



Form ADV Part 2A Brochure

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This brochure provides information about the qualifications and business practices of Lone Star North America Acquisitions, L.P. ("LSNAALP") and its relying advisers, including Lone Star Global Acquisitions, Ltd. ("LSGA"). Together, LSNAALP, its relying advisers and its participating affiliates (listed in Item 10) are referred to herein as "Lone Star". If you have any questions about the contents of this brochure, please contact us at 214-754-8300. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

Additional information about Lone Star is also available on the SEC's website at: www.adviserinfo.sec.gov. Registration as an investment adviser does not imply a certain level of skill or training.

Item 2: Material Changes

This brochure, dated March 31, 2019, contains routine annual updates to the prior brochure, as well as certain other updates, including those regarding payments of fees and expenses by advisory clients, risk factors, and conflicts of interests.

Item 3: Table of Contents

Item 2: Material Changes	2
Item 3: Table of Contents.....	2
Item 4: Advisory Business	3
Item 5: Fees and Compensation	5
Item 6: Performance-Based Fees and Side-by-Side Management	6
Item 7: Types of Clients	7
Item 8: Methods of Analysis, Investment Strategies and Risk of Loss	7
Item 9: Disciplinary Information.....	20
Item 10: Other Financial Industry Activities and Affiliations.....	22
Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	24
Item 12: Brokerage Practices	36
Item 13: Review of Accounts	38
Item 14: Client Referrals and Other Compensation	38
Item 15: Custody	39
Item 16: Investment Discretion	39
Item 17: Voting Client Securities	39
Item 18: Financial Information.....	39

Item 4: Advisory Business

For purposes of this brochure, “we,” “us,” “our,” and “LSGA” refer to Lone Star Global Acquisitions, Ltd. together (where the context permits) with its parent and subsidiaries that provide investment advisory services.

A. Organization

Founded in 1995, Lone Star is a global private equity firm with Funds that invest in real estate, equity, credit and other financial assets. Lone Star provides investment advisory and related services to a family of closed-end private funds (the “Funds”) and certain related investment vehicles as discussed under “Advisory Clients” below (which we refer to collectively with the Funds as our “Clients”) from offices in North America, Europe, Asia, and Latin America.

LSGA, a Bermuda exempted limited company, was formed in 1998. The common shares of LSGA are wholly owned by LSGA Holdings, Ltd., a Bermuda exempted limited company, which is wholly owned by Mr. John Grayken. LSGA directly or indirectly owns 100% of the filing adviser LSNAALP and each of the relying advisers and participating affiliates listed in Item 10 (other than LSGA Holdings, Ltd.).

Prior to 2007, the Funds made all of their investments in a single fund family. In 2007, beginning with Lone Star Fund VI and Lone Star Real Estate Fund, Lone Star decided to utilize separate Funds for commercial real estate-related investments (generally known as its “Real Estate Funds”) and for all other investment classes, including non-commercial real estate loans and securities (single-family residential, consumer, and corporate) and financial and other operating companies (generally known as its “Opportunity Funds”). In 2014, Lone Star also organized the first of a series of Funds focused on U.S. single family residential mortgage loans and related investments.

B. Advisory Clients

As set forth below, our advisory clients are the Funds and certain fee-paying Co-Investment Vehicles (as defined below). In particular,

- The Funds are pooled investment vehicles that are not registered under the U.S. Investment Company Act of 1940, as amended (the “Investment Company Act”), and whose securities are not registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”). The Funds’ investors are “qualified purchasers,” as defined in the Investment Company Act and “accredited investors” within the meaning of Regulation D promulgated under the Securities Act by the SEC, and may include, among others, corporate and public pension funds, sovereign wealth funds, university endowments, foundations, funds of funds and high net worth individuals. Additionally, in order to meet tax, regulatory or other requirements, certain investors invest in substantially the same portfolio as an applicable Fund through specially formed investment vehicles, which we also advise (each a “Special Investment Vehicle”).
- From time to time, we also form capital around particular or multiple investment strategies or themes, or establish, for a specific investment, investment vehicles through which certain persons generally invest alongside one or more Funds (each, a “Co-Investment Vehicle”). The investors in Co-Investment Vehicles may consist of investors in the respective Fund(s) as well as investors that have not invested in the respective Fund(s).

C. Nature of Advisory Services

The Funds invest in a broad range of financial and other investment assets in various U.S. and non-U.S. jurisdictions, subject to the specific objectives and restrictions in each Fund's organizational or offering documents and/or side letter agreements negotiated with its investors (collectively, the "Governing Documents"). These assets include, but are not limited to:

- Commercial and single family residential real estate-secured debt, corporate debt and consumer debt (including newly or recently issued loans as well as more seasoned assets);
- Direct and indirect equity investments in real estate and real estate-related assets;
- Control investments in financially oriented and other operating companies; and
- Securitized products such as residential mortgage-backed securities ("RMBS"), collateralized debt obligations ("CDOs") (the underlying assets of which generally consist of RMBS), commercial mortgage-backed securities ("CMBS"), and other asset-backed securities ("ABS").

A Fund may invest in assets directly or indirectly through special purpose entities formed to hold the Fund's investments (each such entity is referred to as a special purpose vehicle or "SPV").

D. Advisory Services and Related Agreements.

We generally provide investment advisory services to each Client pursuant to a separate investment advisory agreement, each of which we refer to as an "Advisory Agreement." Each Client's Advisory Agreement sets forth the terms of the investment advisory services we provide to the Client. Investment guidelines for each Client are generally established in its Governing Documents. We provide investment advice directly to Clients, and not to their underlying investors.

E. Investment Process

LSGA maintains an investment committee for each currently investing Fund that is responsible for evaluating potential investments for the Fund. Each investment committee typically includes the Chairman of LSGA, the President of LSGA, the principals of Lone Star who direct operations of Lone Star in each geographic region (each a "Regional President"), as relevant for such Fund, and the General Counsel of Lone Star (as a non-voting member). If an investment is approved by the investment committee, it is presented to the general partner of the applicable Fund for final approval. The general partners of the Funds (each a "General Partner" and collectively the "General Partners") are related persons of Lone Star. The investment committee and investment approval process for each Fund is provided in its Governing Documents.

Hudson Advisors L.P. ("HAL"), a related person of Lone Star and an SEC-registered investment adviser, provides investment advisory and related services to the Funds. HAL, Hudson Americas L.P. ("HAM"), and HAM's relying advisers and participating affiliates (collectively, "Hudson") typically provide due diligence and analysis services with respect to potential Fund investments to support evaluation and execution of such investments by Lone Star. After an investment is acquired, Hudson is engaged to provide asset management services. Lone Star is not involved in the day-to-day asset management of Fund investments, but rather provides strategic oversight and advice with respect to the management and ultimate resolution of these assets. Hudson also provides various ancillary services to the Funds and their investments, including hedging, accounting, administration, periodic reporting, legal, compliance, tax, audit, cash management, risk management advice, operating company oversight, communications, information technology development and other similar and related services. Hudson also provides certain

services directly to LSGA. Further information regarding Hudson and its services may be found in Items 5, 10, and 11 and in the Form ADV Part 2 brochure for Hudson.

F. Assets Under Management

As of December 31, 2018, Lone Star managed on a discretionary basis a total of \$38,598,900,171 of Client assets.

Item 5: Fees and Compensation

A. Management Fees

Clients generally pay a management fee to LSGA for its advisory services. Management fees paid by Clients are indirectly borne by investors in the Funds. Such management fees are generally payable monthly in arrears during the investment period of a Fund, and quarterly in arrears thereafter. Because management fees are based on outstanding capital contributions after the termination of the investment period, the Funds and their limited partners continue to pay a management fee with respect to each investment that has not returned all of its capital or been completely written down. Accordingly, a lower aggregate management fee will likely be paid with respect to an investment that quickly returns capital than for an investment of similar size that does not return capital as quickly. Each Client's Governing Documents set forth the precise amount of, and the manner and calculation of, the management fees.

B. Asset Management, Due Diligence, and Ancillary Fees

The General Partners of each Fund expect to retain Hudson to provide due diligence and analysis, asset management, and ancillary and other support services to Clients and/or SPVs. Hudson will receive fees from a Client as set forth in the Client's Governing Documents. While the methodology for determining Hudson's due diligence, underwriting, and ancillary fees is fixed, Hudson's asset management fees are negotiated periodically and, therefore, subject to change within the applicable maximum asset management fee limits based on the nature of the applicable Client's investments and investment business plans. The basis for determining the maximum asset management fee is the aggregate net book value of the assets (i.e., cost of the assets net of any asset dispositions). Further information regarding Hudson's fees is discussed in Item 11 – Services Provided by Hudson.

C. Expenses

Pursuant to the Governing Documents, Clients pay or reimburse the General Partners, LSGA, Hudson, and their affiliates for, among other things, the following:

- amounts they expend with respect to the organization, syndication, offering, and closing of Funds, including but not limited to, the cost of all legal expenses, travel, and other related expenses. These amounts are subject to certain limitations set forth in the Governing Documents.
- all expenses related to unconsummated transactions and all expenses otherwise related to a Client's operations, including but not limited to, costs and expenses related to investments made by the Client and the maintenance and sale of such investments, the cost of legal expenses and travel, financing and consulting fees, property management fees, brokerage commissions, transaction fees, custodian fees, custodians, auditors, outside counsel, accountants, on-going reporting, any insurance or litigation expense, expenses associated with a Client's credit facilities, any taxes, fees, or other governmental charges imposed on or assessed against the Client (subject to certain limitations set forth in the

Governing Documents), and any other expenses, and such fees and expenses are paid whether or not any profits are made.

Further information regarding expenses is discussed in Item 11 – Expense Allocations.

D. Fees Charged by Affiliated Service Providers

In the course of making investments, certain of the Funds have acquired or created certain affiliated service providers to service various assets requiring specific servicing expertise. Such affiliated service providers are sometimes engaged to provide services to other Funds. The fees that an affiliated service provider will receive from a Fund are set forth in the Fund’s Governing Documents or are otherwise approved by consent of an advisory committee of investors created pursuant to the Governing Documents (“Advisory Committee”). The conflicts of interest involved with such arrangements are discussed further in Item 11 – Affiliated Service Providers.

E. Fees and Expenses Paid by Co-Investment Vehicles

Fee and expense arrangements for investors in Co-Investment Vehicles are often different from those of investors in the Funds, and management fees, carried interest, costs and expenses, and other amounts may be reduced or waived for the benefit of one or more co-investors. Co-Investment Vehicles generally do not bear any share of unconsummated transaction costs for other investments pursued by the Funds. Further information regarding Co-Investment Vehicles is discussed in Item 11 – Co-Investment Allocation.

F. Fees and Expenses Paid by Employee Co-Investment Vehicles

Certain employees, officers, directors, executives, members and contractors of Lone Star, Hudson, and their affiliates (“Key Employees”) are given the opportunity to participate with the Funds in investments by the Funds through employee investment vehicles (each, an “Employee Investment Vehicle”). Employee Investment Vehicles do not pay any fees to Lone Star, carried interest, or other Fund-level expenses. Employee Investment Vehicles do not pay any fees directly to Hudson, but receive distributions from the underlying investments net of fees paid to Hudson, transaction costs, and other fees and expenses allocated to the investment. The Employee Investment Vehicles also bear a pro rata portion of the unconsummated transaction costs incurred by the corresponding Funds. Further information regarding the employee co-investment arrangements is discussed in Item 11 – Employee Co-Investments.

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

Lone Star does not receive any performance-based fees for the services that it performs for the Funds. The General Partner of each Fund, which is a related person of LSGA, receives a “carried interest,” which is a certain percentage of the actual returns of each investment made by the relevant Fund provided that certain performance hurdles are achieved. Certain associated persons of Lone Star and Hudson have interests in one or more of the General Partners and receive a portion of such carried interest. Payment of the General Partner’s carried interest will generally occur on an investment-by-investment basis after all capital contributed for such investment is returned and a specific preferred return on such investment is realized and paid to the relevant Fund’s limited partners. The specific structure of each Fund’s carried interest is detailed in its Governing Documents. Further information regarding carried interest is discussed in Item 11 – Carried Interest.

Item 7: Types of Clients

See Item 4 – Advisory Business.

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

A. Investment Strategies and Methods of Analysis

1. **Origination and Due Diligence:** To identify potential investment opportunities for the Funds, Lone Star monitors target markets for potential sales of assets within the investment objectives of the Funds. Typically, Lone Star will seek potential investment opportunities from institutions such as banks, corporate sellers, or government agencies. The investment professionals at Lone Star responsible for the origination of these investment opportunities rely on their experience in and significant knowledge of the various asset markets, along with new and existing relationships with many of the potential counterparties in those markets, to identify potential investment opportunities. Lone Star's initial due diligence and analysis generally includes assessment of current and future market conditions for specific assets, assessment of asset sellers and other counterparties, and identification of available financing opportunities from counterparties and third parties. When considering whether, and in what manner, a potential investment opportunity should be financed, Lone Star may consider, among other things, the availability of financing opportunities, the cost of each opportunity, the duration of the financing, the relevant risks of each opportunity, and whether such financing is likely to be obtained, and obtained in a timely fashion.

