



### Form ADV Part 2A Brochure

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March 29, 2024

This brochure provides information about the qualifications and business practices of Hudson Americas L.P. (“HAM”), the filing adviser, and its relying adviser, Hudson Advisors L.P. (“HAL”). Together, HAM, its relying adviser and its participating affiliates (listed in Item 10) are referred to herein as “Hudson.” If you have any questions about the contents of this brochure, please contact us at 214-754-8400. 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 Hudson is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://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 29, 2024, contains material changes from Hudson's previous annual update, dated March 30, 2023, including amendments to the following items (i) Item 5 includes updated descriptions of certain Hudson fees; (ii) Item 8 has been updated to categorize certain risks, as well as to add the description of certain risks related to the activities included in Item 8; (iii) Item 11 includes updates to the description and disclosure of certain conflicts of interest; and (iv) Item 12 includes updated descriptions of certain of Hudson's internal policies. In addition, Hudson routinely makes updates throughout the brochure to enhance the description of its business practices and compliance policies and procedures, as well as to respond to evolving industry best practices.

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## Item 4: Advisory Business

For purposes of this brochure, “we,” “us,” “our,” “the Adviser,” and “Hudson” refer to HAM, together with its relying advisers, including HAL, and its participating affiliates (*See* Item 10).

### A. Organization

Founded in 1995, Hudson is a globally integrated provider of advisory services focused on real estate, corporate equity, credit, and other financial assets. Hudson provides investment advisory and related services to private funds (collectively the “Funds”) and certain related investment vehicles as discussed under “Advisory Clients” below (which Hudson refers to, collectively with the Funds, as its “Clients”) from offices in North America, Europe, Asia, and Latin America.

Hudson provides investment advice and services with respect to 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 of each Client. These assets include, but are not limited to:

- Equity and debt investments in value-oriented assets, including corporate, commercial and single family residential real estate and consumer debt;
- Other real estate and real estate-related assets;
- Control investments in financially-oriented and other operating companies;
- Securitized products such as residential mortgage-backed securities, commercial mortgage-backed securities, and other asset-backed securities; and
- Single-family rental (“SFR”) homes in targeted areas of the United States.

The sole limited partner of HAL is Hudson Advisors Holdings L.P. The majority limited partner of Hudson Advisors Holdings L.P. is Hudson LP Holdings LLC. The general partner of Hudson Advisors Holdings L.P. is Hudson Advisors GenPar LLC, which is also the general partner of HAL. Hudson Advisors GenPar LLC is owned by Hudson LP Holdings LLC. The sole member of Hudson LP Holdings LLC is Hudson LP Holdings Ltd. The Hudson LP Holdings Trust is the 100% shareholder of Hudson LP Holdings Ltd. Minot Nevada PTC, Inc. serves as trustee for The Hudson LP Holdings Trust. Minot International Ltd. is the 100% shareholder of Minot Nevada PTC, Inc., and The Minot Purpose Trust is the 100% shareholder of Minot International Ltd. Conyers Trust Company (Bermuda) Limited serves as trustee for The Minot Purpose Trust. HAL owns 100% of the filing adviser HAM.

## **B. Advisory Clients**

Hudson provides investment advisory and related services to the Funds and certain related investment vehicles.

### **1. Lone Star**

Lone Star Global Acquisitions, Ltd. (“LSGA”), a related person of Hudson and an SEC-registered investment adviser, is the primary adviser to a family of closed-end private Funds (the “Lone Star Funds”). LSGA, Lone Star Americas Acquisitions, Inc. (“LSAA”), and LSAA’s relying advisers and participating affiliates are collectively referred to in this brochure as “Lone Star.” The general partners of the Lone Star Funds are affiliates of Lone Star.

Hudson was originally established to provide support to Lone Star and the Lone Star Funds. Hudson continues to provide advisory services (including, without limitation, asset management and underwriting) and administrative and support services to the Lone Star Funds, which remain its largest group of Clients. Further information regarding Lone Star and its services may be found in Items 4 and 10 and in the Form ADV Part 2 brochure for Lone Star.

From time to time, Lone Star raises capital around particular or multiple investment strategies or themes, or establishes, for a specific investment, investment vehicles through which certain persons generally invest alongside one or more Lone Star Funds (each, a “Co-Investment Vehicle”). Co-Investment Vehicles do not include the Employee Co-Investment Vehicles (as defined below). The investors in Co-Investment Vehicles may consist of investors in the respective Lone Star Fund(s) as well as investors that have not invested in the respective Lone Star Fund(s).

Certain of those persons designated as “principals” in the Lone Star Funds’ Governing Documents (as defined below) and certain Key Employees (as defined below) are given the opportunity to participate with the Lone Star Funds in investments by the Lone Star Funds through Employee Co-Investment Vehicles (as defined below). Certain Employee Co-Investment Vehicles are treated as Clients of Hudson.

