statutes or court orders that are outside the control of Lonestar, making it more difficult for Lonestar to control and predict the outcome of such investments.
- Lonestar may invest in restricted securities that are subject to substantial holding periods or that are not traded in public markets and are difficult or impossible to sell at prices comparable to the market prices of similar publicly traded securities. These investments are inherently difficult to value and any miscalculation could adversely affect an account's investments.

- Some of an account's positions may be or become illiquid, in which case Lonestar may not be able to sell those position.
- Investor sentiment on the market, an industry or an individual stock, fixed income or other security is unpredictable and can adversely affect an account's investments.
- An account may hold stocks that disappoint earnings expectations and decline, and may short stocks that beat earnings expectations and rise.
- Lonestar may not be able to obtain complete or accurate information about an investment and may misinterpret the information that it does receive. Lonestar also may receive material, non-public information about an issuer that prevents it from trading securities of that issuer for a client when the client could make a profit or avoid losses.
- Lonestar may take positions in securities of small, unseasoned companies that are less actively traded and more volatile than those of larger companies.
- Lonestar may engage in hedging, which may reduce profits, increase expenses and cause losses. Price movement in a hedging instrument and the security hedged do not always correlate, resulting in losses on both the hedged security and the hedging instrument. Lonestar is not obligated to hedge a client's portfolio positions, and it frequently may not do so.
- An account may have higher portfolio turnover and transaction costs than a similar account managed by another investment adviser. These costs reduce investments and potential profit or increase loss.
- Lonestar sells securities short, resulting in a theoretically unlimited risk of loss if the prices of the securities sold short increase.
- Management and stockholders of an issuer may sue short sellers to deter short sales of the issuer's securities. Lonestar could be subject to such actions, even if they are baseless, and clients could incur substantial costs defending them.
- Lonestar may use leverage by borrowing on margin, selling securities short and trading futures, other commodity interests and derivatives, which increases volatility and risk of loss. These instruments can be difficult to value. An incorrect valuation could result in losses. In addition, margin calls can require Lonestar to pledge additional collateral or liquidate holdings at substantial losses that it otherwise would not realize.
- Lonestar may sell covered and uncovered options on securities. The sale of uncovered options could result in unlimited losses.
- Lonestar may use both exchange-traded and over-the-counter derivatives, including, but not limited to, futures, other commodity interests, swaps, options and contracts for difference. Special risks are associated with using derivatives, and deciding whether, when and how to use derivatives involves different skills and judgment than those needed

to select portfolio securities. These instruments can also be highly volatile, allow for the significant use of leverage, and may not be highly liquid, resulting in high risks of loss, even from small price changes. As a result, Lonestar could be subject to increased volatility and losses as the result of using derivatives.

- Counterparties, including counterparties to derivatives transactions, such as brokers, dealers, futures commission merchants, custodians and administrators with which Lonestar does business on behalf of clients may default on their obligations. For example, a client may lose its assets on deposit with a broker if the broker, its clearing broker or an exchange clearing house becomes bankrupt.
- Lonestar may retain other investment managers and invest in vehicles managed by another investment manager. Such managers may receive performance and other fees in addition to those received by Lonestar, which may decrease the value of an investor's account. Such managers may also invest in riskier and more speculative investments than those in which Lonestar would otherwise invest. Investors' accounts may also be adversely affected by any fraud, mismanagement or other malfeasance committed by such managers.
- Lonestar may cause a client to enter into repurchase agreements or reverse repurchase agreements. These instruments can have effects similar to margin trading and leveraging strategies.
- Lonestar may invest in stock index futures on behalf of its clients. Price movements in the stock index and the underlying securities do not always correlate. Positions in futures contracts may be closed out only on the exchange on which they were entered into or through a linked exchange, and there is no secondary market for those contracts. There may be no active market for the contracts at any particular time. Some exchanges do not permit trading in particular contracts at prices that fluctuate more than a set limit in any day. If prices fluctuate during a single day beyond those limits, Lonestar may not be able to liquidate unfavorable positions promptly and clients may lose money.
- Lonestar may cause clients to invest in securities of non-U.S., private and government issuers. The risks of these investments include political risks; economic conditions of the country in which the issuer is located; limitations on foreign investment in any such country; currency exchange risks; withholding taxes; limited information about the issuer; limited liquidity; and limited regulatory oversight.
- Changes in economic conditions can adversely affect investment performance. At times, economic conditions in the U.S. and elsewhere have deteriorated significantly, resulting in volatile securities markets and large investment losses. Government actions responding to these conditions could lead to inflation and other negative consequences to investors.
- Lonestar may acquire for a client a large position in an issuer's securities but the client nevertheless is unlikely to have any control over the issuer's management. In addition, if

Lonestar holds a large position in an issuer's securities, Lonestar's subsequent sale of all or any portion of that position could depress the market for those securities.