When evaluating a potential investment opportunity, Lone Star generally engages Hudson to complete a full financial review and valuation, which includes a complete bottom-up, asset-based due diligence evaluation of the transaction. In conducting this assessment, Lone Star and Hudson use various methods of analysis, which utilize proprietary and third-party data, and are tailored to the type and location of the potential investment being evaluated.

2. **Asset Management and Exit:** Lone Star is not involved in the day-to-day asset management of the Partnership's investments, but rather provides strategic oversight and advice with respect to the management and ultimate resolution of these assets. In connection with the acquisition of an investment, Hudson prepares an initial acquisition plan that contains a summary of the investment, strategic action items to maximize profits, and a plan to assimilate the acquisition into Hudson's asset management program (each, a "Business Plan"). Hudson conducts the asset management of each investment in accordance with the current Business Plan. Senior management of Hudson will meet periodically with representatives of Lone Star to discuss the status of assets under management; this review process is discussed further in Item 13. Senior management of Hudson, with strategic oversight from Lone Star, will advise on the appropriate exit for an investment, based on an ongoing analysis of buy versus hold scenarios, in an effort to achieve overall risk-adjusted investor returns. Depending on the type of investment, the Funds will pursue a variety of exit strategies, including negotiated sales, private auctions, discounted payoffs, foreclosures, debt restructuring, public offerings, and business reorganization/recapitalization.

B. Single-Family Residential Mortgage-Backed Securities

In evaluating investments related to RMBS and investments related to CDOs, the underlying assets of which generally consist of RMBS, Lone Star relies on proprietary models that assign the probability of future defaults, prepayments and loss severities to the underlying loan collateral. The models consider, among other factors, borrower characteristics and the particular attributes of the loans underlying the securities, as well as projected future prices of residential real estate and interest rates. The resulting projections of future loan performance derived from the models are then applied to the RMBS's payment hierarchy (i.e., waterfall), and the projected cash flow of the security being valued is extracted. In the case of a CDO, the cash flow from each security backing the CDO is then assigned to the CDO's waterfall and the projected cash flow of the CDO is extracted. The resulting prepayment, default and severity assumptions are evaluated under more stressful scenarios to account for macroeconomic uncertainty and various residential real estate price depreciation paths. Market information used includes residential real estate prices, market rents, new and existing property sales, and data from loan servicers regarding modifications. Data from vendors is evaluated as well as public data from trustees of the securities and servicers of the loans.

C. Corporate Equity and Debt

In evaluating investments related to corporate equity and debt, Lone Star uses a combination of the discounted cash flow method and the company's multiple methods (i.e., price-to-earnings, price-to-book, EBITDA, etc.). The future performance of the company under evaluation is projected (including liquidation value as necessary), which is calculated using the company's financial statements, credit, business plans, material agreements and other information. In the analysis conducted for corporate bonds and other debt, if it is determined that the debtor company might not continue as a going concern, the liquidation value of the company is calculated and the price of the debt is determined based on that liquidation value. If it is determined that the debtor company should survive past the maturity of the subject debt, then the price is typically determined by discounting the contractual repayment schedule (although as an alternative scenario, the price may be determined based on the company's liquidation value). Sensitivities are also run on a range of financial variables to evaluate the effects on returns.

D. Whole Loans

In evaluating investments related to whole loan assets (including primarily non-performing mortgage loans backed primarily by residential properties, but excluding commercial real estate-secured loans), Lone Star uses a loan-level model. The loan-level model generates and projects loan-level cash flows based on the individual characteristics of each mortgage loan, incorporating estimates of the projected re-performance rates (if any) that can be achieved by the servicer through loan modifications. For mortgage loans that are not expected to re-perform, the loan-level models are used to project liquidation timelines under various probability-weighted liquidation scenarios.

For loans secured by property, the model considers the underlying property's updated value analyzed using traditional residential real estate valuation methods including, among other methods, the comparable sales approach, broker price opinions and automated valuation models. After establishing the current value of the underlying property, the model considers future price projections based on the property's specific geographical area and property type. Additionally, advance balances, foreclosure timelines, property marketing timelines, and various liquidation expenses are factored into the model assumptions. In evaluating these loans, internally sourced market information is used, such as home price reports and sales reports, as well as real-time empirical data from a related loan servicer regarding modifications and

liquidation strategies.

For the whole loan assets, the resulting cash flow projections are stress tested to account for factors, including macroeconomic uncertainty, various price depreciation paths, and asset management strategies.

E. Commercial Real Estate Assets

Lone Star uses similar methods of analysis and investment strategies for CMBS, commercial real estate loans and commercial real estate properties. The property itself is first analyzed by employing traditional real estate valuation methods, including the comparable sales approach, the income approach, the replacement cost approach and the development approach. Each of these methods entails a detailed analysis of the particular markets and attributes of the particular investment, including location, structural and environmental characteristics and current and forecasted demographic characteristics. Additionally, a proprietary model is used that incorporates the information from the methods noted above and aggregates the information to evaluate potential commercial real estate investments in whole loans, structured loans or securitized mortgages.

As part of the evaluation of commercial real estate loans and CMBS, the underlying collateral is reviewed and a fundamental analysis and evaluation of the collateral is conducted. Data from vendors as well as public data from trustees of the securities and servicers of the loans are evaluated. Third-party analysis solutions are also used to perform necessary analytics. For commercial real estate, real time empirical data is also evaluated. Market color is also sourced from relationships with a network of local sales/leasing brokers and real estate developers who are knowledgeable regarding the applicable markets. Additionally, sensitivity analyses are run to comprehend the effects of alternative market assumptions should events turn out differently than projected.

F. Material Risks of Relating to Investment Strategies

All investments involve the risk of loss that the Funds and their underlying investors should be prepared to bear. A more detailed discussion of the risks relating to an investment in the Funds can be found in the applicable Fund's Governing Documents.

1. **Opportunistic Investment Strategy.** The opportunistic investment strategy utilized by Lone Star on behalf of certain of the Funds generally does not incorporate consideration of other investments held in a Fund's investment portfolio. Accordingly, portfolio risk controls such as value at risk metrics, investment diversification across regions or industries or avoidance of risk concentration at the investment portfolio level are typically not considered when assessing the merits of a potential investment. Instead, the Funds' opportunistic investment strategy focuses on the expected returns of each potential investment on an individual basis. This opportunistic investment strategy may result in a significantly higher risk profile of these Funds compared to a strategy that actively diversifies investments across type, sector, location, and/or other risk factors.
2. **Risk of Limited Number of Investments.** As a result of certain of the Funds' opportunistic investment strategy, they may participate in a limited number of investments or a limited number of asset classes and, as a consequence, the aggregate return of the Funds may be substantially adversely affected by the unfavorable performance of even a single investment. In addition, to the extent a Fund participates in a limited number of investments, the diversification of the Fund's investments across asset classes and geographic regions would be limited.

3. **Limited Current Return.** The return of capital and the realization of gains, if any, will generally occur only upon the partial or complete disposition of a Fund's investment. Developments in global and U.S. financial markets over the past few years and new developments, if they occur, may adversely impact the ability of the Funds to dispose of investments at their expected returns. Current returns from investments may vary, as Lone Star generally attempts to maximize realized returns on the disposition of the Funds' investments, and as such, will generally not favor early liquidation of an investment or foregoing potential disposition upside to maximize current returns.
4. **Investing in Troubled Assets.** The Funds may make investments in secured and unsecured non-performing loans or other troubled assets that involve a significant degree of legal and financial risk and, particularly in the international context, political risks. Furthermore, investments in assets operating in workout modes or under bankruptcy reorganization laws may, in certain circumstances, be subject to certain additional potential liabilities that may exceed the value of a Fund's original investment. For example, under certain circumstances, lenders who have inappropriately exercised control of the management and policies of a debtor may have their claims subordinated or disallowed or counterclaims may be filed and lenders may be found liable for damages suffered by various parties as a result of such actions. In addition, under certain circumstances, payments to the Funds and distributions by the Funds to investors may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance or a preferential payment. Moreover, particularly with respect to international investments in secured and unsecured non-performing loans or other troubled assets, there are additional risks and uncertainties related to litigation, bankruptcy, and other laws and regulations affecting the rights and remedies of the Funds, which can create additional financial risks to the Funds.
5. **Risks of Investing in Real Estate-Related Assets.** Investments in real estate assets and real estate-related investments are subject to various risks associated with the real estate industry generally, including adverse changes in the financial conditions of tenants, buyers, and sellers of properties; the availability of financing; real estate taxes, interest rates and other operating expenses; insurance; environmental laws and regulations, zoning laws, and other governmental rules and fiscal policies; the relative popularity of certain property types and locations; and the availability of certain construction materials. Developments in global and local financial and real estate markets over the past few years, and new developments in those markets, if they occur, may result in reductions in the value of real property interests. The real estate assets associated with the Funds' investments may be or become non-performing after acquisition for a wide variety of reasons. Such non-performing real estate investments may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial write-down of such loans or assets. However, even if an asset is performing as expected, a risk exists that, upon maturity of financing, replacement "takeout" financing will not be available or will not be available on attractive terms. It is possible that LSGA, Hudson, affiliated service providers or other servicers to the Funds would find it necessary or desirable to foreclose on some of the collateral securing one or more debt investments, but such remedy may not be available in the jurisdiction where the property is located, or if available, may not be comparable to a foreclosure action in the United States. Even if foreclosure is an option, the foreclosure process can be lengthy and expensive. At any time during the foreclosure proceedings, the borrower may file for bankruptcy, which may have the effect of further delaying or blocking the foreclosure process. Foreclosure litigation tends to create a negative public image of the collateral property and may result in disrupting ongoing leasing and management of the property.

6. **Risks of Investing in Commercial Mortgage Loans.** The value of the Funds' commercial mortgage loans and the underlying real estate will be influenced by the historical rate of commercial mortgage loan delinquencies and defaults experienced on the commercial loans and by the severity of loss incurred as a result of such defaults. The factors influencing delinquencies, defaults, and loss severity include: (i) economic and real estate market conditions by industry sectors (e.g., multifamily, retail, office); (ii) the terms and structure of the mortgage loans; and (iii) any specific limits to legal and financial recourse upon a default under the terms of the mortgage loan. Commercial mortgage loans are generally viewed as exposing a lender to a greater risk of loss through delinquency and foreclosure than lending on the security of single-family residences. The ability of a borrower to repay a loan secured by income-producing property typically is dependent primarily upon the successful operation and operating income of such property (i.e., the ability of tenants to make lease payments, the ability of a property to attract and retain tenants, and the ability of the owner to maintain the property, minimize operating expenses, and comply with applicable zoning and other laws) rather than upon the existence of independent income or assets of the borrower. Most commercial mortgage loans provide recourse only to specific assets, such as the property, and not against the borrower's other assets or personal guarantees.
7. **Credit Risks.** A Fund's investment could lose money if the issuer or guarantor of a fixed income security is unable or unwilling, or is perceived by market participants, ratings agencies, pricing services or others as unable or unwilling, to make timely principal and/or interest payments, or to otherwise honor its obligations. Securities are subject to varying degrees of credit risk, which are often reflected in their credit ratings. The downgrade of the credit of a security held by a Fund may decrease its value. "Opportunistic" assets are generally considered to have significant credit risk. With respect to the financing strategies and hedging services described herein, the Funds may also be subject to the risk that a counterparty to a financing arrangement or derivatives contract may be unable or unwilling to honor its obligations as a result of the counterparty's financial condition or insolvency.
8. **Risks Associated with Mortgage-Backed Securities.** In general, risk factors discussed herein pertaining to mortgage loans (and the type of property securing such mortgage loans), would similarly pertain to any mortgage-backed security in which the Funds invest. Some or all of the potential mortgage-backed securities acquired by the Funds may not be rated, or may be rated lower than investment grade by one or more nationally recognized statistical rating organizations. The majority of the mortgage-backed securities acquired by the Funds are typically lower-rated or unrated, and the original ratings of many of these securities were withdrawn or downgraded to levels that are significantly below investment grade. Lower-rated or unrated mortgage-backed securities in which the Funds may invest have speculative characteristics that can involve substantial financial risks. Securities rated lower than "B" can be regarded as having extremely poor prospects of ever attaining any real investment standing and may be in default. Existing credit support and the owner's equity in the property may be insufficient to protect the Funds from loss. If the Funds invest in subordinated mortgage-backed securities in particular, the Funds will be first in line among debt holders to bear the risk of loss from collateral delinquencies and defaults. To the extent that the mortgage loans that underlie specific mortgage-backed securities are prepayable, the value of such mortgage securities may be negatively affected by increasing prepayments, which generally occur when interest rates decline. Typically, commercial mortgage loans are not prepayable or are subject to prepayment penalties or interest rate adjustments.
9. **Risks Associated with Leveraged Buyouts.** A Fund may structure one or more of its operating company investments as a leveraged buyout, in which the acquisition is financed using substantial

amounts of debt secured by the target company's cash flows or other assets. These investments are particularly sensitive to adverse economic factors and other risks associated with leverage generally, which magnify their volatility and may substantially increase the Fund's risk profile. In the event an operating company is unable to generate sufficient cash flow to meet the payment obligations associated with the related acquisition financing, the value of the Fund's equity position in such operating company could be significantly reduced or even eliminated. In addition, such investments are subject to risks generally associated with investments in operating companies, including, without limitation, the possibility that the operating company's management may have economic or business interests or goals which are inconsistent with those of the applicable Fund. Further, the exercise of control over an operating company, which often results from a leveraged buyout, imposes additional risks of liability for environmental damage, product defects, failure to supervise and other types of related liability. If such liabilities are to arise, the Fund may suffer a loss on its investment.