### **2. SFR Fund**

On March 5, 2021, Hudson Single-Family Rental GP LLC (the SFR Fund general partner) held the initial closing of Hudson Single-Family Rental Fund L.P. (collectively with its subsidiaries and parallel vehicles, and any related collective investment vehicles, the “SFR

Fund”), a perpetual life, open-ended, commingled fund with a primary investment objective to achieve attractive, risk-adjusted returns by assembling or otherwise acquiring and renting individual, and/or portfolios of, single-family rental homes in targeted areas of the United States. The SFR Fund general partner is a related person of Hudson. HAL has entered into an asset management agreement with the SFR Fund pursuant to which HAL provides the SFR Fund advisory, portfolio and investment management, investment committee, and investor relations services, subject to the oversight of the SFR Fund general partner.

## **C. Description of Services**

### **1. Advisory Services**

Hudson provides a variety of discretionary and non-discretionary advisory services to Clients with respect to current or potential investments. Hudson conducts underwriting, due diligence, and analysis of specific assets and portfolios of assets. With regard to the Lone Star Funds, Hudson provides due diligence and underwriting services and advises Clients on acquisition and disposition strategies, including transaction structuring and financing, and assists with implementation of approved transactions. Hudson’s underwriting/due diligence and analysis services with respect to potential Lone Star Fund investments supports Lone Star’s evaluation and execution of such investments, including (i) underwriting and valuation of potential investments, (ii) market assessments/research, (iii) development of models for evaluating potential investments, (iv) detailed business plan formulation, (v) capital expenditures assessment and planning, (vi) corporate governance and board structuring, (vii) assistance with negotiation and documentation of deal/financing terms, (viii) employment arrangements and management incentive plans, and (ix) full financial reviews and analysis and transaction execution, which includes a complete bottom-up, asset-based due diligence evaluation of the potential transaction. In some cases, certain of these services will be undertaken before a specific investment target has been identified. Hudson also advises the Lone Star Funds on asset management strategies as well as overall portfolio composition and investment strategy. Hudson manages and resolves Client assets in accordance with a business plan that Hudson develops that includes an initial acquisition plan which contains a summary of the investment, potential action items to maximize income growth, and a plan to assimilate the acquisition into Hudson’s asset management program. Hudson’s asset management services include a broad range of asset management activities across all asset types relevant to the Lone Star Fund. Hudson tailors its non-discretionary advisory services to the investment strategies and objectives of each Client.

Hudson provides a variety of services to the SFR Fund, including advisory, portfolio and investment management, investment committee, and investor relations services, subject to the oversight of the SFR Fund general partner. Hudson identifies the selection criteria for sourcing SFR assets for the SFR Fund and originates assets for inclusion in a portfolio of SFR homes. Once a target SFR asset or portfolio has been identified, the underwriting team will evaluate the merits and risk associated with the investment by performing an in-depth analysis of the target SFR asset's characteristics to determine how well it meets Hudson's investment criteria ("buy box") for the relevant target metropolitan statistical areas ("MSAs") to assess the suitability of the investment. An investment committee will, among other things, approve the target MSAs, the amount of the SFR Fund's capital to be allocated to such target MSAs, the SFR Fund's buy box for such target markets, along with any incurrence of leverage, and will approve the acquisition of portfolios of SFR assets as they arise in the standard course of business.

In addition, Hudson monitors asset and portfolio performance on behalf of the SFR Fund. Hudson conducts a detailed periodic review across the portfolio to provide the formal framework for internal valuation and review, continuously assesses the SFR Fund's portfolio to explore disposition and financing opportunities, and executes asset dispositions.

## **2. Administrative and Support Services**

Hudson provides certain administrative and support services to Clients and their investments that work in tandem with advisory services and include, among others, legal, compliance, audit, accounting, fund administration and support (including limited partner capital calls, Advisory Committee (as defined below) material preparation, quarterly investor report preparation, investor portal maintenance and access, research supporting fundraising, preparation of investor due diligence materials, and marketing material preparation), reporting, cash management, hedging, tax, risk management advice, communications, information technology development and support, and other similar and related services.

Certain investor relations services that Hudson provides to the SFR Fund are provided via the Lone Star investor relations team. As part of Hudson's administrative and support services, it advises on the fair value of Client investments and also provides periodic financial reports on Client investments, as discussed in Item 13. Hudson also provides certain administrative and support services directly to Lone Star in connection with Lone Star's business and general operations.

## **D. Investment Process**

As noted above, Hudson maintains an investment committee for the SFR Fund that is responsible for, among other things, approving the target MSAs, the amount of the SFR Fund's capital to be allocated to such target MSAs, the buy box for such target markets, any incurrence of leverage, and the acquisition of portfolios of SFR assets as they arise in the standard course of business.

## **E. Assets Under Management**

As of December 31, 2023, Hudson managed on a discretionary basis a total of approximately \$36,791,155,843 of Client assets. Please note that this figure has not been subject to audit.