- An account's investments may not be diversified. Therefore, a loss in any one position, industry or sector in which a fund has invested may cause significant losses.
- Lonestar determines the value of securities and commodities held in client accounts, whether or not a public market exists for such instruments. If Lonestar's valuation is inaccurate, it might receive more compensation than that to which it is entitled, a new investor in a fund might receive an interest that is worth less than the investor paid and an investor that is withdrawing assets might receive more than the amount to which the investor is entitled, to the detriment of other investors.
- Lonestar and its affiliates and agents generally are not responsible to any client or investor for losses incurred in an account unless the conduct constitutes gross negligence or willful misconduct.
- If the assets that Lonestar and its affiliates manage grow too large, it may adversely affect performance, because it is more difficult for Lonestar to find attractive investments as the amount of assets that it must invest increases.
- No client or investor in any fund that Lonestar manages has been represented by separate counsel. The attorneys who represent Lonestar or its manager do not represent clients or investors. Clients and investors must hire their own counsel for legal advice and representation.
- Lonestar, an administrator, a fund's custodians or any government agency may freeze assets that any of them believes a client holds in violation of anti-money laundering laws or rules or on behalf of a suspected terrorist, and may transfer such assets to a government agency. None of Lonestar, a fund or an administrator will be liable for losses related to actions taken in an effort to comply with anti-money laundering regulations.
- Federal, state and international governments may increase regulation of investment advisers, private investment funds and derivative securities, which may increase the time and resources that Lonestar must devote to regulatory compliance, to the detriment of investment activities.
- Lonestar is registered with the SEC as an investment adviser, but is not registered with the SEC as a broker-dealer or with the Commodity Futures Trading Commission as a commodity pool operator. The equity interests in the funds that Lonestar manages are not registered under the Securities Act of 1933, and the funds are not registered investment companies under the Investment Company Act of 1940. Lonestar believes that, except for its investment adviser registration with the SEC, none of these registrations is required because exemptions are available under applicable law. If a regulatory authority deems that any of these registrations is required, or if an account exceeds commodities and futures limits that cause Lonestar and its affiliates to lose

exemptions from commodity pool operator registration requirements, Lonestar and any fund could be subject to expensive and distracting legal action and potential termination. In addition, clients and investors in the funds do not have certain regulatory protection that they would have if these registrations were in place.

- Lonestar's activities could cause adverse tax consequences to clients and investors, including liability for interest and penalties.
- Lonestar's activities may cause an account that is subject to the Employee Retirement Income Security Act of 1974 to engage in a prohibited transaction under that Act.
- Lonestar's success depends to a large degree on the skill and acumen of Jerome L. Simon, who serves as Lonestar's principal portfolio manager. If Mr. Simon should cease to participate in Lonestar's activities for any reason, its ability to select attractive investments and manage the investments would be impaired severely.
- Lonestar and its affiliates may spend time on activities that compete with a client without accountability to that client, including investing for other clients and their own accounts. If Lonestar receives better compensation and other benefits from managing other assets or client accounts compared to managing a client, it has an incentive to allocate more time to those other activities. These factors could influence Lonestar not to make investments on a client's behalf even if such investments would benefit the client.
- Lonestar may provide certain investors or clients more frequent or detailed reports, special compensation arrangements and withdrawal rights that it does not provide to other investors or clients.