10. **Finance Companies and other Regulated Institutions.** The Funds may invest in finance companies or other regulated institutions, which operate in a highly competitive environment and are subject to extensive regulation. Finance companies compete for loans, deposits, and other financial services with other finance companies as well as commercial banks, savings and loan associations, credit unions, mutual funds, insurance companies, brokerage and investment banking firms, and various other non-bank competitors, many of which may be subject to a lesser degree of governmental regulatory oversight and periodic examination than their competitors. Investments in certain types of institutions that provide secured and unsecured loans are highly speculative and subject to various risks, including adverse changes in national or international economic conditions; adverse local market conditions; changes in availability of debt financing; changes in interest rates, governmental rules, and fiscal policies; risks due to dependence on cash flow; risks and operating problems arising out of acts of God and other unanticipated events; uninsurable losses; and other factors that are beyond the control of the Funds' General Partner, LSGA or the Funds. In the event a finance company or similar institution forecloses on the properties, if any, securing its loans, such company would need to operate those properties, thus being subject to environmental and other risks associated with the ownership and operation of real property. Furthermore, there can be no assurance that such company would be able to sell such properties at a price that would result in a return on the loans.
11. **International Investing.** Lone Star performs services for the Funds on a global basis, and in particular, in North America, Europe, Asia Pacific and Latin America. The Funds may also make significant investments in countries that are considered "emerging markets." Risks to the Funds' investments may result from differences between U.S. and non-U.S. countries, such as the absence of uniform accounting, auditing, and disclosure requirements; level of government oversight and other legal and regulatory differences, including weaker investor protections and fiduciary duties; less advanced bankruptcy laws; and difficulty in enforcing contractual obligations. Further risks may involve a country's potential economic, political, or social instability, which can lead to expropriation or confiscatory taxation, higher inflation, nationalization, confiscation without fair compensation, or war and can necessitate reliance on a country's diminished economic and physical infrastructure to support investment activity. In addition, in the changing global political realm, what appears to be a stable political situation at the time of an investment may change significantly before the Funds can dispose of such asset.

Instability in a country may also lead to fluctuations in currency exchange rates that affect the value of the Fund's investments, and non-U.S. currency and other restrictions imposed to prevent capital flight, which may make it difficult or impossible to exchange or repatriate non-U.S. currency.

The laws and regulations of non-U.S. countries may impose restrictions or approval requirements that do not exist in the United States or Bermuda and may require the use of financing and structuring alternatives that differ significantly from those customarily used in the United States and Bermuda. Foreign countries also may impose taxes on the Funds, the activities of the Funds, and/or the General Partners of the Funds. LSGA will analyze risks in the applicable non-U.S. countries before recommending investments therein, but no assurance can be given that a political or economic climate, or particular tax, legal, or regulatory risk might not adversely affect an investment by a Fund. Despite efforts by LSGA to mitigate some of the foregoing risks, these risks may ultimately limit a Fund's ability to dispose of certain investments or to dispose of certain investments profitably.

12. **Financing and Use of Leverage.** The Funds employ a substantial amount of leverage in connection with their investments. The Funds' ability to achieve or surpass target rates of return on the investments depends on their ability to access sufficient financing sources on desirable terms. The Funds utilize various types of financing, such as repurchase agreements, loan facilities, swaps, and multi-tiered credit arrangements, many of which contain inherent risks. The Funds' investments are typically financed by initially borrowing under a general facility and/or third-party financing, subsequently to be replaced with investment-level financing that is secured by the specific investment that is being financed. This leverage will increase the exposure of such investments to adverse economic factors such as significantly rising interest rates, increased risk spreads, severe economic downturns, or deterioration in the condition of the investment or its corresponding market. Generally, the presence of leverage in a Fund's investments magnifies their volatility and may substantially increase the Fund's risk profile. In the event a specific investment is unable to generate sufficient cash flow to meet a principal or interest payment required to maintain the financing arrangement or a margin call related to an investment, the value of a Fund's equity position in that investment and other investments of the Fund could be significantly reduced or even eliminated. There is generally no limitation on the amount of leverage that can be used with respect to any particular transaction.

The amount and terms of financing available to a Fund could affect the returns generated by the Fund and the ability to structure potential transactions. While LSGA will take the availability and terms of financing into consideration when identifying, assessing, and structuring potential investments, a decrease in the ability of a Fund to leverage the investments could adversely affect the returns generated by the Fund and could result in fewer investments being made, therefore reducing the diversification of the portfolio. If interest rates rise, as anticipated, the cost of financing will increase. Further, deterioration in the ability of a Fund to leverage the investments could result in the aggregate return of the Fund being substantially adversely affected. As discussed above, the Funds expect to use a variety of financing sources including, without limitation, repurchase agreements. The repurchase agreements used by the Funds for financing purposes may have various terms ranging from a month or less to five or more years. An inability of a Fund to re-lever or obtain take-out financing for Fund investments at the end of the term of a given financing arrangement may have an adverse impact on the aggregate returns of such investment. Further, in the event that any given financing arrangement is terminated prior to its expected term, a Fund may not be able to refinance the underlying investment in a timely manner, or on the same terms as the prior financing arrangement, or on any terms.

In addition to the enhanced portfolio volatility and risk that may arise from the use of leverage, financing instruments are generally subject to credit risks with respect to the counterparty. Financing transactions typically involve the transfer of legal title, pledge, or other encumbrance of the underlying investment of the Fund. Repurchase agreements may require the transfer of title to the underlying assets and may

reduce the options available to resolve any issues with the counterparty involved in such repurchase agreements. The number of potential counterparties offering financing of the type desired by a Fund may be very limited, which may result in less attractive terms and conditions, and concentrations of financings with such counterparties. Accordingly, the insolvency or bankruptcy of a financing counterparty may result in legal action that impairs the value or marketability of the underlying investment, or a Fund's ownership rights. There can be no assurance that the Fund will recover all or any of the economic value of the investment under such circumstances, and any such recovery may require the payment of substantial legal costs.

13. **Illiquidity of Investments.** Most of the Funds' investments are highly illiquid, and there can be no assurance that the Funds will be able to realize these investments in a timely manner. While certain investments of the Funds may generate current income, the return of capital and the realization of gains, if any, with respect to certain other investments will generally occur only upon the partial or complete disposition of such investment. While an investment may be sold at any time, typically this will not occur until a number of years after the investment is made.

It is unlikely that there will be a public market for most of the investments held by the Funds. The Funds generally will not be able to sell securities held in their investment portfolios publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration requirements is available. In some cases the Funds may be prohibited by contract or regulatory requirements from selling investments for a period of time. In addition, the types of investments held by the Funds may be such that they require a substantial length of time to liquidate. Lone Star actively manages the cash and credit arrangements of the Funds with the goal of efficiently matching available liquidity to anticipated obligations. There can be no assurance, however, that sufficient liquidity will be available to the Funds on favorable or any terms in all situations. In the event of a margin call or other loan repayment at a time in which a Fund does not have sufficient cash assets to cover such call or payment, the Funds may have to liquidate certain investments at less than their expected returns, thereby resulting in lower realized proceeds to the Funds.

14. **Swaps and Derivative Investments.** The Funds may utilize swaps and other derivative transactions to obtain a desired exposure, and such transactions may expose the Funds to risk of loss. In addition, the Funds may take advantage of certain other customized instruments to create "synthetic" or derivative investments that are not presently contemplated for use by the Funds, or that are currently not available but that may be developed, to the extent such opportunities are both consistent with the Funds' investment objectives and legally permissible for the Funds. To the extent the Funds invest in repurchase agreements, swaps, and other "synthetic" or derivative instruments, counterparty exposures can develop and the Funds take the risk of nonperformance by the other party on the contract. Transactions such as these, which are entered directly between two counterparties, may expose the parties to the risk of counterparty default. In addition, if the Funds were to invest in synthetic or derivative instruments that do not currently exist, certain other risks may apply in addition to the risks described herein.

Derivatives are a financial contract with a value that depends on, or is derived from, an underlying product. Some of the risks generally associated with derivatives include the risks that: (1) the value of the derivative will change in a manner detrimental to the Funds; (2) another party to the derivative may fail to comply with the terms of the derivative contract; (3) the derivative may be difficult to purchase or sell; and (4) the derivative may involve indebtedness or economic leverage, such that adverse changes in the value of the underlying asset could result in a loss substantially greater than the amount invested

in the derivative itself or in heightened price sensitivity to market fluctuations. Derivative markets can be highly volatile. The profitability of investments by the Funds in derivatives depends on the ability of Lone Star to correctly analyze these markets, which are influenced by, among other things, changing supply and demand relationships, governmental, commercial, and trade programs and policies designed to influence world political and economic events, and changes in interest rates. In addition, the assets of the Funds may be pledged as collateral in derivatives transactions. Thus, if the Funds default on such an obligation, the collateral may be at risk.

15. **Reuse of Collateral.** In connection with swaps and other derivative transactions, a Fund is frequently required to post collateral to transaction counterparties or clearing firms. The amount of such collateral may be material to the Fund. Such collateral may, from time-to-time and without notice to the Fund, be carried in the general account of the counterparty or clearing firm and may be sold, pledged, rehypothecated, assigned, invested, loaned, commingled or otherwise disposed of, or otherwise used in the business of the counterparty or clearing firm without any claim or right of any nature whatsoever of the Fund. A counterparty or clearing firm holding collateral in connection with a swap or other derivative transaction is obligated to return to the Fund assets equivalent to those provided as collateral. Although the Funds seek to enter into transactions with creditworthy counterparties and clearing firms on favorable terms, there can be no assurance that collateral posted to such parties will be returned to the Funds in a timely manner. The insolvency or bankruptcy of a counterparty or clearing firm may result in partial or full loss of collateral posted and may require the payment of substantial legal costs to enforce the right of the Funds to the return of equivalent assets.
16. **Use of Special Investment Vehicles.** The Funds may use Special Investment Vehicles and cause the Funds to transfer a portion of their commitments into such entities. The use of Special Investment Vehicles may involve additional costs related to formation, structuring, tax, and operating such entities in a manner that provides similar economic terms, management terms, and the liability protection afforded by investments made through the Fund. In the event Special Investment Vehicles are created to address tax issues specific to certain Limited Partners (such as Special Investment Vehicles formed to block UBTI or ECI or to invest in entities that block UBTI or ECI), the use of such Special Investment Vehicles may cause a variance in returns for those Limited Partners who participate in such Special Investment Vehicles, due to, among other things, the costs of forming and operating such Special Investment Vehicles, the potentially differing tax structures, and the timing of distributions of carried interest to a Fund's General Partner (which may vary based on the structure). Due to the regulatory parameters of the Fund and investment restrictions of certain Limited Partners, the General Partner may not be able to use Special Investment Vehicles to address the tax treatment desired by all Limited Partners. Because of the worldwide scope of the investments by the Funds, these Special Investment Vehicles could be of a type with which the Funds have less familiarity, and therefore provide additional informational and operational uncertainty or difficulties to the Fund's General Partner and LSGA.
17. **Investments through Partnerships and Joint Ventures.** The Funds will generally make investments through partnerships, joint ventures, operating companies, corporations, companies, or other entities. Such investments may involve risks not present in direct investments, including, for example, the possibility that an operating company, co-venturer, or partner of a Fund may commit fraud, become bankrupt, or have economic or business interests or goals which are inconsistent with those of the Fund, or that any such operating company, co-venturer, or partner may be in a position to take action contrary to the Fund's objectives. Furthermore, if a co-venturer or partner defaults on its funding obligations, it may be difficult for the Fund to make up the shortfall from other sources. The limited partners of the

Fund may be required to make additional contributions to replace such shortfall, thereby reducing the diversification of their investments. Any default by such co-venturer or partner could have an extremely deleterious effect on the Fund, its assets, and the interests of the limited partners. In addition, the Fund may be liable for actions of its co-venturers or partners. While the Fund's General Partner will attempt to limit the liability of the Fund by reviewing the qualifications and previous experience of co-venturers or partners, it does not expect generally to obtain financial information from, or to undertake private investigations with respect to, prospective co-venturers or partners.