## **Item 5: Fees and Compensation**

Hudson generally receives fees, directly or indirectly, from Clients for services provided. Hudson is also generally entitled to be reimbursed by Clients for expenses paid on their behalf. Common Hudson fee and expense arrangements are discussed below. The specific fee and expense terms for each Client are subject to negotiation with the Client and are detailed in the Client's organizational or offering documents and/or side letter agreements negotiated with its investors (collectively, together with any amendments, agreements, supplements and/or restatements and relevant Advisory Committee consents, the "Governing Documents"). Fees paid by Clients are indirectly borne by their investors.

Hudson typically bills fees for its services on a monthly or quarterly basis in arrears and generally does not bill in advance. In limited circumstances, Hudson fees may be payable in advance. If Hudson did not perform the applicable services for the entire quarter, Hudson would return or rebate funds consistent with the terms of the applicable agreement. A Client may invest in assets directly or indirectly through partnerships, limited liability companies, corporations, or other entities that hold the assets (collectively, the "Fund Entities"). Hudson's fees are billed to the applicable Client and/or Fund Entity.

As further discussed below, each Client generally bears all expenses related to its investments, including the broker's commissions, clearance charges, due diligence expenses (related to consummated or unconsummated investments), loan servicing fees, travel expenses, taxes, other expenses incident to the purchase, maintenance and sale of investments by such Client, charges incurred in connection with the custody of investments, outside legal and accounting fees, insurance and litigation expenses, and any taxes, fees, or other governmental charges levied against the investment. Item 12 - "Brokerage Practices" - discusses Hudson's practices for choosing brokers and certain other counterparties.

## **A. Fees and Expenses Payable by the Lone Star Funds**

### **1. Advisory Services (Asset Management and Underwriting) and Administrative and Support Services**

Clients pay fees to Hudson for advisory services (including, but not limited to, asset management and underwriting) and administrative and support services (such fees, “Hudson Fees”). Hudson will receive asset management fees subject to the maximum fees by asset type set forth in a Client’s Governing Documents. Accordingly, asset management fees, as determined by Lone Star and Hudson in their sole discretion, will vary within the applicable maximum asset management fee limits established in a given Client’s Governing Documents based on the nature of the Client’s investments and investment business plans.

While the methodology for determining underwriting service fees and administrative and support service fees for certain Lone Star Funds is based on a cost-plus methodology, such fees are charged at market-based rates for newer Lone Star Funds. Market-based rates will be determined by Lone Star and Hudson in their sole discretion. Lone Star and Hudson will make determinations of market-based rates (i.e., rates that fall within a range that they have determined are reflective of rates in the applicable market or certain similar markets, though not necessarily equal to or lower than the median rate of comparable firms, and, in certain circumstances, such rates are expected to be in the top of the range), based on their consideration of a number of factors, which are generally expected to include Lone Star’s and Hudson’s experience with non-Affiliated Service Providers as well as benchmarking data and other methodologies determined by Lone Star and Hudson to be appropriate under the circumstances, including, but not limited to, a comparison of fees based on a percentage of assets under management, the nature of the assets being underwritten or hourly rates for professional services firms or other service providers.

Hudson’s actual advisory fees (including asset management and underwriting fees) and administrative and support services fees are allocated consistent with Lone Star’s and Hudson’s allocation principles, as determined by Lone Star and Hudson in their sole discretion. Applicable allocation methodologies are subject to change. Among other potential methodologies, Hudson has negotiated resource plans and aggregate advisory fees at a ‘platform’ level (e.g., North America Corporates, Europe Corporates, etc.) so as to include the collective advisory team resource requirements across all fee types. Under such methodology, the platform’s aggregate advisory fee will generally be allocated based on actual resources incurred. To the extent that assets owned by one Client are collectively managed with assets owned by other Clients, fees are allocated to investments using the actual time incurred in managing such investments (e.g., residential mortgages) and further



allocated based on other criteria, as determined by Hudson and Lone Star in their sole discretion.

## **2. Expenses**

Clients are typically required to cover expenses related to their investments and the operations of the entities involved, including the offering and sale of interests to prospective investors and the organization of the Client. Client expenses include recurring and regular items, as well as extraordinary expenses which may be difficult to budget or forecast. As a result, the amount of expenses ultimately borne by one or more of the Clients may exceed expectations. The specific types of expenses payable by each Client are subject to negotiation with the Client and are detailed in the applicable Governing Documents or services agreements. To the extent that Client expenses are initially incurred by Hudson rather than paid by Clients or Fund Entities directly, Clients will reimburse Hudson for such expenses. With regard to the Lone Star Funds, please reference the Lone Star Form ADV for information relating to expenses borne by the Lone Star Funds.

While the general operating expenses of the Lone Star Funds' general partners, Lone Star, Hudson, or their affiliates (including payroll and other overhead costs and taxes) are not paid or reimbursed directly by the Lone Star Funds, Hudson and its affiliates may seek reimbursement from a Lone Star Fund for such expenses as are permitted to be reimbursed under such Lone Star Fund's Governing Documents. To the extent such overhead and Employee Co-Investment Vehicle costs are incorporated into Hudson's fees and rates and such overhead costs are incorporated into the fees and rates of other "Affiliated Service Providers" (service providers owned by one or more Lone Star Funds or their affiliates), such costs will be borne by certain of the Lone Star Funds and will not offset fees charged to the Lone Star Funds.