The following are risks associated with the investment funds that Lonestar manages:

- There is not and will not be an active market for fund interests. It may be impossible to transfer any such interests, even in an emergency.
- A fund and not Lonestar is responsible for any trade errors that Lonestar makes in an account, even when the error hurts that fund or fund investors.
- A fund may be unable to generate cash necessary to satisfy investor withdrawals. Substantial withdrawals in a short period could force Lonestar to sell portfolio positions too rapidly, and may so reduce the size of a fund that it cannot generate returns or reduce losses.
- A fund may limit or suspend withdrawals of an investor's assets from the fund.
- A fund may create illiquid sub-capital accounts for any of the fund's illiquid securities. Those illiquid sub-capital accounts may not be withdrawn until those securities are liquidated or the fund distributes those assets in kind to an investor.

- A fund may waive or permit exceptions to any applicable withdrawal restrictions and procedures for any particular investor without waiving or permitting exceptions to such restrictions for another investor.
- A fund may distribute withdrawal proceeds to a withdrawing investor in the form of illiquid securities in lieu of cash.
- A fund may establish a reserve for contingencies if Lonestar considers it appropriate. Investors may not withdraw or redeem assets covered by that reserve until it is lifted.
- A fund may dissolve or expel any investor at any time, even if such actions adversely affect that investor.
- The funds do not intend to make distributions, but intend instead to reinvest substantially all income and gain. Therefore, an investor may have taxable income from a fund without a cash distribution to pay the related taxes.
- If a fund client becomes insolvent, investors may be required to return with interest any distributions and forfeit any undistributed profits.

The above is only a brief summary of some of the important risks that a client or fund investor may encounter. Before deciding to become a Lonestar client or invest in a fund that Lonestar manages, you should consider carefully all of the risk factors and other information in the fund's offering circular.

Item 9. Disciplinary Information

None.

Item 10. Other Financial Industry Activities and Affiliations

As noted in the Items above, Lonestar is the investment adviser to various investment funds. Lonestar's affiliate, Cottonwood, is the general partner of one of those funds, Lonestar Partners, L.P.

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

Lonestar has adopted a Code of Ethics in compliance with Rule 204A-1 under the Investment Advisers Act of 1940, as amended, which establishes standards of conduct for Lonestar's supervised persons. The Code of Ethics includes general requirements that Lonestar's supervised persons comply with their fiduciary obligations to clients and applicable securities laws, and specific requirements relating to, among other things, personal trading, insider trading, conflicts of interest and confidentiality of client information. It requires supervised persons to comply with the personal trading restrictions described below and to report their personal securities transactions and holdings quarterly to Lonestar's Compliance Officer, and requires the Compliance Officer to review those reports. Personal trading restrictions on supervised persons include required pre-approval to open proprietary accounts and make certain types of trades. It

also requires supervised persons to report any violations of the Code of Ethics promptly to Lonestar's Compliance Officer. Annually, each supervised person of Lonestar receives a copy of the Code of Ethics and any amendments to it, and must acknowledge in writing having received the materials. Quarterly, each supervised person must certify that he or she complied with the Code of Ethics during that quarter. In addition, Lonestar's employees are expected to conduct personal trading activities in a manner that does not conflict with the interest of the funds and are instructed to discuss with Lonestar's Compliance Officer any issues or conflicts that arise. Employees may not engage in principal transactions without the Compliance Officer's approval. Clients and prospective clients may obtain a copy of Lonestar's Code of Ethics by contacting Yedi Wong at (415) 362-7677 or yedi@L1star.com.

Lonestar solicits investors who may or may not be Lonestar's clients to invest in the investment funds that it manages. Lonestar has an incentive to cause a client to invest in such a fund instead of a separately managed account because of the reduced expenses and administrative burdens of managing a fund compared to a separately managed account, the performance allocation its affiliate, Cottonwood, receives from a fund receives more favorable tax treatment than the performance fee from a separately managed account and fund investors have less transparency and liquidity than individual account clients. In addition, if a fund investor also has a separately managed account with Lonestar that uses an investment strategy that is similar to that of the fund, the investor may use knowledge of the other account's portfolio to decide if and when to make an additional investment or withdraw assets from the fund at times when other fund investors would have made similar decisions had they had similar transparency.