18. **Risks Associated with Hedging Strategies.** Lone Star or Hudson may recommend that a Fund enter into hedging and similar transactions with respect to non-U.S. currency, interest rate, commodities and other risks where deemed appropriate and cost effective. The Fund will bear the cost of any hedging transactions entered into on its behalf. There is no assurance that foreign exchange risk, interest rate risk, commodity and/or such other risks can be perfectly hedged or minimized where the magnitude and timing of future cash flows can only be estimated and not known with certainty. Thus, prudent currency, interest rate and commodity hedging policies only serve to minimize or reduce these risks, but not to eliminate them completely. There can be no assurance that a Fund will have sufficient liquidity or credit capacity to support the hedging services and no assurance that hedging techniques will be available, be available at a reasonable cost, or be sufficient to eliminate these risks. In addition, Lone Star or Hudson may recommend that a Fund hedge the investment's currency or interest rate exposure at an amount less than the expected value of that investment or not at all. In such cases, the Fund may suffer losses from changes in foreign exchange rates or interest rates that may have been recouped through hedging transactions if the investment had been fully hedged. With any hedging transaction there is a risk that the counterparty will not perform as expected. There may also be complications enforcing hedging transactions in the event of partial or total dissolution of a currency block such as the Euro, or the imposition of currency controls, or similar currency market disruption to a hedged currency, and litigation between the Funds and the hedging counterparty may result from such complications. Such a disruption to the currency markets may also cause the Funds to be unable to implement hedging transactions in the affected markets for an indefinite period of time.

G. Material Risks of Loss Related to Methods of Analysis

Risks Related to Lone Star's Methods of Analysis

Lone Star seeks to perform reasonable and proper due diligence and analysis on each prospective investment, in an effort to identify, based on relevant facts and circumstances, investment opportunities and possible risks related to those opportunities. In conducting research and analysis, Lone Star utilizes available resources, including information disclosed by the investment counterparty, and possibly other third parties involved in a potential investment transaction. Lone Star also works with Hudson to evaluate each investment, as described above. The methods of analysis that Lone Star employs, including those methods used by Hudson, when determining whether to recommend that a Fund make a particular investment, may be subjective and cause the Funds to lose money over short or long periods. As a result, as well as due to other risks inherent in investments generally, there can be no assurance that Lone Star's recommendations will satisfy the investment objectives of any particular Fund or that any Fund will be able to carry out its investment strategy successfully.

Investment analyses performed by Lone Star may frequently be required to be undertaken on an expedited basis, as may investment decisions made by the investment committees, to take advantage of investment opportunities. In such cases, the information available at the time of an investment decision may be

limited, and Lone Star may not have access to detailed information regarding the investment opportunity, such as physical characteristics, structural or environmental matters, zoning regulations, or other local conditions affecting an investment. With respect to real estate-related investments, Lone Star may not be able to undertake all appropriate inquiries into the previous ownership and uses of a property consistent with typical commercial or customary practice. Therefore, no assurance can be given that Lone Star will have knowledge of all circumstances that may adversely affect an investment. In addition, Lone Star may rely upon independent consultants and other third parties in connection with its evaluation of proposed investments; however, no assurance can be given that such parties will accurately evaluate such investments, and the Funds may incur liability as a result of their actions.

Specific Risks Related to Lone Star's Methods of Analysis

1. **Analysis of Residential Mortgage-Backed Securities.** The material risks related to evaluating mortgage-backed securities and CDOs backed primarily by mortgage-backed securities, using a credit-based model, include: (1) changes affecting the model inputs used to project performance (such as prepayment speeds, delinquency rates, loss severities and interest rate assumptions); and (2) the potential for new variables (such as foreclosure moratoriums, new governmental programs, and legislative or regulatory changes) to impact actual performance. To address these risks, regular model validation tests are performed and the models are adjusted to account for changes in the market, including credit trends, servicing trends and legislative and regulatory developments.

Other material risks related to evaluating mortgage-backed securities and CDOs include events that either diminish the total recovery amount on the underlying asset or significantly extend the timing of collection of such recovery amount from the sale of the underlying property. To assess these risks, multi-scenario valuations are performed (including stress-case valuations) in an attempt to determine potential downside risks of the investment.

These securities also carry the risk of document ambiguities, errors or omissions. Additionally, investments in CDOs include the risk of potential conflicts of interest among the holders of various classes of notes of the CDO. To help mitigate these risks, internal counsel and, when appropriate, external counsel are engaged to review associated documents and evaluate these potential risks.

2. **Analysis of Single-Family Residential Whole Loans.** The material risks related to evaluating loans include: (1) changes affecting the model inputs used to project loan performance, (2) the potential for new variables to significantly impact the likelihood of loan repayment, and (3) the accuracy of assumptions related to properties acquired through liquidation, including with respect to repair and renovation costs, hold periods, resale value and rental income.. To address these risks, periodic model validation tests are performed and the models are adjusted to account for changes in the market, including housing trends. Multi-scenario valuations are performed in an attempt to assess downside risk. Non-performing residential mortgage loans also have increased risk of litigation in connection with the foreclosure process. To help mitigate this risk, third-party due diligence vendors may be engaged to review a sample of loans.
3. **Analysis of Commercial Real Estate Assets.** The material risks related to evaluating CMBS, commercial real estate loans and properties include: (1) changes affecting the model inputs used in the valuations and (2) the potential for new variables to significantly impact the ability to realize a profit on the investment. To assess these risks, on-going surveillance of the market is used to adjust the model for a particular investment, and multi-scenario valuations are performed in an attempt to assess downside

risk. Commercial real estate loans and CMBS also have increased risk of litigation in connection with the foreclosure process. To help mitigate this risk, third-party due diligence vendors may be engaged to review a sample of loans.

H. General Risk Factors

1. **Market Risks.** The Funds may make investments that are publicly traded or traded in active private markets. The values of such investments are particularly susceptible to fluctuations based on market trends. Ten years of sustained low interest rates around the world coupled with significant quantitative easing measures have resulted in falling yields and an increase in asset prices as well as increased borrowing against such assets. These factors together with the high levels of private and public debt that continue to persist within the global banking system lead Lone Star to believe that the global economy remains fragile and susceptible to significant potential price dislocations caused by political and macroeconomic shocks, including those caused by the end of quantitative easing programs, the return of inflation and attendant rising interest rates. Further changes in stock prices, interest rates, currency exchange rates, or commodity prices could result in changes in the broader marketplace that adversely affect the value of publicly traded investments, particularly with respect to investments located in emerging markets or traded on relatively volatile exchanges. The Funds may invest in publicly traded securities on markets that are relatively illiquid or volatile. The values of such investments are particularly susceptible to fluctuations based on market trends. The Funds may have difficulty disposing of such investments at a price and on terms that are attractive to the Funds.
2. **Currency Risk.** The Funds may make investments in assets denominated or valued in non-U.S. currencies. To the extent that the Funds invest in securities or assets denominated in or indexed to foreign currencies, changes in currency exchange rates bring an added dimension of risk. Currency fluctuations could negatively impact investment gains or add to investment losses. Although the Funds may attempt to hedge against currency risk, the hedging instruments may not always perform as the Funds expect and could produce losses. Suitable hedging instruments may not be available for currencies of emerging market countries, and an investment may not be adequately hedged with respect to its currency exposure even if suitable hedging instruments are available.
3. **Risks Associated with Interest Rate Fluctuations.** Changes in interest rates could have an adverse impact on the Funds' operations. Market interest rates are beyond the General Partners' control, and they can fluctuate in response to general economic conditions and the policies of various governmental and regulatory agencies. Changes in monetary policy, including changes in interest rates, will influence market rates and prices for loan originations and purchases of loans. Rising or falling interest rate environments also entice customers to refinance.
4. **Taxation.** Investments in real estate, equity, credit, and other financial assets may be subject to various taxes and duties imposed by the jurisdiction in which such assets are held, reside or operate. Depending on the jurisdiction, some investors in a Fund may be required to take into account their allocable share of the Fund's current year activity, without regard to whether the investor has received or will receive any distributions from the Funds. Accordingly, an investor's tax liability for any taxable year associated with an investment in the Funds may exceed cash distributed to that investor during the taxable year.

Lone Star endeavors to structure each investment to comply with all applicable laws and regulations. However, taxing authorities may challenge a structure and, if successful, additional tax may be owed. Additionally, tax laws in any jurisdiction in which the Funds invest are subject to changes or revocations

which may expose the Funds to unexpected taxation and reduce the returns of the Funds.

5. **Risks of Environmental Liabilities.** Under various laws, ordinances, and regulations, an owner or operator of real property may become liable for the costs of removal or remediation of certain hazardous substances and other environmental pollutants (including, without limitation, petroleum products, asbestos, and polychlorinated biphenyls) released on, about, under, or in the property. Environmental laws often impose this liability without regard to whether the owner or operator knew of, or was responsible for, the release of hazardous substances or other environmental pollutants. The presence of hazardous substances or other environmental pollutants, or the failure to remediate hazardous substances or other environmental pollutants properly, may adversely affect the owner's ability to sell or use real estate or to borrow outside funds using real estate as collateral. In addition, some environmental laws create a lien on contaminated property in favor of the government for costs it incurs in connection with the contamination. In addition to cleanup actions brought by governmental agencies and private parties, the presence of hazardous substances or other environmental pollutants on a property may lead to claims of personal injury, property damage, or other claims by private plaintiffs. Environmental liabilities with respect to a specific real estate asset may exceed the value of such asset, and under certain circumstances, subject the other assets of the Funds to such liabilities.
6. **Regulatory Risks.** There is no assurance that the Funds, their General Partners, Lone Star, Hudson, any of the Special Investment Vehicles, any SPVs or any of their affiliates will be able to: (i) obtain all required regulatory approvals not yet acquired, or that may need to be acquired in the future; (ii) obtain any necessary modifications to existing regulatory approvals; or (iii) maintain required regulatory approvals. Delay in obtaining or failure to obtain and maintain in full force and effect any regulatory approvals, or amendments thereto, or delay or failure to satisfy any regulatory conditions or other applicable requirements could prevent operations of an operating company, impede the development of real estate assets, delay the completion of a previously announced acquisition or disposition, cause the Fund, its General Partner, Lone Star, Hudson, any of the Special Investment Vehicles, any SPVs or any of their affiliates to be subject to regulatory actions, or otherwise result in additional costs to an operating company, or other investment, and in turn the Funds. The global investment strategy of the Funds is subject to complex, changing, and sometimes competing legal, tax, and regulatory regimes throughout the world, including the EU tax regulatory regime which requires certain entities registered in all major offshore jurisdictions, including Bermuda, to maintain an economic presence and satisfy economic substance requirements in such jurisdictions, and there is a possibility that new or changing regulatory requirements could potentially have direct or indirect adverse effects on the Funds.

Derivative contracts, repurchase agreements, and similar instruments used to implement hedging and financing activities of the Funds are generally subject to limited regulation. New regulation in the U.S. or in non- U.S. jurisdictions relating to such instruments may limit the ability of the Funds to engage in the same or similar transactions in the future, and there is a possibility that regulatory agencies may treat these instruments differently than the manner intended by the Funds. Such developments may prevent or delay the implementation of hedging or financing transactions, or result in the termination of existing arrangements. The Funds may not be able to re-establish similar arrangements in a timely manner, or on the same terms as the prior financing arrangement, or on any terms.

The financial services industry and the activities of private funds and their managers in particular, have been subject to increasing regulatory scrutiny. This increased scrutiny may reduce returns to Limited Partners as a result of, among other things, additional compliance and administrative expenses,

administrative enforcement actions, fines by regulators in the United States or in non-U.S. jurisdictions, and civil litigation. The exposure of Clients to potential liabilities and additional legal, compliance, and other related costs may adversely affect the ability of Clients to achieve their investment objectives.

7. **Reliance on Hudson.** The Funds expect to engage Hudson to provide due diligence, asset management, financing, securitization, ancillary and other support services. As of 2018, however, Hudson reorganized in order to provide services to third parties who are not affiliated with Lone Star. As a result, it is possible that Hudson may not be able to provide certain services to the Funds due to conflicts with its other third-party clients. The success of the Funds is in part based on Hudson's expertise and relationships throughout the world. If Hudson were not able to provide a fulsome set of services to the Funds, it could have a material impact on the Funds' ability to achieve their investment objectives and target returns. There can be no assurance that Hudson will always be willing or able to provide asset management and other services to the Funds and to the assets of the Funds or on pricing and other terms which the Funds consider competitive.

Item 9: Disciplinary Information

In 2003, LSF IV, together with certain co-investors, purchased, through various non-U.S. entities, a controlling interest in Korea Exchange Bank ("KEB"), a South Korean commercial bank. LSF IV held its interest in KEB through an SPV, LSF-KEB Holdings SCA ("KEB Holdings"), whose statutory manager was Lone Star Capital Management SPRL. The permanent representative of Lone Star Capital Management SPRL was Michael Thomson, previously the Executive Vice President and General Counsel of Lone Star Americas Acquisitions, LLC (now known as Lone Star North Americas Acquisitions, L.P.) and Director and General Counsel of LSGA. After KEB Holdings assumed control of KEB, several persons affiliated with Lone Star were elected to the Board of Directors of KEB, including Paul Yoo, Ellis Short, Michael Thomson, and Steven Lee (together, the "Lone Star Directors"). Shortly thereafter, KEB, with the unanimous authorization of its Board of Directors, rescued its failing credit card affiliate ("KEB Credit"), in order to avert the latter's impending insolvency, by merging it into the bank.