## **B. Fees and Expenses Payable by the SFR Fund**

### **1. SFR Fund Management Fee**

Each limited partner in the SFR Fund bears a management fee (the "SFR Fund Management Fee") to be paid on a quarterly basis in arrears. The SFR Fund Management Fee is a percentage of the SFR Fund's net asset value attributable to each limited partner's investment in the SFR Fund. The net asset value is the fair value of the SFR Fund's net assets, taking into account both the fair value of the SFR Fund's liabilities as determined by the SFR Fund general partner, plus the unamortized balance of any organizational and offering expenses of the SFR Fund (the "Net Asset Value"). The SFR Fund Management Fee compensates Hudson for advisory, portfolio and investment management, investment

committee, and investor relations services for the SFR Fund. Hudson may at any time elect to defer, reduce, waive or otherwise modify payment of all or any part of any installment of the SFR Fund Management Fee with respect to one or more investors; provided that any such deferral, reduction, waiver, or modification will not increase the SFR Fund Management Fee payable by any other investor.

## **2. Other Fees and Expenses**

With regard to the SFR Fund and as described further in the SFR Fund Governing Documents, whether the SFR Fund makes any profits or not, the SFR Fund is responsible for, and pays or reimburses the SFR Fund general partner or its affiliates for, the expenses of the SFR Fund, including, without limitation:

- all costs and expenses pertaining to the offering and sale of units in the SFR Fund to prospective investors and the organization of the SFR Fund and the SFR Fund general partner, including without limitation, any: legal; printing; capital raising; accounting; regulatory compliance; administrative; filing; transportation; pre-marketing; and other organizational and offering expenses, which may include certain in-house legal, compliance and other back office expenses;
- all expenses incurred in connection with the SFR Fund's operations, including, without limitation, the fees and costs incurred in engaging various affiliated and non-affiliated parties to provide specialized property recovery, renovation, construction management, appraisal, valuation, insurance, development, marketing, broker, asset management, consulting and related services, including, without limitation, Hudson, Hudson Homes Management LLC (together with its subsidiaries, "Hudson Homes") and their respective affiliates;
- costs, fees and expenses of legal counsel, tax advisors, brokers, auditors, accountants, administrators, bookkeepers, custodians, depositaries (including costs, fees and expenses related to appointments or changes of a depositary, representative or paying agents appointed pursuant to applicable laws and the implementation thereof), banks, agents, consultants, compliance firms and other outside advisors or service providers;
- fees, costs and expenses associated with the formation and maintenance of the SFR Fund's subsidiaries, including all costs, fees and expenses incurred to qualify or maintain a subsidiary's status as a real estate investment trust;

- all expenses incurred with respect to the purchase, holding, ownership, management, hedging (including fees, costs, and expenses of hedging and related risk management services to be rendered by employees of Hudson for the SFR Fund), financing, refinancing, sale or proposed sale of any assets (even those not consummated), and including SFR Fund Management Fees and fees for property management services and repairs, turns and maintenance;
- costs of property management, investment and fund accounting software and services (including, without limitation, any acquisition software platforms and tenant web portals) or other administrative or reporting tools (including subscription-based services) for the benefit of the SFR Fund;
- costs of preparing, distributing, compiling and filing (each, as applicable) financial statements and other reports (including the costs of licensing, implementing and maintaining any web portal, extranet tools or other reporting tools), tax returns, Schedule K-1s to the limited partners or any administrative, compliance, legal, tax or regulatory filings, registrations or reports (including any filings, registrations or reports pursuant to laws in jurisdictions in which the SFR Fund invests, has investors domiciled or otherwise located in or otherwise does business), any taxes, fees or other governmental charges levied against the SFR Fund, expenses incurred in connection with any tax audit, investigation, settlement or review of the SFR Fund, or other information, including fees and costs of any third parties related to the foregoing;
- the costs of prosecuting or defending any legal action for or against the SFR Fund, the SFR Fund general partner, Hudson, Hudson Homes or their affiliates, in each case, so long as such legal action relates to the SFR Fund, its business, investments, assets or operations;
- principal and interest on and fees, expenses, costs and other amounts payable in respect of or arising out of all permitted borrowings made by the SFR Fund;
- all costs and expenses, including premiums, related to risk management services and insurance for the SFR Fund, including services rendered by employees of Hudson for the SFR Fund in connection with obtaining insurance to protect the SFR Fund, its affiliates, the SFR Fund general partner, the other parties entitled to indemnification per the SFR Fund Governing Documents and the limited partners in connection with the SFR Fund (provided, that to the extent Hudson provides insurance to the SFR Fund directly, Hudson may charge all such costs and expenses, including premiums, so long as such amounts are consistent with the

amounts that would be payable to outside insurance providers under arm's-length agreements for substantially similar insurance coverages);