Because Lonestar may manage more than one account, there may be conflicts of interest over its time devoted to managing any one account and allocating investment opportunities among all accounts that it manages. For example, Lonestar selects investments for each client based solely on investment considerations for that client. Different clients may have differing investment strategies and expected levels of trading. Lonestar may buy or sell a security or commodity for one type of client but not for another, or may buy (or sell) a security or commodity for one type of client while simultaneously selling (or buying) the same security or commodity for another type of client. Lonestar may give advice to, and take action on behalf of, any of its clients that differs from the advice that it gives or the timing or nature of action that it takes on behalf of any other client. Lonestar is not obligated to acquire for any account any security or commodity that Lonestar or its officers, managers, members or employees may acquire for its or their own accounts or for any other client, if in Lonestar's absolute discretion, it is not practical or desirable to acquire a position in such security for that account.

Item 12. Brokerage Practices

Lonestar has complete discretion in selecting the broker or futures commission merchant that it uses for client transactions and the commission rates that clients pay such brokers and futures commission merchants. In selecting a broker or futures commission merchant for any transaction or series of transactions, Lonestar may consider a number of factors, including, for example:

- net price, clearance, settlement and reputation;
- financial strength and stability;

- block trading and block positioning capabilities;
- willingness to execute related or unrelated difficult transactions in the future;
- special execution capabilities;
- order of call;
- offering to Lonestar on-line access to computerized data regarding clients' accounts;
- the availability of stocks to borrow for short trades;
- economic and market information;
- portfolio strategy advice;
- company meetings;
- industry and company comments;
- technical data;
- efficiency of execution and error resolution;
- performance measuring data; and
- on-line pricing.

Lonestar may also purchase from a broker or futures commission merchant or allow a broker or futures commission merchant to pay for the following (each a "soft dollar" relationship):

- research reports, services and conferences, including third-party research fees;
- custody, recordkeeping and similar services;
- proxy voting services;
- periodical subscription fees;
- news wire and data processing charges;
- quotation services;
- computer hardware and software;
- expenses incurred in visiting companies and attending research conferences (for example, air fare, hotel accommodations and meals);
- accounting fees; and
- legal fees.

Lonestar may receive soft dollar credits based on principal, as well as agency, securities and commodities transactions with brokers and futures commission merchants or direct a broker or futures commission merchant that executes transactions to share some of its commissions with a broker or futures commission merchant that provides soft dollar benefits to Lonestar.

Lonestar has retained Goldman Sachs & Co., BNP Paribas Prime Brokerage Inc., UBS Securities LLC ("UBS") and Fidelity Prime Services to serve as prime broker and custodian to the funds that Lonestar manages. Lonestar may replace these firms or appoint additional firms at any time. The services that these firms currently provide as prime broker and custodian may include custody, margin financing, clearing, settlement and stock borrowing in accordance with the terms of the agreements entered into between each fund and each firm. Each agreement contains provisions that limit the prime broker's liability to the fund and under which the fund must indemnify that broker. Some of the factors that Lonestar considers when choosing a prime broker may include price, clearance, settlement, reputation, financial strength and stability, efficiency of execution and error resolution, block trading and block positioning capabilities,

willingness to execute related or unrelated difficult transactions in the future, special execution capabilities, order of call, offering to Lonestar online access to data regarding its clients' accounts, the availability of stocks to borrow for short trades, custody, recordkeeping and similar services and other matters involved in the receipt of prime brokerage services generally. These firms may also provide Lonestar with administrative services, such as order management systems and trade allocation systems, technology services (including IT support, email archiving and disaster recovery systems), capital introduction services, portfolio reporting and access to electronic communications networks. Although many prime brokers provide similar services to investment advisers in exchange for brokerage, custody and clearance fees and other charges, if Lonestar did not receive these services from these firms, Lonestar would be required to pay for all or some portion of them. Lonestar is not required to direct a particular number of trades to these firms or to continue to use these firms as prime broker and custodian, but it has an incentive to do so based on their prior and continued services.

Section 28(e) of the Securities Exchange Act of 1934 provides a "safe harbor" to investment advisers who use commission dollars of their advised accounts to obtain investment research and brokerage services that provide lawful and appropriate assistance to the adviser in performing investment decision-making responsibilities. Conduct outside of the safe harbor of section 28(e) is subject to the traditional standards of fiduciary duty under state and federal law. If Lonestar uses commission dollars to pay for products or services that provide administrative or other nonresearch assistance to itself or its affiliates, such payments may not fall within the section 28(e) safe harbor.