In late 2006 and early 2007, the Korean Supreme Prosecutor's Office ("SPO") charged Paul Yoo, who was also a senior officer of LSGA's Korean subsidiary at that time, Lone Star Advisors Korea, L.L.C. ("LSAK"), and, vicariously, KEB and KEB Holdings with violations of the Korean Securities and Exchange Act ("SEA") in connection with KEB's merger with KEB Credit, alleging essentially that Mr. Yoo and the other Lone Star Directors conspired to unlawfully drive down the share price of KEB Credit's shares in advance of the merger, to enable KEB to merge with KEB Credit on more favorable terms. Ultimately (in late 2011 and early 2012), after several decisions and appeals, Paul Yoo and, vicariously, KEB Holdings, were convicted of this charge. Paul Yoo was also found guilty of various other charges relating to (i) failure to appear before the Korean National Assembly, (ii) breach of fiduciary duty relating to manipulation of the reported rates of return for certain investments made in Korea by certain prior Funds (as discussed in more detail below), and (iii) tax evasion relating to the transactions involved in clause (ii) above. Paul Yoo was sentenced to three years imprisonment and a fine of KRW 4.295 billion (approximately USD 3.6 million), which was suspended. The Seoul High Court also imposed a criminal fine of KRW 25 billion (approximately USD 21 million) on KEB Holdings.

Under the SEA as applied in line with the Korean Constitutional Court's prior rulings, a court must find that a company's legal "representative" was involved in alleged violations in order to convict the company. The Seoul High Court's decision against KEB Holdings was based on the activities of Michael Thomson, whom the Court

considered to be the legal “representative” of KEB Holdings for purposes of the SEA. No charges were brought against Ellis Short, Michael Thomson, or Steven Lee, the other Lone Star Directors. No Lone Star Director other than Paul Yoo participated in the proceedings. Lone Star has been advised by Korean counsel that the court’s finding against KEB Holdings is not a conviction against these individuals personally.

In December 2011, the Korean Financial Services Commission (“FSC”) issued a Resolution Notice to KEB that required KEB to consider the dismissal of the Lone Star Directors at a shareholders meeting within two months of the Resolution Notice. The FSC based this action on the findings of the Seoul High Court. In February 2012, KEB Holdings sold its remaining interests in KEB, and the Lone Star Directors resigned prior to any action being taken by KEB with respect to the Lone Star Directors.

In 2005, LSAK and Hudson Advisors Korea, Inc. (HAL’s affiliate in Korea at that time) (“HAK”) discovered that a senior officer of LSAK had embezzled substantial amounts from LSAK, HAK, and certain related entities of the Funds over a period of several years, mainly through fictitious invoices for services ostensibly provided by third parties. The officer was terminated, confessed to the embezzlement, and made restitution of the amounts embezzled plus costs and damages. Following the reporting of these events, the FSC conducted its own investigation, and upon its findings (1) issued a “business improvement order” to HAK based on HAK’s alleged violation of the Asset-Backed Securities Act (“ABSA”) and (2) imposed a sanction of “suspension of payment of service fees to non-residents for one year” on HAK for violation of the Foreign Exchange Transaction Act (“FETA”) relating to the fraudulent money transfers that were made offshore. The FSC also imposed a sanction of “suspension of payment of service fees to non-residents for one year” on LSAK.

With respect to the business improvement order, the FSC alleged that HAK improperly serviced and managed the assets of certain ABS specialty companies in which certain Funds were invested and caused these companies to violate provisions of the ABSA. As part of the business improvement order, HAK was required to return a service fee improperly charged to the ABS specialty companies. The FSC also required HAK to (1) establish an internal control system with respect to services and (2) establish an external control system, including retaining an external auditor to provide an auditor’s report, which would be delivered to the FSC for two years (the “Covered Period”), and providing the FSC with statements regarding certain transactions by the ABS specialty companies during the Covered Period. Additionally, HAK was required to submit to the FSC a plan for taking measures against the officers/employees involved in the acts related to the ABS specialty companies.

The FSC imposed the sanction of “suspension of payment of service fees to non-residents for one year” on HAK and LSAK for their alleged violations of the FETA relating to the former employee’s improper offshore money transfers. As background, the FETA requires that a Korean resident who makes a third-party payment must submit a report thereof to the Governor of the Bank of Korea, and submit certain documents to the president of a foreign exchange bank. The FSC determined that HAK and LSAK violated these provisions because they made some third-party payments without submitting a report to the Governor of the Bank of Korea and submitted a forged consulting agreement with a non-resident to the president of a foreign exchange bank.

In addition, the SPO charged (i) Mr. H.C. Cheong, the President of HAK, with breach of fiduciary duty for manipulation of the reported rates of return for certain investments made in Korea by certain prior Funds (similar to the charge above against Mr. Yoo), embezzlement and tax evasion, and (ii) an entity that was 50% owned by LSF III, vicariously for Mr. Cheong’s tax evasion charge. Although Mr. Cheong was acquitted on most of these charges, including the one for which the LSF III investment affiliate was vicariously charged, he was convicted of certain of the breach of fiduciary duty charges and certain of the tax evasion charges.

On November 21, 2012, certain related entities of the Funds initiated arbitration against the government of the Republic of Korea with the International Center for Settlement of Investment Disputes, claiming damages suffered as a result of the Korean government's unlawful interference with those entities' investments in Korean companies (including KEB). The claims arise out of the government's failure to comply with its obligations under the investment treaty between Belgium and South Korea. The final hearing before the appointed arbitration tribunal was held in June 2016. A decision by the tribunal could be made at any time and is expected in the first half of 2019.

Item 10: Other Financial Industry Activities and Affiliations

A. CFTC

LSGA is registered with the Commodity Futures Trading Commission (the "CFTC") as a commodity pool operator and is a member of the National Futures Association (the "NFA").

B. Relying Advisers

The following entities are registered with the SEC in reliance on the investment adviser registration of LSNAALP:

- Lone Star Global Acquisitions, Ltd.
- Lone Star Global Acquisitions, LLC
- Lone Star North America Acquisitions, LLC
- Lone Star Canada, LLC
- Lone Star Latin America Acquisitions, LLC
- LSGA Holdings, Ltd.

The filing adviser and the relying advisers share a common compliance program, including a Code of Ethics and other compliance policies and procedures.

C. Participating Affiliates

The below direct or indirect subsidiaries of LSGA established outside of the United States assist LSGA in rendering investment advice (the "Participating Affiliates"). As noted, certain Participating Affiliates are registered with regulatory authorities as required under local law. The Participating Affiliates and their employees are subject to LSGA's oversight, its Code of Ethics and other compliance policies and procedures adopted pursuant to the requirements of the U.S. Investment Advisers Act of 1940 ("Advisers Act"), as applicable (in addition to applicable local laws and regulations).

- Lone Star Argentina Acquisitions S.R.L.
- Lone Star Asia-Pacific Acquisitions (Hong Kong) Limited (registered as an asset manager with the Hong Kong Securities and Futures Commission)
- Lone Star Asia-Pacific Acquisitions (Singapore) Pte. Ltd. (licensed for fund management with the Monetary Authority of Singapore)
- Lone Star Brasil Acquisitions Participacoes Ltda.

- Lone Star Europe Acquisitions Limited (registered as a corporate finance advisory firm with the U.K. Financial Conduct Authority)
- Lone Star France Acquisitions SARL
- Lone Star Germany Acquisitions GmbH
- Lone Star India Acquisitions Advisors Limited
- Lone Star Japan Acquisitions, Ltd. (registered as an investment adviser with the Kanto Financial Bureau, which operates under the authority of the Japan Financial Services Agency)
- Lone Star Netherlands Acquisitions B.V.
- Lone Star Portugal Acquisitions, S.A.
- Lone Star Spain Acquisitions S.L.U.

D. General Partners

As noted in Item 4 above, the General Partners of each Fund are related persons of Lone Star. The General Partners have, on behalf of each Fund, granted to LSGA the authority to provide advisory and other services to the Funds.

E. Hudson

As noted in Item 4 above, Hudson has been engaged to provide due diligence and analysis, asset management, and ancillary services to the Funds. HAL and the following direct or indirect subsidiaries of HAL that provide such services are related persons of Lone Star:

- Hudson Americas L.P.
- Hudson Advisors Argentina S.R.L.
- Hudson Advisors Asia-Pacific, Limited
- Hudson Assessoria Brazil Limitada
- Hudson Advisors (Canada), LLC
- Hudson Advisors Europe Designated Activity Company
- Hudson Advisors France SARL
- Hudson Advisors Germany GmbH
- Hudson Advisors (India) Private Limited
- Hudson Advisors Ireland Designated Activity Company
- Hudson Japan K.K.
- Hudson Advisors Luxembourg S.a.r.l.
- Hudson Advisors Netherlands, B.V.
- Hudson Advisors Portugal, Unipessoal, Lda.
- Hudson Advisors (Shanghai) Co., Ltd.

- Hudson Advisors Spain, S.L.U.
- Hudson Advisors UK Limited

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

A. Code of Ethics

Lone Star has adopted a global regulatory compliance manual that sets forth certain standards for its officers, employees, and other designated personnel (collectively “Designated Lone Star Personnel”), including a Code of Ethics. The Code of Ethics, which is designed to comply with Rule 204A-1 under the Advisers Act, emphasizes Lone Star’s fiduciary duty to place the interests of the Funds before the interests of Lone Star and its employees, including proper management of conflicts of interest, professional conduct, and personal trading procedures.

Under the Code of Ethics, Designated Lone Star Personnel also are required to file certain periodic reports with the Chief Compliance Officer or his/her designee as required by Rule 204A-1 under the Advisers Act. These records will not be open to inspection by Fund investors. Our management may from time to time implement additional internal policies or restrictions on trading by Designated Lone Star Personnel and their immediate family and/or household that are in addition to the requirements of our Code of Ethics.

Lone Star will provide a copy of the Code of Ethics to any Client, prospective client, or Fund investor or prospective investor upon written request.

B. Participation or Interest in Client Transactions

None of Lone Star, its employees, Hudson, or their related persons invest in opportunities recommended to the Funds, except for investments in the Employee Investment Vehicles, investments in certain other Co-Investment Vehicles authorized by the Governing Documents, interests held directly by General Partners in the Funds, limited partnership and other ownership interests in the General Partners held by certain associated persons of Lone Star and Hudson, and limited partnership interests in certain Funds held by certain associated persons of Lone Star and Hudson. Subject to specific exceptions set forth in a Fund’s Governing Documents, Lone Star will not, as principal, transact in securities with a Fund without first disclosing in writing Lone Star’s capacity in the transaction and obtaining the consent of the applicable Advisory Committee.

HAL or an affiliated entity may, from time-to-time and in limited circumstances, advance funds to a Fund as necessary for the Fund to pay its operating expenses and/or satisfy margin calls or other financing needs. HAL will not make advances for investment purchases by a Fund. Additionally, any such advances by HAL or an affiliated entity will not be included in the Fund’s assets under management for purposes of calculating fees for asset management services. HAL does not receive any interest with respect to such advances, but HAL is generally entitled to seek reimbursement at times when the Fund has sufficient working capital and the payment of such reimbursement would not require the Fund to liquidate any of its investments that it would not otherwise liquidate. HAL’s right to be repaid any outstanding advances will be senior in priority to the Fund’s investors’ distribution rights from the Fund. Such advances are at HAL’s or its affiliates’ sole discretion, and there can be no assurance that HAL or its affiliates will continue to provide such advances in the future. If HAL is unwilling or unable to make such advances in the future, a Fund may be required to seek other sources of funds in order to meet its financing needs, and may be

required to pay interest on such funds.

C. Conflicts of Interest

1. **Services Provided by Hudson.** As noted in Section 5, the General Partner of each Fund expects to retain Hudson to provide due diligence and/or analysis, asset management, and ancillary and other support services to the Funds and affiliated entities. We believe that the use of Hudson as a service provider to the Funds provides several benefits, including cost, quality of service, and speed of execution. However, use of Hudson also presents certain conflicts of interest for Lone Star and the Funds.

Hudson will receive fees from each Fund as set forth in its Governing Documents. By virtue of their or their associated entities' ownership interest in Hudson, certain of the Principals or their associated entities will benefit from Hudson's relationship with and its receipt of fees from the Funds. Such fees and relationship will enhance the value of Hudson, and the limited partners of the Funds (other than those limited partners holding direct or indirect interests in Hudson) will not participate in any increase in the value of Hudson by virtue of their ownership of an interest in a Fund.

Because Lone Star is a related person of Hudson, Lone Star may have an incentive to increase the fees received by Hudson from the Funds. Conflicts may also arise in determining whether Hudson has performed its obligations to the Funds. We believe that these conflicts are mitigated through the following structural and procedural approaches:

- *Investor Approval of Asset Management Fee Limits:* While the methodology for determining Hudson's due diligence, underwriting, and ancillary fees is fixed, Hudson's asset management fees are negotiated periodically and will vary (i.e., are subject to change) within the applicable maximum asset management fee limits based on the nature of the Client's investments, investment business plans and Hudson's and Lone Star's views of market pricing. The parameters of fee arrangements, including the maximum asset management fee limits, between Hudson and each Fund are either approved by the limited partners of such Fund as part of its limited partnership agreement (attached as a schedule to the agreement) or by the Advisory Committee of the applicable Fund. The basis for determining the maximum asset management fee is the aggregate net book value of the assets (i.e., cost of the assets net of any asset dispositions). Any amendments or exceptions to the asset management fee limits require approval by the Advisory Committees of the applicable Funds.
- *Lone Star Oversight of Hudson's Fees:* Because of their interests in the General Partners (and in some cases, the Employee Investment Vehicles), members of management of Lone Star are incentivized to monitor the cost incurred and quality of services received by the Funds, including from Hudson. In addition to the investment reviews described in Item 13 below, Lone Star and Hudson periodically review cost and efficiency metrics regarding the services provided by Hudson.
- *Fee Benchmarking:* Lone Star and Hudson periodically compare the asset management fee limits and fees charged by Hudson for ancillary services and due diligence against fees charged by third-party service providers.