- costs and expenses relating to the SFR Fund's indemnification of parties entitled to indemnification pursuant to the Governing Documents;
- fees, costs and expenses related to in-house legal, compliance, SFR Fund administrative services and other back office services (as more fully described below) to be rendered by employees of Hudson for the SFR Fund (including associated overhead expenses of such employees), all of which will be charged to the SFR Fund at market-based rates;
- all expenses of dissolving and liquidating the SFR Fund and its subsidiaries;
- expenses related to travel associated with investigating and evaluating investment opportunities or making, monitoring, managing or disposing of the SFR Fund's investments;
- extraordinary expenses, including, without limitation, any changes to the management structure and operation of the SFR Fund and the terms of the SFR Fund Governing Documents, the SFR Fund's management agreement and any agreement with any other provider of services to or in respect of the SFR Fund as the SFR Fund general partner or Hudson considers to be necessary or desirable (provided, that such changes or amendments are not primarily for the benefit of the SFR Fund general partner or Hudson);
- unreimbursed costs and expenses incurred in connection with any transfer or proposed transfer by a limited partner;
- the cost and expense of any indebtedness of the SFR Fund, any subsidiary, Hudson, the SFR Fund general partner, or any of its affiliates on behalf of the SFR Fund (including any credit facility, letter of credit or similar credit support), including the repayment of principal and interest with respect thereto, or seeking to put in place any such indebtedness;
- the cost and expense of any guarantees (in connection with indebtedness or otherwise) made by or for the benefit of the SFR Fund, any subsidiary, Hudson, the SFR Fund general partner, or any of its affiliates on behalf of the SFR Fund, including the repayment of principal and interest with respect thereto, or seeking to put in place any such guarantee; and

- any other fees, costs or expenses that the SFR Fund general partner determines in good faith are properly chargeable to the SFR Fund as a result of its operations, including, without limitation, any expenses expressly set forth in the SFR Fund's Governing Documents.

As described above, the SFR Fund bears fees, costs and expenses related to a number of in-house back office services, including associated overhead expenses of certain employees, in each case and as applicable, including in connection with capital raising activities and for the ongoing operations of the SFR Fund, all of which will be charged to the SFR Fund at market-based rates. Back office services include, without limitation, in-house legal (including tax structuring services), compliance, SFR Fund administrative services (including the preparation of capital calls, distribution notices and certain SFR Fund reporting), the preparation of reports generally (including, without limitation, quarterly, annual or periodic reports pertaining to financial information, taxes, environmental, social and governance issues, investments and/or other SFR Fund or portfolio-level information), the preparation of tax returns, services related to portfolio or investment valuation, accounting, auditing, regulatory filings (including for state, federal and non-U.S. jurisdictions), liquidity management, hedging and related risk solutions, insurance (for the SFR Fund or its investments), compliance with any debt or securitization-related requirements, and treasury services, in each case, rendered by employees of Hudson for the SFR Fund. Travel, accommodation and related expenses described herein and charged to the SFR Fund include, without limitation, air travel, car services, meals and hotels incurred in holding, developing, identifying, evaluating, negotiating, making, structuring, acquiring, monitoring, selling and otherwise disposing of investments (including fees for attendance of industry conferences, the primary purpose of which is sourcing investments) and otherwise in connection with the business of the SFR Fund. If Hudson Homes, Hudson or the SFR Fund general partner or one of their affiliates or designees incurs SFR Fund expenses in connection with its duties as an agent of the SFR Fund, such party will be entitled to reimbursement for an amount equal to such expenditure by way of additional consideration for the management services or other services provided.

### **C. Shared Fees, Costs, and Expenses**

From time to time, a Client's general partner, Lone Star, and/or Hudson will be required to decide whether costs and expenses are to be borne by the Client, on the one hand, or (as applicable) the respective Client's general partner, or one or more Lone Star affiliated clients or Co-Investment Vehicles, on the other, and, if so, whether and how certain costs and expenses should be allocated between or among those parties. With the exception of certain co-investment-related expenses, expenses that are attributable to or for the benefit of multiple Lone

Star affiliated clients or Co-Investment Vehicles will generally be allocated on a pro rata basis based on the relative size of the Lone Star affiliated client's or Co-Investment Vehicle's participation in an investment opportunity, but may in certain circumstances be allocated in a different manner if the Client's general partner determines in good faith that doing so is more equitable or appropriate under the circumstances. Each of the Clients' general partners, Lone Star, and Hudson will make such allocation judgments in its fair and reasonable discretion, notwithstanding its interest in the outcome, and may make corrective allocations should it determine that such corrections are necessary or advisable. There can be no assurance that a different manner of allocation would not result in a Client bearing more (or less) expenses. If the expenses incurred in connection with a particular matter should be borne in part by the Client and in part by the Client's general partner, then such expenses will be allocated between the Client and such Client's general partner as determined by the relevant general partner, Lone Star, and/or Hudson in good faith to be equitable.