Lonestar may pay to a broker or futures commission merchant commissions and mark-ups that exceed those that another broker or futures commission merchant might charge for effecting the same transaction because of the value of the brokerage, research, other services and soft dollar relationships that such broker or futures commission merchant provides. Lonestar determines in good faith that such compensation is reasonable in relation to the value of such brokerage, research, other services and soft dollar relationships, in terms of either the specific transaction or Lonestar's overall fiduciary duty to its clients. An account may, however, pay higher commissions and mark-ups than are otherwise available or may pay more commissions or mark-ups based on account trading activity. The research and other benefits resulting from Lonestar's brokerage relationships benefit Lonestar's operations as a whole and all accounts that it manages, whether or not such accounts were involved in generating the soft dollars that pay for such research and other benefits. Lonestar may not allocate soft dollar benefits to client accounts proportionately, if it generates soft dollar credits.

Lonestar's relationships with brokers and futures commission merchants that provide soft dollar services influence Lonestar's judgment and create conflicts of interest in allocating brokerage business between firms that provide soft dollar services and firms that do not. Lonestar has an incentive to select or recommend a broker or futures commission merchant based on Lonestar's interest in receiving soft dollar services rather than clients' interest in receiving the most favorable execution. These conflicts of interest are particularly influential to the extent that Lonestar uses soft dollars to pay expenses it would otherwise be required to pay itself.

Lonestar addresses these conflicts of interest by reviewing semi-annually the trade execution services that Lonestar receives from the brokers and futures commission merchants that it uses to

execute trades for clients. These reviews are based on ratings by Lonestar's portfolio management staff of brokers' research quality and by Lonestar's traders of brokers' execution quality. The traders' ratings are based on an overall assessment of average commission rates paid, execution capabilities (for example, the ability to execute quickly or under difficult circumstances, such as in foreign or less liquid securities) and responsiveness.

Lonestar may aggregate securities sale and purchase orders for a client with similar orders being made contemporaneously for other accounts that Lonestar manages or with accounts of its affiliates. In such event, Lonestar may charge or credit a client the average transaction price of all securities purchased or sold in such transactions. As a result, however, the price may be less favorable to the client than it would be if Lonestar were not executing similar transactions concurrently for other accounts. Lonestar may also cause a client to buy or sell securities directly from or to another client, if such a cross-transaction is in the interests of both clients.

Lonestar may direct a certain amount of brokerage to a broker or futures commission merchant that refers prospective clients or investors to Lonestar, although not on a quid pro quo basis. Brokers that refer clients or investors create a conflict of interest in that Lonestar has an incentive to refer its clients' brokerage business to brokers and futures commission merchants to which it might not otherwise direct transactions. During its last fiscal year, Lonestar did not direct client transactions to a particular broker or futures commission merchant in return for client referrals.

If a client directs Lonestar to use a specific broker, Lonestar has not negotiated the terms and conditions (including, among others, commission rates) relating to the services provided by such broker. Lonestar is not responsible for obtaining from any such broker the best prices or particular commission rates. A client that directs Lonestar to use a specific broker may not be able to participate in aggregate securities transactions and may trade after such aggregate transactions and receive less favorable pricing and execution. The client may pay higher commissions and mark-ups than it would pay if Lonestar had discretion to select broker-dealers other than those that the client chooses.

Item 13. Review of Accounts

Jerome L. Simon, Lonestar's Manager, reviews all accounts continuously. Reviews take into account, among other things, such matters as the prospects of individual securities, changes in issuer earnings, industry outlook, market outlook and price levels, asset allocation and cash management.

Investors typically receive a monthly letter with commentary.

Item 14. Client Referrals and Other Compensation

Lonestar may engage solicitors to whom it pays cash or a portion of the advisory fees paid by clients referred to it by those solicitors. In such cases, this practice is disclosed in writing to the client and Lonestar complies with the other requirements of Rule 206(4)-3 under the Investment Advisers Act of 1940, if applicable.

Item 15. Custody

Not applicable.

Item 16. Investment Discretion

Lonestar has discretionary authority to manage investment accounts on behalf of clients pursuant to a grant of authority in each fund's operative agreement or a limited power of attorney in each client's account agreement. Except for Lonestar's investment fund clients, such discretion is limited by the requirement that clients advise Lonestar of:

- the investment objectives of the account;
- any changes or modifications to those objectives; and
- any specific investment restrictions relating to the account.