As detailed in the Governing Documents, the billing rates of Hudson and other Lone Star affiliated service providers for due diligence, ancillary, and other services incorporate the overhead cost of the

resources deployed, including, but not limited to, the costs of employee compensation and benefits, office leases and occupancy costs, information technology and related support, regulatory compliance, human resources, accounting and internal audit, administrative and certain financing costs relating to the employee co-investment program, services by certain internal professional personnel, insurance, taxes, and other operating costs. To the extent such overhead costs are incorporated into the billing rates of Hudson and other Lone Star affiliated service providers, such costs will be borne by the Client (including in many instances indirectly through portfolio entities) and will not offset the management fee received by LSGA. Hudson billing rates do not include costs of the General Partners, Lone Star, or the Funds.

2. **Affiliated Service Providers.** Certain of the Funds have acquired or created certain affiliated service providers to service various assets requiring specific management expertise. Such firms are sometimes engaged to provide services to other Funds. The fees paid by the Funds receiving services under such arrangements ultimately benefit both the affiliated service providers and the Funds that own them. In addition, Hudson has acquired an affiliated service provider that is expected to provide services with respect to certain investments of certain Funds. The fees that an affiliated service provider will receive from a Fund are set forth in the Fund's Governing Documents or have been approved by the Advisory Committee of the relevant Funds.

While Lone Star does not have an ownership interest in such firms and do not share in the fees they receive, conflicts may arise in determining whether affiliated service providers have performed their obligations to the Funds and/or any SPV, and/or whether affiliated service providers (or any related parties) are entitled to be indemnified pursuant to the provisions contained in any agreement between such entities and the Fund and/or any SPV.

In addition, the managers, officers, and employees of affiliated service providers will devote such time as the applicable entity, deems necessary to perform their obligations under their agreements with Clients. The managers, officers, and employees of affiliated service providers may also perform services for other customers and conflicts of interest may arise in allocating management time, services, or functions among Clients or among Clients and other customers of such entities. Neither Clients nor their investors shall have any right to the compensation received by affiliated service providers in connection with the services they provide to their customers. In addition, certain affiliated service providers are owned by other Clients, including Clients in which our principals and related parties may have an ownership interest, and this ownership may create a conflict with respect to the engagement of the affiliated service provider.

3. **Rates of Third-Party Advisors and Other Service Providers.** As described above, the Clients will retain or pay for advisers and service providers, including accountants, administrators, lenders, bankers, brokers, attorneys, sourcing persons and consultants. Some of these advisers and service providers also provide services to or have other relationships with LSGA and/or Hudson. While we will generally seek to engage advisers and service providers on behalf of Clients on the basis of the quality of the advice and other services provided, these relationships may influence our decision to select or recommend an adviser or service provider to perform services for Clients (the cost of which will generally be borne directly or indirectly by Clients). In certain circumstances, advisers and other service providers may charge rates or establish other terms for advice and services provided to LSGA, Funds, or any of their respective affiliates or operating companies that are different from and more favorable than those charged in respect of advice and services provided to LSGA, Funds, or any of their respective affiliates

or operating companies. Moreover, whereas we often negotiate on a matter-specific basis the rates or amounts payable for such services, the Clients may sometimes pay higher rates or amounts than we would for such services.

4. **Employee Co-Investments.** LSGA and/or Hudson have established and are expected to continue to establish co-investment programs to allow Key Employees to indirectly participate in investments of Clients. The terms of the corresponding Employee Investment Vehicles are disclosed in the Governing Documents.

Although the purpose of the employee co-investment program is to align the interests of the Key Employees with those of the Clients, the program will also present conflicts of interest. For example, Hudson and/or LSGA may structure one or more co-investment vehicles as an incentive program, and in connection therewith, may own interests in such vehicles and/or provide all of the funding related to the interests held by the Key Employees participating in such vehicles. The Key Employees' participation may be in the form of a profits interest in which the Key Employees do not put their own assets at risk. Because LSGA, Hudson, and/or the Key Employees participating in the co-investment vehicles will typically decide whether to participate and the extent of the participation following the final closing of a Fund, (subject to the minimum required participation set forth in the relevant Client's Governing Documents) LSGA, Hudson, and the Key Employees may, at the time such decisions are made, have information regarding potential investments and the projected profitability of current investments that may be more comprehensive than information known by the investors at the time they made their investments. Key Employees may also be given or offered the opportunity to initiate or increase their participation in future investments during the investment period of the Client, and may, at such time, have information regarding potential investments that is more comprehensive than information known by the investors at the time they made their investments. Prior to a fund's final closing and until commitments are received from the co-investment vehicles, LSGA, Hudson, and/or one or more of their affiliates will initially fund the minimum co-investment amount. Following a final closing, Key Employees will be given the opportunity to participate through one or more co-investment vehicle(s) in existing investments as well as future investments to be made by the Client. Offers of participation in the co-investment vehicles will be determined by LSGA and/or Hudson by investment, region, investment type, or otherwise in an effort to incentivize Key Employees and align their interests with the interests of the relevant Client. LSGA and/or Hudson (and not the individual Key Employees) will determine the aggregate co-investment percentage for investments by co-investment vehicles based on the foregoing and will adjust the ownership of the co-investment vehicles in the existing investments. Accordingly, the maximum contribution the co-investment vehicles can make to an investment is immaterial in relation to the total investment made by the Client. At the time that LSGA and/or Hudson determines the initial co-investment percentage, LSGA and/or Hudson will adjust the ownership of the co-investment vehicles in the existing investments. Such adjustments will be made using the cost basis to the Client, which may be lower than the fair market value of the investments at the time the adjustments are made.

Consistent with the applicable Governing Documents, the Fund may temporarily fund the entire cost of the initial acquisition of an investment, subject to the Employee Investment Vehicle's obligation to reimburse the Fund after the Fund calls capital from its investors for the investment. With respect to an initial investment, the Employee Investment Vehicle shares in the risks and benefits of hedging and financing transactions that occur prior to reimbursement of the Fund, although the Fund is directly exposed to the Employee Investment Vehicle's share of these risks, as well as investment-related risks,

prior to reimbursement.

The Key Employees participating in the co-investment vehicles may have an incentive to recommend the acquisition or disposition of assets based on their personal interests rather than the best interests of the Client. If LSGA and/or Hudson structure one or more co-investment vehicles as an incentive program, the Key Employees participating in such co-investment vehicles will not have their own assets at risk, which could exacerbate the likelihood that the recommendations they make entail a higher level of risk. In addition, Key Employees who are not participating in the incentive program and have their own assets at risk may not be financially able to meet capital calls. Financing or other funding arrangements may be made available to the co-investment vehicle or to the Key Employees to fund all or a portion of the co-investment vehicle's or Key Employees' investment. The financing provided to Key Employees or to the co-investment vehicle on their behalf may be extensive, and to the extent such financing is recourse, may have a significant effect on the net worth of the Key Employees, and whether recourse or non-recourse may influence the Key Employees responsible for the provision of investment advice to recommend higher risk investments than they otherwise would. LSGA and Hudson have implemented policies and procedures that are designed to help mitigate these conflicts and ensure that the Key Employees act in the best interests of the Fund at all times.

5. **Investment Opportunity Allocations.** We currently have and may in the future acquire other investments, organize other Funds, or manage certain investments held by third parties with investment objectives or strategies that overlap, perhaps substantially, with those of Funds. In connection with these activities, conflicts are likely to develop with respect to the allocation of investments when a prospective investment, or a portion of such investment, meets the investment objectives or strategies of multiple Funds.

Funds are subject to provisions in their respective Governing Documents that prescribe the applicable Fund's investment scope, investment limitations and parameters, and exclusivity requirements (the "Contractual Investment Guidelines"). When making allocation decisions, we are guided by the Contractual Investment Guidelines of the Funds, as well as our internal allocation procedures and principles. For each investment allocation decision, we first apply the relevant Contractual Investment Guidelines; however, in some circumstances the Contractual Investment Guidelines will not be determinative, and in such situations, a portion of an investment may fall within the Contractual Investment Guidelines, or overlap with the Contractual Investment Guidelines of one or more other Funds. In cases where a particular investment, or a portion of an investment, falls within the Contractual Investment Guidelines of one or more Funds, we will apply our internal allocation principles to determine whether the investment, or a portion of such investment, should be made by one or more Funds. In addition, we have established an allocation committee (the "Allocation Committee") to oversee the application of LSGA's internal allocation principles. Our internal allocation principles reflect considerations that we determine in good faith to be fair and reasonable, such as:

- The Contractual Investment Guidelines;
- The nature of the asset;
- The nature of the market;
- The anticipated source of returns;
- The investment opportunities' risk profile;
- The anticipated leverage ratio;

- The nature of the control position or joint control position;
- The expected life cycle of the relevant Funds;
- The targeted rate of return and investment holding period of the Funds;
- The existing portfolio of investments of the Funds;
- The expected amount of capital required to make the investment as well as the Funds' current and projected capacity for investing (including for any development or potential follow-on investments);
- The relative capital commitments of the Funds, including the relative amount of such capital commitments not yet committed for investment;
- The status of an investment relative to the applicable Funds' investment period;
- The remaining investment periods of the Funds and the likelihood of other investment opportunities arising during the Funds' investment periods which meet the investment objectives of the Funds;
- The ability of the Funds to accommodate structural, timing, and other aspects of the investment process; and
- Legal, tax, contractual, regulatory, and other considerations deemed relevant by the Allocation Committee.

While we seek to apply a generally consistent framework and approach when making allocation decisions, the application of LSGA's allocation principles is fact-intensive. The relevance of each allocation principle will vary based on the investment opportunity, with no single factor consistently outweighing the others. Furthermore, the weight we ascribe to certain considerations will evolve over time in response to, among other things, changes in market conditions, the competition for investments and the mix of opportunities available to the Funds. In a facts and circumstance analysis, it is difficult to mitigate conflicts of interest, because such an approach is inherently subjective. The Allocation Committee will be tasked with mitigating this conflict. Further, allocation decisions are based on the information available at the time the investment is initially originated and evaluated for investment. This information may prove, in retrospect, to be incomplete or otherwise flawed.

To the extent the Funds have different fee, expense, and compensation structures or certain Funds' performances vary materially from other Funds, LSGA will have an incentive to allocate an investment opportunity based on factors such as whether a particular Fund would generate a higher fee, result in the payment of more carried interest or other compensation, and/or would cause the payments of either of the foregoing to be made sooner. In addition, Key Employees and principals participate indirectly in investments made by the Funds through the General Partners' investments in the Funds, pursuant to employee co-investment vehicles and, in certain cases, by investing as limited partners in the Funds. Such considerations are not permitted to be explicitly considered in making allocation decisions, and we expect that our allocation procedures and principles will help mitigate the risk that these incentives implicitly influence allocation decisions.

An allocation decision may result in a Fund being allocated an entire investment opportunity, or one or more Funds sharing an investment opportunity on a basis consistent with LSGA's internal allocation principles. In certain cases, a Fund's General Partner may decline to pursue an investment opportunity if it determines that the Fund's allocation is too small to be appropriate for the Fund to invest.

We may not determine final allocations among Funds until after certain expenses or other amounts have already become due and payable. In these circumstances, a Fund may initially bear the full amount of an upfront payment or expense, even if other Funds ultimately participate in the investment. In such a circumstance, the Fund(s) making the investment would be responsible for reimbursing the initial Fund for its proportionate share of such payment or expense when LSGA determines the final allocation of the investment opportunity among Funds. While unlikely, it is possible that a Fund could default on its reimbursement obligation.

6. **Co-Investment Allocation.** Certain of the Funds may generate the opportunity for certain persons or entities to co-invest in such investments alongside the Fund in Co-Investment Vehicles. A Fund's General Partner is permitted to offer co-investment opportunities in the Fund and allocate any such opportunities in its sole discretion. If a co-investment opportunity arises, the General Partner may approach one or more limited partners or third parties, in its sole discretion, to secure funding for such co-investment. Certain limited partners may have negotiated for certain co-investment rights which will not apply to other limited partners. Potential co-investors may have a variety of different relationships with the Fund, the General Partner, or LSGA, creating potential conflicts of interest for the General Partner in determining any co-investment strategy. Fee and expense arrangements for co-investors are often different from those of the Fund, and the General Partner may reduce or waive any or all management fees, carried interest and other amounts for the benefit of one or more co-investors.

Potential co-investors may have a variety of different relationships with the Funds, the General Partners or Lone Star, creating potential conflicts of interest for the General Partners in determining any co-investment strategy. In addition, as noted in Item 5, fee and expense arrangements for co-investors are often different from those of the Funds.