These allocation decisions create conflicts of interest for Lone Star and Hudson in some instances, as the allocation of such fees, costs, and expenses may impact the performance of different Clients, as well as management fees payable to LSGA ("Management Fees") and profits interest and incentive allocations. As Hudson is an affiliate of LSGA and the Lone Star Fund general partners, it has an interest in the allocation among Lone Star Funds. Lone Star and Hudson, in conjunction with the Clients, allocate such expenses in good faith and consistent with Lone Star and Hudson's policies. Lone Star and Hudson have implemented policies and procedures designed to allocate expenses consistent with the requirements of the applicable Client's Governing Documents. Certain expenses shared by one or more Clients may be initially paid by a single Client, which is reimbursed by other Clients for their appropriate share of the relevant expenses.

For additional details, see Item 11, "Conflicts of Interest—Co-Investments" and Item 11, "Conflicts of Interest—Employee Co-Investment Vehicles." Item 12, "Brokerage Practices" discusses the Adviser's practices for choosing brokers and certain other counterparties.

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

Each Lone Star Fund general partner, which is a related person of Hudson, receives a profits interest, which is a certain percentage of the actual returns of each investment made by a Lone Star Fund provided that certain performance hurdles are achieved. Certain associated persons of Lone Star and Hudson have interests in one or more of the Lone Star Fund general partners and receive a portion of such profits interest. Payment of the Lone Star Fund's general partner's profits 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 Lone Star Fund's limited partners.

In accordance with the Governing Documents of the SFR Fund, the SFR Fund general partner is entitled to share in the profits of the SFR Fund via an incentive allocation if the appreciation of the Net Asset Value of the units held by a particular limited partner in the SFR Fund over a specified period of time exceeds a specified hurdle amount during such period (after accounting for any losses during any prior periods). For each limited partner, the incentive allocation equals (i) a portion of such limited partner's excess profits (i.e., a portion of the limited partner's share of any increases in the Net Asset Value of the SFR Fund over the hurdle amount), and (ii) a certain percentage of any remaining excess profits attributable to such limited partner. Certain associated persons of Lone Star and Hudson have interests in the SFR Fund general partner and are entitled to a portion of such incentive allocation.

## **Item 7: Types of Clients**

Hudson's primary clients are the Lone Star Funds, the SFR Fund, and their respective affiliates. Hudson may also provide services to financial institutions, corporate and public pension funds, sovereign wealth funds, university endowments, foundations, other private funds, and operating companies.

Interests in the Clients are offered pursuant to applicable exemptions from registration under the U.S. Securities Act of 1933, as amended (the "Securities Act"). In addition, the Clients are not registered as investment companies in reliance upon an applicable exemption under the U.S. Investment Company Act of 1940, as amended (the "Investment Company Act"). Investors in the Clients are generally "accredited investors" within the meaning of Regulation D promulgated under the Securities Act and "qualified purchasers" as defined in the Investment Company Act, and may include, among others, corporate and public pension funds, sovereign wealth funds, university endowments, foundations, funds of funds, and high net worth individuals. Certain Clients are registered under the Bermuda Investment Funds Act, as amended.

The Adviser does not have a minimum size for a Client, but minimum investment commitments may be established for investors in the Clients. The general partner of each Client may in its sole discretion permit investments below the minimum amounts set forth in the Governing Documents of such Client.

See Item 4 – "Advisory Business."

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

### **A. Methods of Analysis**

When evaluating potential investment opportunities or markets, Lone Star generally requests Hudson to complete a preliminary underwriting of investment opportunities or market assessment. Hudson leverages its transactional experience and global platform to provide advisory services (including, without limitation asset management and underwriting), and administrative and support services to the Lone Star Funds and their assets. When requested, Hudson will complete a preliminary underwriting of investment opportunities or market assessment followed, as appropriate, by a full financial review and valuation, which includes a complete bottom-up, asset-based due diligence evaluation of the transaction. Once commercially appropriate underwriting has been completed for a potential investment meriting such review, the proposed investment, or, in the case of programmatic investments, the establishment of an investment program, including any associated financing strategies for the potential investment or investment program, is presented for approval by the relevant Lone Star Fund's investment committee and, if approved, is then presented to the Lone Star Fund's general partner for final approval.

Lone Star is not involved in the day-to-day asset management of a Lone Star Fund's investments, but rather provides strategic oversight and advice with respect to the asset management and exit strategy of these assets. In connection with the acquisition of an investment by a Lone Star Fund, Hudson prepares an initial acquisition plan that contains a summary of the investment, potential action items to maximize value (including, but not limited to potential future add-on investments, physical or operational improvements, lease-up, repositioning work, capital structure optimization, or financial optimization), and a plan to assimilate the acquisition into Hudson's asset management program. Senior management of Hudson meet regularly with representatives of Lone Star to discuss the status of assets under management.

Senior management of Hudson, with strategic oversight and investment advice from Lone Star, advises on the appropriate exit for an investment, based on the ongoing analysis of buy versus hold scenarios in an effort to achieve overall maximum risk-adjusted limited partner returns. In analyzing the optimal exit strategy of each asset, a variety of possible disposition alternatives are considered based on a given asset's underlying characteristics.