A separate account client must promptly notify Lonestar in writing if the client considers any investments recommended or made for the account to violate such objectives or restrictions. A client may at any time direct Lonestar to sell any securities or take such other lawful actions as the client may specify to cause the account to comply with the client's investment objectives. In addition, a client may notify Lonestar at any time not to invest any funds in the client's account in specific securities or specific categories of securities.

Item 17. Voting Client Securities

Lonestar decides whether to vote proxies on behalf of each account over which Lonestar has proxy voting authority after considering whether the proposal will have a material effect on the account's investment strategy. This analysis sometimes leads Lonestar to not vote proxies. In determining whether a proposal serves an account's best interests, Lonestar considers a number of factors, including:

- the proposal's economic effect on shareholder value;
- the threat that the proposal poses to existing rights of shareholders;
- the dilution of existing shares that would result from the proposal;
- the effect of the proposal on management or director accountability to shareholders; and
- if the proposal is a shareholder initiative, whether it wastes time and resources of the company or reflects the grievance of one individual.

Lonestar abstains from voting proxies when it believes that it is appropriate to do so.

If a material conflict of interest over proxy voting arises between Lonestar and a client, Lonestar will vote all proxies in accordance with the policy described above. If Lonestar determines that this policy does not adequately address the conflict of interest, Lonestar will notify the client of the conflict and request that the client consent to Lonestar's intended response to the proxy solicitation. If the client consents (for example, by a majority of the limited partners of Lonestar Partners, L.P.) to Lonestar's intended response or fails to respond to the notice within a reasonable time specified in the notice, Lonestar will vote the proxy as described in the notice. If the client objects in writing to Lonestar's intended response, Lonestar will vote the proxy as the

client directs. Lonestar will not place its own interests ahead of the interests of a client in voting proxies.

A client can obtain a copy of Lonestar's proxy voting policy and a record of votes cast by Lonestar on behalf of that client by contacting Yedi Wong at (415) 362-7677 or yedi@L1star.com.

Item 18. Financial Information

Not Applicable.

Item 19. Requirements for State-Registered Advisers

Not applicable.

Notice of Privacy Policy

Lonestar, Cottonwood and the funds are committed to safeguarding the confidential information provided to them by limited partners and shareholders in the funds, former limited partners and shareholders, and persons who have applied to be limited partners and shareholders (together, “Investors”). This notice provides information to you about Lonestar’s, Cottonwood’s and the funds’ privacy policies and practices.

Lonestar, Cottonwood and the funds collect nonpublic personal information about Investors from the following sources: interviews and other conversations between Investors and representatives of Lonestar, Cottonwood and the funds; subscription agreements, offering questionnaires and other documents provided by Investors; information about Investors’ transactions with the funds, their affiliates and others; and information Lonestar, Cottonwood and the funds receive from consumer reporting agencies.

Lonestar, Cottonwood and the funds do not disclose any nonpublic personal information about any of their Investors to anyone, except as permitted by law. Disclosures that are permitted by law include disclosures that are necessary to effect, administer or enforce a transaction that an Investor requests or authorizes. Other examples of disclosures that are permitted by law are disclosures to Lonestar’s, Cottonwood’s and the funds’ accountants, auditors and lawyers, disclosures to regulators that examine Lonestar’s, Cottonwood’s and the funds’ business and disclosures that Investors specifically request.

Lonestar, Cottonwood and the funds do not provide personal information about Investors to mailing list vendors or solicitors for any purpose. Lonestar and Cottonwood restrict access to nonpublic personal information about Investors to employees who have a business or professional reason to know such information. In addition, Lonestar and Cottonwood maintain a secure office and computer environment to ensure that the confidentiality of Investors’ information is not placed at unreasonable risk.

Trade Error Policy

Lonestar places orders for the purchase and sale of securities with brokers on behalf of its clients. The trading process is complex and can vary for different types of securities. Moreover, Lonestar may be required to break up orders, or may buy or sell the same security for more than one client, further complicating the trading process. Lonestar might make or cause errors in trading. Subject to the specific provisions in each client account agreement, each client account (not Lonestar or its affiliates) is responsible for any such trade errors. Lonestar and its affiliates will not be required to bear the cost of any trade error or reimburse a client for resulting costs or losses.