7. **Expense Allocations.** The most recent Funds consist of a single Bermuda exempted limited partnership. Historically, each Fund structure typically consisted of a limited partnership organized in the United States and one or more corresponding exempted limited partnership formed in Bermuda (such Funds utilizing such structure, the "U.S./Bermuda Funds" and the United States and Bermuda limited partnerships used in such structures, each a "Fund Vehicle"). For Funds that were U.S./Bermuda Funds, when a Fund was investing, its Fund Vehicles would invest on a side-by-side basis in proportion to the respective capital commitments of each Fund Vehicle. Pursuant to these agreements, certain expenses of an investment transaction may be paid by one of the Fund Vehicles and subject to reimbursement by the other Fund Vehicle(s). In such circumstances, the Fund Vehicle that has paid these expenses bears the risk that the other Fund Vehicle(s) will not have sufficient capital to reimburse the expenses in a timely fashion, or at all.

Likewise, with both the current Fund structures and the U.S./Bermuda Funds, the Employee Investment Vehicles invest on a side-by-side basis with the Fund or Fund Vehicles pursuant to co-investment agreements. The expenses of an investment transaction may be paid by a Fund Vehicle and subject to reimbursement from any associated Employee Investment Vehicle. The Fund Vehicle that has paid these expenses bears the risk that the Employee Investment Vehicle will not have sufficient capital to reimburse the expenses in a timely fashion, or at all.

The expenses discussed in Item 5 may be shared by multiple Funds. This creates conflicts of interest for Lone Star in some instances, as the allocation of such expenses may impact the performance of different Funds, as well as promote allocations of such Funds. Lone Star and Hudson allocate such expenses

exercising good faith and consistent with Lone Star's policies and procedures designed to ensure that expense allocations are equitable and consistent with the requirements of the applicable Funds' Governing Documents. Certain expenses shared by one or more Funds may be initially paid by a single Fund, which is reimbursed by other Funds for their appropriate share of the relevant expenses.

From time to time, we determine whether to allocate certain other fees and expenses among Clients, LSGA, and Hudson. In exercising our discretion to allocate such fees and expenses, we face a variety of potential conflicts of interest. We will generally allocate fees and expenses to be split between us and the Clients (including fees and expenses incurred in the offering of the Funds, management of the Clients, and investment opportunities), in each case in accordance with the Clients' Governing Documents. To the extent not addressed in the Governing Documents, we generally will allocate such fees and expenses in our sole discretion, in each case in good faith using our best judgment. Because certain expenses are paid for by a Client or, if incurred by us, are reimbursed by a Client, we will not necessarily seek out the lowest cost options when incurring (or causing a Client to incur) such expenses.

8. **Allocation of Fees and Expenses for Broken Deals.** We employ the same principles as described above under "Allocation of Investment Opportunities" when allocating fees and expenses incurred in connection with "broken deals," or potential investments that we actively consider but a Fund does not consummate. That is, we generally make fee and expense allocation decisions while a transaction is pending based on our best judgment as to the Client to which we will ultimately allocate the transaction. This judgment is necessarily subjective, especially when a transaction is terminated at a particularly early stage. When we abandon an opportunity, absent a factual development to the contrary, we will allocate the fees and expenses for such transaction to such Client or Clients. The allocations of fees and expenses among Clients may not be proportional. For example, to the extent one or more Clients were involved in a broken deal, the fact that Clients at times have different expense reimbursement terms, including with respect to advisory fee and similar offsets, could result in Clients bearing different levels of expenses with respect to the same investment. As discussed above in Item 5, in certain instances we will evaluate investment opportunities that, if consummated, we would likely offer in part to prospective co-investors. If such a potential investment is not consummated, the full amount of any expenses relating to such potential but not consummated investment and co-investment (including reverse termination fees, extraordinary expenses such as litigation costs and judgments and other expenses) will typically be borne entirely by the Client (and any related Clients that would have participated in such investment), rather than by any prospective co-investors.

The financial position of the relevant Clients may give us an incentive to allocate such fees and expenses to one such Client and not another. For example, it would be advantageous to allocate broken deal fees and expenses to a Client that is not expected to pay carried interest to its General Partner, as the fees and expenses would not affect the amount of carried interest paid—it would be zero in any case. Conversely, it typically would be disadvantageous as an economic matter to allocate broken deal fees and expenses to a Client that is paying carried interest, as doing so would delay and reduce the amount of carried interest paid to the relevant General Partner. As with our other allocation decisions, our allocation procedures and principles are designed to help mitigate the risk that financial incentives implicitly influence the allocation of broken deal fees and expenses.

9. **Cross Transactions.** In limited circumstances, we may cause a Fund to sell assets to, purchase assets from, or otherwise share in an investment transaction with another Fund. To address conflicts of interest, Lone Star has implemented policies and procedures to require that all clients be treated fairly and

equitably. Subject to certain limitations, the Governing Documents generally require prior approval of conflicts of interest between Lone Star and a Fund or among Funds, including proposed cross or principal transactions, by an advisory committee of investors created pursuant to the Fund's Governing Documents (each, an "Advisory Committee"). Neither Lone Star nor any of its employees serve as voting members of the Advisory Committees of any of the Funds.

10. **Transactions with Investors.** The Funds or SPVs occasionally enter into transactions with investors or potential investors in the Funds. For example, a Fund investor may be permitted to bid on an asset being sold by a Fund. Such transactions create potential conflicts of interest for Lone Star, which may be motivated to confer a benefit on an investor in order to encourage investment in future Funds or gain support on matters requiring investor approval. Lone Star has implemented policies and procedures designed to ensure that any such transactions are in the best interests of the applicable Funds and are carried out on an arm's-length basis.
11. **Transactions with Operating Companies.** In some circumstances, an operating company owned by one or more Funds may be engaged to provide services to one or more other Funds, Lone Star, or Hudson. As an example, certain Funds' operating companies that provide loan servicing or property management have been engaged to provide services with respect to assets owned by other Funds. Such arrangements pose conflicts of interest similar to cross or principal transactions. Pursuant to the terms of the Governing Documents of the applicable Funds, the terms of such arrangements must be commercially reasonable and competitive with amounts that would be paid to third parties on an "arms-length" basis. Such arrangements must also be either approved by the applicable Funds' limited partners as part of those Funds' limited partnership agreements or approved by the Advisory Committees of such Funds.
12. **Possession of Material Non-Public Information.** Lone Star periodically comes into possession of material, nonpublic information with respect to investment targets and other public companies in connection with advising the Funds. Lone Star maintains policies and procedures designed to protect such information in accordance with applicable regulations, including maintenance of internal watch and restricted lists. Lone Star also maintains policies and procedures designed to ensure the confidentiality of client information generally. However, Lone Star generally does not maintain formal "information barriers" between different groups. As a result, possession of material, nonpublic information by Lone Star will generally limit the ability of the Funds to buy or sell the applicable company's securities. In addition, the Funds or their affiliates sometimes enter into confidentiality agreements that include provisions, such as "standstills", that limit the ability of affected entities to buy or sell certain securities, potentially for extended periods.

Hudson also periodically comes into possession of material, nonpublic information with respect to investment targets and other public companies in connection with advising the Funds and other clients. Hudson maintains policies and procedures designed to protect such information in accordance with applicable regulations, including maintenance of internal watch and restricted lists. Hudson also maintains policies and procedures designed to ensure the confidentiality of client information generally. However, Hudson generally does not maintain formal information barriers between different groups. Further, Lone Star and Hudson generally do not maintain formal information barriers between their operations. As a result, possession of material, nonpublic information by Hudson will often limit the ability of the Funds to buy or sell the applicable company's securities.

13. **Valuation.** The Fund's investments are anticipated to include numerous illiquid, subordinate, non-traded, or lightly traded investments held in a variety of countries for which market values are not readily available and fair values may be difficult to estimate and rely heavily on management judgement and estimates of unobservable inputs. The General Partner or LSGA could be motivated to misstate the value of investments in the Fund's accounting records or on investor reports in order to improve the performance presented to Limited Partners or investors or to minimize write-downs impacting allocations of the General Partner's carried interest and LSGA's management fee payments. Although LSGA and the General Partner, supported by Hudson, employ rigorous valuation policies and procedures, there can be no assurances such valuations, or their underlying assumptions, will prove to be accurate.

We generally determine, in our discretion, the fair value of each Client's assets. While we follow rigorous valuation methodologies and procedures that are designed to ensure that our fair value determinations are strictly the product of the application of U.S. generally accepted accounting principles (in particular, Financial Accounting Standards Board Accounting Standards Codification Topic 820, Fair Value Measurements), we have incentives to arrive at higher valuations. First, when we determine that the value of an investment by certain Clients is less than the capital contributions made with respect to it, we are obligated under the relevant Governing Documents to write down the asset. A decision not to write down an investment would avoid or delay potential negative impacts on the amount of carried interest due the general partner. Second, the rate of carried interest allocated to the general partners of certain Clients depends on whether the Client achieves a certain rate of return. Higher valuations could facilitate the Client's achievement of a rate of return that would result in the receipt by the corresponding general partner of a greater amount of carried interest than if the valuations were lower. Third, we regularly report to investors in the Funds and prospective investors in the Funds metrics of the Clients' performance, such as rates of return and multiples-of-money, whose calculation depends on the value of the Clients' investments, including unrealized investments. These reports are an indication of the overall health of the Funds and are important to our efforts to attract investors to the Funds. An objective of our valuation methodologies and procedures is to eliminate any influence these incentives may have on our fair value determinations.

Our valuations will be based to a large extent on our estimates, projections, comparisons and qualitative evaluations of private information, which may be incomplete or inaccurate. Third parties therefore may not be able to replicate our methodology or to value accurately the Funds' investments. The amount of judgment and discretion inherent in valuing assets renders valuations uncertain and susceptible to material fluctuations over possibly short periods of time; substantial write-downs and earnings volatility are possible. Our determination of an investment's fair value may differ materially from the value that would have been determined if a ready market for the securities had existed and the valuations the managers of other funds or other third parties ascribe to the same investment. Our valuation of an investment at a measurement date may also differ materially from the value that is obtained upon the investment's exit.

14. **Carried Interest.** The allocation of carried interests at different rates, or subject to different hurdle rates, creates an incentive for us or our affiliates to disproportionately allocate time, services or functions to vehicles allocating carried interests at a higher rate (or subject to a lower hurdle rate), or to allocate investment opportunities to such vehicles. As noted above ("Investment Opportunity Allocations"), we have adopted policies and procedures that, among other things, seek to ensure that investment opportunities are allocated in a manner that we believe is consistent with the relevant Governing

Documents and otherwise fair and reasonable under the circumstances, considering such factors as we deem relevant, but in our sole discretion. We also have an incentive to dispose of a Fund's investments at a time and in a sequence that would generate the most carried interest, even if it would not be in the Client's interest to dispose of the investments in that manner. In addition, recently enacted tax reform in the United States has generally increased, to three years, the holding period required in order for professionals to treat carried interest as capital gain. This creates an incentive for us to hold a Fund's investments for longer periods in order for the gain from their dispositions to qualify for capital gain treatment under the new carried interest rules, even if it would be in the Fund's interest to hold the investments for shorter periods.

15. **Personnel-Related Conflicts.** Lone Star, Hudson, and affiliates from time to time hire short-term or long-term personnel (or interns) who are relatives of or are otherwise associated with an investor, operating company, service provider, or other Lone Star or Hudson personnel. Although reasonable efforts are made to mitigate any potential conflicts of interest with respect to each particular situation, there is no guarantee that we mitigate all such potential conflicts of interest, and there may continue to be an ongoing appearance of a conflict of interest.

Certain of LSGA's existing and former employees may transition to roles with Hudson, operating companies, or affiliated service providers. Such a transition may have the effect of shifting, directly or indirectly, the burden of the compensation of such employees from LSGA to the applicable Fund and/or its portfolio companies and, in the case of a transfer to Hudson, may result in Hudson earning a profit margin in respect of such transferred employee which will be borne in whole or in part by Clients. Accordingly, we have put in place policies and procedures to mitigate such conflicts, including review by LSGA Compliance to ensure that applicable personnel are serving in roles that are distinguishable from their former role(s) and otherwise consistent with the nature of the services provided by Hudson, the operating company, or affiliated service providers.

16. **Payments to Consultants.** LSGA or Hudson and our affiliates may engage, directly or indirectly, consultants who generally have established industry and/or regional expertise and are available to assist us with, among other things, transaction sourcing, due diligence, valuation, structuring, consulting or similar matters and to serve on the boards of directors certain Funds' operating companies. These consultants typically have tailored compensation arrangements specific to their engagement, and they can receive compensation in multiple forms, depending on their individual arrangement and the services they provide, including cash payments from us, a Fund or an operating company, carried interest in a Fund, profits interests in an operating company, equity or stock option grants from an operating company, and fees and promote relating to a particular transaction. Compensation from portfolio companies to consultants do not offset management fees payable by investors in the Funds.
17. **Fund-Level Borrowing.** The General Partners have used and use a general credit facility to fund expenses for working capital, to bridge capital calls, to provide interim bridge financing and capital, and for other similar purposes. Certain borrowings under the general credit facilities must be repaid or replaced with alternative financing or funding within the time periods specified in the Fund's Governing Documents. Utilizing borrowed funds in advance or in lieu of calling capital affords us flexibility to manage cash flows to and from Fund investors and ease the investors' burden of responding to multiple capital calls. It also allows a Fund to act more quickly on investment opportunities, since the period of time to draw capital under a credit facility is typically shorter than the period required for calling capital from investors. However, utilizing borrowed funds increases certain risks (See Item 8 – Financing and

Use of Leverage) to the fund and creates conflicts of interest.