With regard to the SFR Fund, Hudson's investment committee, among other things, identifies the selection criteria for sourcing SFR assets. Once a target SFR asset or portfolio has been identified, Hudson's underwriting team evaluates the merits and risk associated with the investment by performing an in-depth analysis of the target SFR asset's characteristics to assess



the suitability of the investment. The investment committee of the SFR Fund is responsible for, among other things, approving the markets to be targeted by the SFR Fund and the investment criteria for such markets, the amount of capital to be allocated, the incurrence of leverage and the acquisition of portfolios of SFR assets as they arise. Hudson monitors asset and portfolio performance on behalf of the SFR Fund. Hudson conducts a detailed periodic review across the portfolio to provide the formal framework for internal valuation and review and values the portfolio to explore financing and (where applicable) disposition opportunities and executes asset dispositions.

## **B. Investment Strategies**

### **1. Lone Star Opportunity Funds**

The Lone Star Opportunity Funds target opportunistic investments in a broad range of financial and other investment assets predominantly consisting of assets other than commercial real estate investments. The Lone Star Opportunity Funds will invest, directly or indirectly, in single asset transactions or portfolios of assets.

### **2. Lone Star Real Estate Funds**

Certain Lone Star Real Estate Funds target opportunistic commercial real estate investments and certain Lone Star Real Estate Funds target both opportunistic and value-add commercial real estate investments, in either case through the acquisition of a broad range of financial and other investment assets in single asset transactions or portfolios of assets.

### **3. Lone Star Residential Mortgage Funds**

The Lone Star Residential Mortgage Funds target investments in assets predominantly comprised of, or relating to, U.S. single family residential real estate and related assets.

### **4. Lone Star Value-Add Funds**

The Lone Star Value-Add Funds target investments that the applicable general partner has determined, in its sole discretion, consist of commercial real estate investments with value-add characteristics, in each case, that the applicable general partner expects will generate a gross internal rate of return below the opportunistic target return of the Lone Star Real Estate Funds.

## **5. SFR Fund**

The primary objective of the SFR Fund is acquiring and renting individual, and/or portfolios of, SFR homes in targeted areas of the United States. The SFR Fund targets investments in SFR assets in MSAs within the United States that Hudson, in its discretion, identifies as appropriate for SFR Fund investments based on a variety of factors, including demographic and housing fundamentals and general market conditions.

### **C. Risks**

Any investment in the Clients involves a substantial degree of risk, including the risk of loss of all or a substantial portion of the value of the investment as a result of the following or similar risks:

- Lack of Liquidity (e.g., No Market for Interests in the Funds, Restrictions on Transfer of such Interests, etc.)
- Reliance on the General Partner, Lone Star, Hudson, Principals, Servicers, Operating Company Management, Joint Venture Partners, and Co-Investors
- Investment Strategy (e.g. Distressed Investments); Reliance on Models; Due Diligence and Underwriting
- Public Health Risk and Natural Disasters
- Global Economic Uncertainty (e.g. Monetary Policy, Government Interventions, Economic Conditions, and Currency Fluctuations)
- Market Risks with International Investments, including in Emerging Markets
- Global Conflicts
- Regulatory Risks
- Leverage; Interest Rate Fluctuations; Currency Risk; Hedging Transactions; Credit Risk
- Competitive Nature of the Business of the Clients (e.g. Unavailability of Suitable Investments)
- Litigation Risks
- Uninsured Losses
- Substantial Fees and Expenses (see Item 5 and Item 11)
- Affiliated Transactions; Investment Platform Transactions
- Limited Number of Investments and Lack of Diversification
- Limited or No Operating History; Unspecified Transactions
- Environmental, Social, and Governance
- Cybersecurity Breaches, Identify Theft, Privacy Breaches and Other Threats
- Artificial Intelligence and Machine Learning Technology
- Risks Associated with Specific Asset Types

- Operating Company-Related Assets (e.g. Corporate Divestitures, Small and Less Established Operating Companies, Leveraged Buyouts, Finance Companies, Banks, Bank Holding Companies, and other Regulated Institutions or Industries)
- Real Estate-Related Assets (e.g. Single-Family Residential Real Estate-Related Assets, Multifamily Properties, Senior Living, Hospitality, Office and Shared Workspace, Retail, Industrial and Manufacturing Properties)
- Residential Mortgage Loans
- Residential Mortgage-Backed Securities
- Commercial Mortgage Loans
- High Yield Commercial Mortgage-Backed Securities
- Investments in Entities that the Clients Do Not Control
- Co-Investments and Co-Investment Allocations
- Access Aggregators
- Tax Risks

Clients are subject to additional risks and a discussion of such risks can be found in the applicable Client's Governing Documents.

## **Item 9: Disciplinary Information**

Except as described below, the Adviser does not have any legal, financial, or other "disciplinary" event to report.