We have incentives to engage in fund-level borrowing notwithstanding the expense and risks that accompany it. For example, we present certain performance metrics, such as certain net IRRs and capital return multiples in the Funds' periodic reports and marketing materials for other Funds. These performance metrics measure investors' actual cash outlays to, and returns from, the Funds and thus depend on the amount and timing of investor capital contributions to the Funds and the Funds' distributions to investors. To the extent the Funds use borrowed funds in advance or in lieu of calling capital, investors make correspondingly later or smaller capital contributions. As a result, the use of borrowed funds generally results in the presentation of higher performance metrics than simply calling capital, even after accounting for the attendant interest expense.

Fund-level borrowing can also affect the return investors in a Fund must receive before the Fund's General Partner accrues carried interest (the "preferred return"), as well as the carried interest the General Partner receives, as preferred return and carried interest generally depend on the amount and timing of capital contributions and distributions of proceeds. In particular, the preferred return typically begins to accrue after capital contributions are made (regardless of when a Fund borrows, makes the relevant investment, or pays expenses) and ceases to accrue upon return of these capital contributions. Using borrowing to shorten the period between calling and returning capital limits the amount of time the preferred return will accrue. Since a Fund generally does not pay preferred return on funds borrowed in advance or in lieu of calling capital, fund level borrowing will therefore reduce the amount of preferred return to which a Fund's investors would otherwise be entitled had the Funds called capital in lieu of borrowing on the General Facility, and thus could allow the Fund's General Partner to receive carried interest sooner than it would without borrowing. Similarly, certain Funds' carried interest rate is based in part on a net IRR calculation. The net IRR of the Funds for these purposes also depends on the timing of actual investor capital contributions and not of the Fund's deployment of capital. As a result, if we borrow money in lieu of issuing capital calls, the applicable carried interest rate may be higher than it would be had we not used borrowings. We therefore have an incentive to cause the Funds to borrow money for investments and expenses in larger amounts or over longer periods of time.

18. **Conflicts Related to the Withholding of Certain Information.** The Governing Documents of certain Funds generally permit each such Fund's General Partner to withhold information from certain limited partners or investors in such Fund in certain circumstances. For instance, information will at times be withheld from limited partners that are subject to Freedom of Information Act or similar requirements, or from limited partners under circumstances where the General Partner believes the information, if disclosed, could be harmful to the Fund and/or is trade secret information. The General Partner will also from time to time elect to withhold certain information from such limited partners for reasons relating to the general partner's public reputation or overall business strategy, despite the potential benefits to such limited partners of receiving such information.
19. **Conflicts Related to the Interpretation of Governing Documents and Other Legal Requirements.** The Governing Documents of each Fund and related documents are detailed agreements that establish complex arrangements among the limited partners, the Fund, the General Partner and other entities and individuals. Questions arise under these agreements regarding the parties' rights and obligations in certain situations, some of which will not have been contemplated at the time of the agreements' drafting and execution. In these instances, the operative provisions of the agreements, if any, may be broad, general, ambiguous or conflicting, and may permit more than one reasonable interpretation. At times

there will not be a provision directly applicable to the situation. While we will construe the relevant agreements in good faith and in a manner consistent with our legal obligations (and, when appropriate, in consultation with external legal counsel), the interpretations we adopt will not necessarily be, and need not be, the interpretations that are the most favorable to the Funds or their investors.

Item 12: Brokerage Practices

A. Counterparty Selection

We seek to trade assets on behalf of Clients in a manner that is fair and equitable to all Clients, and to exercise diligence and care throughout the transaction process. The majority of the Funds' assets are not market-traded instruments and even in the limited circumstances where a Fund invests in market-traded instruments, often these are unique assets that are only available from one or a limited number of counterparties (i.e., there is no meaningful market). The investment counterparty is typically chosen as part of the Investment Committee's approval of the investment, and Hudson then assists in implementing the investment decision. Therefore, the traditional best execution concepts that apply to market-traded instruments do not easily apply to the majority of the assets that we trade on behalf of Clients.

In those cases where LSGA selects broker-dealers or other counterparties for transactions in market-traded instruments on behalf of its Clients, we will do so consistent with our duty of best execution. LSGA defines "best execution" as seeking to obtain the best terms for its clients under the particular circumstances occurring at the time of a transaction and taking into account the overall objective for the investment to which the transaction relates. It is our policy to seek to achieve the best qualitative execution under the circumstances. Best execution does not require LSGA to obtain the lowest possible price, commission or transaction cost. Transactions may involve specialized services or considerations (such as the type of assets the Client is seeking to purchase or sell, or the availability of financing opportunities to the applicable Client) that must be considered when selecting a counterparty, and thereby entail higher markups or commissions than would be the case with transactions that do not involve any specialized services or considerations. Furthermore, because our Clients typically invest in assets that may be purchased from only one or a small number of counterparties, we may not be able to obtain terms that are as favorable as those that may be available in a market with more potential counterparties.

In seeking best execution, we may consider the full range and quality of a counterparty's services, including, among other things, one or more of the following factors, as applicable:

- the counterparty's ability to present Lone Star with a transaction that meets the investment objectives of the relevant Client for whom the transaction is executed, including a counterparty's ability to source unique assets that may be held by a limited number of entities or by a single entity;
- the best price possible under the particular circumstances of the transaction (for example, for a sale transaction, we may determine that the best price may be obtained through a competitive auction process open to a number of counterparties or, alternatively, we may determine that the best price may be achieved through price negotiations with a limited number of counterparties);
- the ability of the counterparty to provide financing on the assets purchased, including either bridge financing until permanent financing can be obtained or long-term financing at inception on terms which we believe are in the best interests of the relevant Client (which

considerations may include, amongst others, rate, term, recourse and asset management flexibility) (for a sale transaction, Lone Star may take any breakage costs related to a financing and the willingness of a counterparty to waive such breakage costs into consideration);

- the counterparty's credit terms prior to requiring the posting of margin;
- the counterparty's ability to commit capital needed to execute the transaction;
- the ability and history of the counterparty to maintain confidentiality of a transaction (or prior transactions);
- the ability of the counterparty to execute quickly and the ability to commit capital and/or financing quickly in light of the size of the transaction;
- the reliability, integrity, reputation and execution capability of the counterparty for effecting transactions in light of the size and difficulty of executing the order;
- the financial strength and creditworthiness of the counterparty; and
- the counterparty's specialized knowledge or experience in a particular market.

B. Research, Other Soft Dollar Arrangements and Client Referrals

We receive proprietary research and other services from certain broker-dealers, which we may use to service one or more of the Funds. We do not, however, cause the Funds to pay increased commissions in order to obtain the research and services provided by broker-dealers, and we do not consider the provision of such research and services in the recommendation or selection of broker-dealers. When identifying potential transactions and selecting counterparties for those transactions, neither LSGA nor Hudson considers whether a potential counterparty provides referrals of investors to the Funds. We may, however, as discussed above, select a broker-dealer based on its ability to source investments for the Funds. We do not enter into commission sharing agreements with broker-dealers relating to transactions executed for the benefit of the Funds, or participate in directed brokerage arrangements. Further, we will not accept directed brokerage instructions from the Funds or their underlying investors.

During fundraising periods, the General Partners of the Funds may use the services of a placement agent. All fees and expenses paid to the placement agent are ultimately the responsibility of the General Partner of the applicable Fund, as governed by the provisions of the applicable Fund's Governing Documents. Neither Lone Star nor Hudson considers, when selecting counterparties, whether a potential counterparty provides referrals of investors to the Funds; Lone Star and Hudson select counterparties pursuant to one or more factors described above under "Counterparty Selection."

C. Other Third Parties

In addition to transactions with banks and broker-dealers, we may engage other service providers on behalf of the Funds with respect to the execution of transactions, such as lenders and real estate brokers and agents. These service providers are subject to similar selection criteria as broker-dealers, but may also be selected based on the geographic location of the assets and the service provider's experience with the type of assets involved.

D. Aggregation of Client Transactions

We generally do not aggregate orders for the Funds, although Lone Star and Hudson do aggregate the

transactions of a Fund among its U.S./Bermuda Funds (if applicable) and Employee Investment Vehicle(s) as described in Item 11 – Expense Allocations.

E. Trade Errors

Although we seek to exercise diligence and care when trading assets on behalf of the Funds, errors may occur during the trading process. We attempt to minimize trade errors by promptly reconciling confirmations with trade tickets or similar transaction documentation. To the extent that a trade error occurs, we work to correct the error as soon as practicable and in such a manner that any resulting loss is minimized. If a trade error results in a gain, the affected Fund(s) will retain the gain. As described in the applicable Fund's Governing Documents, any loss caused by a trade error will be borne by the affected Fund(s) unless the error is the result of bad faith, gross negligence or willful misconduct by LSGA. We do not use commitments of future brokerage business to compensate any broker-dealer for absorbing the cost of a trade error. However, to the extent we can demonstrate that a counterparty was partly or entirely responsible for a trade error, we may ask that counterparty to bear part or all of the cost of the error.

Item 13: Review of Accounts

A detailed Business Plan for each investment is generally developed within 90 days after closing an acquisition. At least quarterly thereafter, each Regional President and other Lone Star representatives meet with senior management of Hudson and the applicable asset management teams for the region to review the status and performance of each investment against the Business Plan and current market conditions. As needed, Hudson will review updates to Business Plans with Lone Star (and in some cases with directors of applicable SPVs). In addition to formal quarterly reviews, investments may be reviewed on a more frequent basis as needed to consider financing or sales opportunities, or to develop additional asset management strategies.

On a quarterly basis, HAL prepares for the General Partner of each Fund an unaudited balance sheet, statement of operations, portfolio cash flow summary and status reports of the Fund's investments and activities during the applicable period, including summary descriptions of material new acquisitions and material dispositions. LSGA, on behalf of the General Partner, distributes (1) the unaudited statements and accompanying reports to the limited partners in each Fund on a quarterly basis (typically within 45 days after the end of each quarter) and (2) audited financial statements on an annual basis (typically within 90 days of the Fund's fiscal year end).

We generally do not provide formal written reports to any Client unless specifically requested by a Client's General Partner. We generally report to investors in a Client in accordance with the applicable Governing Documents.

Item 14: Client Referrals and Other Compensation

We do not receive economic benefits from a non-client for providing investment advice or other advisory services to its clients. Lone Star, Hudson, the General Partners, or their affiliates may on occasion receive certain fees from third parties with respect to the business of the Funds, including financial advisory, director, or transaction-related fees ("Additional Fees"). Any such Additional Fees will be offset against management fees or expenses payable by the affected Fund(s) to its General Partner or to LSGA.

Lone Star does not have advisory clients other than the Funds and certain related entities. Neither Lone Star nor its related persons directly or indirectly compensate any third party for Client referrals. We may enter into

placement agent arrangements with unaffiliated third parties regarding the solicitation of investors to the Funds for compensation. LSGA has entered into a placement agent agreement with respect to solicitation of investors in Latin America and with respect to solicitation of investors in Israel, and such placement agent is paid a fee based on the amount of capital committed by each investor solicited by the placement agent and accepted by the General Partner of the applicable Fund. All fees and expenses paid to the placement agent are ultimately the responsibility of the General Partner of the applicable Fund, as governed by the provisions of the applicable Fund's Governing Documents.

Item 15: Custody

Not applicable.

Item 16: Investment Discretion

We provide investment advisory services involving a significant amount of investment discretion to the Funds. Although each General Partner may impose restrictions on LSGA, it is not anticipated that a General Partner would do so.

Pursuant to the Advisory Services Agreement of each Fund and certain Co-Investment Vehicles, and subject to the direction and control of the general partner of such Fund or Co-Investment Vehicle, we generally perform the day-to-day investment operations of each such Fund and Co-Investment Vehicle in accordance with the terms and conditions of the Advisory Agreement and Governing Documents of such Fund or Co-Investment Vehicle. Some Co-Investment Vehicles are established to invest alongside one or more Funds in one or more particular investment opportunities. Because a Co-Investment Vehicle is typically contractually required, as a condition of its investment, to exit its investment in the particular investment opportunity at the same time and on the same terms as the applicable Fund that also is invested in the particular investment opportunity, we generally will not have any discretion to invest the assets of such Co-Investment Vehicles independent of such contractual requirements.

Item 17: Voting Client Securities

Lone Star does not engage in proxy voting on behalf of its clients.

Item 18: Financial Information

LSGA does not require or solicit prepayment of fees. LSGA has never filed for bankruptcy, and we are not aware of any financial condition that is expected to adversely affect or is reasonably likely to impair LSGA's ability to meet contractual obligations to Clients.