On September 12, 2022, without admitting or denying any wrongdoing, LSGA and HAL each consented to the entry of an order to cease and desist from committing or causing any violations and future violations of Sections 206(2) and 206(4) of the Investment Advisers Act of 1940, as amended (the "Advisers Act"), and Rules 206(4)-7 and 206(4)-8 thereunder. According to the SEC order, with respect to certain private equity funds, LSGA and HAL did not fully disclose the methodology used to calculate and charge HAL's ancillary and underwriting fees paid by such funds prior to 2018. The order also found that LSGA and HAL did not adopt and implement written compliance policies or procedures regarding the foregoing. LSGA and HAL agreed as part of the settlement to pay a civil monetary penalty of \$11.2 million. No disgorgement was paid as part of the resolution in light of the fact that LSGA and HAL identified the disclosure deficiency and the relevant funds were fully reimbursed prior to contact by the SEC in the relevant matter.

## **Item 10: Other Financial Industry Activities and Affiliations**

### **A. CFTC**

HAL is registered with the Commodity Futures Trading Commission (the “CFTC”) as a commodity trading adviser and is a member of the National Futures Association (the “NFA”).

### **B. Relying Advisers**

Hudson Advisors L.P. is registered with the SEC in reliance on the investment adviser registration of HAM.

The filing adviser and the relying adviser 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 HAL established outside of North America assist HAL 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 HAL’s oversight, its Code of Ethics, and other compliance policies and procedures adopted pursuant to the requirements of the Advisers Act, as applicable (in addition to applicable local laws and regulations).

- Hudson Advisors Asia-Pacific, Limited
- Hudson Assessoria Brazil Limitada
- Hudson Advisors Europe Designated Activity Company
- Hudson Advisors France S.a r.l.
- Hudson Advisors Germany GmbH
- Hudson Advisors (India) Private Limited
- Hudson Advisors Ireland Designated Activity Company
- Hudson Japan KK (registered as an investment adviser and investment manager with the Japan Financial Services Agency)
- Hudson Advisors Luxembourg S.a r.l.
- Hudson Advisors Netherlands B.V.
- Hudson Advisors Portugal, Unipessoal Lda
- Hudson Advisors (Shanghai) Co., Ltd.
- Hudson Advisors (Shanghai) Co., Ltd. (Beijing Branch)
- Hudson Advisors Spain, S.L.U.

- Hudson Advisors UK Limited (registered as a corporate finance advisory firm with the U.K. Financial Conduct Authority)

#### **D. General Partners**

The general partners are related persons of the Adviser. The general partners have, on behalf of the Clients, granted to the Adviser the authority to provide advisory and certain other services to the Clients.

#### **E. Lone Star**

As noted above, Hudson has been engaged to provide advisory services (asset management and underwriting) and administrative and support services to the Lone Star Funds. LSGA is registered with the CFTC as a commodity pool operator and is also a member of the NFA. LSGA and the following affiliates of LSGA that provide investment advice with respect to the Lone Star Funds are related persons of Hudson:

- Lone Star Americas Acquisitions, Inc.
- Acquisitions Lone Star Canada S.R.I.
- Lone Star Americas Acquisitions, LLC
- Lone Star Global Acquisitions, LLC
- 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 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 Spain Acquisitions S.L.U.
- Lone Star Asia Consulting Co., Ltd.

Please see Item 11 – “Conflicts of Interest” – below for a discussion of certain conflicts of interest created by our relationship with Lone Star.

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

### **A. Code of Ethics**

The Adviser has adopted an Advisers Act Compliance Manual that sets forth certain standards for its directors, partners, officers, employees, and other designated persons (collectively “Supervised Persons”), including a Code of Ethics. The Code of Ethics, which is designed to comply with Rule 204A-1 under the Advisers Act, emphasizes the Adviser’s fiduciary duty, including personal trading procedures.

Under the Code of Ethics, Supervised Persons also are required to file certain periodic reports with the compliance department as required by Rule 204A-1 under the Advisers Act. These records will not be open to inspection by Client investors. The Adviser’s management may from time to time implement additional internal policies or restrictions on trading by Supervised Persons and their immediate family and/or household, which are in addition to the requirements of the Code of Ethics.

The Adviser will provide a copy of the Code of Ethics to any Client or prospective client upon written request.

### **B. Participation or Interest in Client Transactions**

None of the Adviser, its employees, or their related persons invest in opportunities recommended to the Clients, except for:

- Investments in the Employee Co-Investment Vehicles (as defined below);
- Investments in certain other Co-Investment Vehicles authorized by the Governing Documents;
- Interests held directly by the Lone Star Funds’ general partners in the corresponding Lone Star Funds;
- Limited partnership and other ownership interests in the Lone Star Funds’ general partners held by certain associated persons of Lone Star and Hudson;
- Limited partnership interests in certain Lone Star Funds held by certain associated persons of Lone Star and Hudson;
- Interests in the SFR Fund general partner held by certain associated persons of Hudson and Lone Star;
- Interests held by related persons of Hudson and Lone Star in affiliates of the SFR Fund; and

- Interests held directly by the SFR Fund general partner in the SFR Fund.

HAL may engage in non-securities hedging transactions to help mitigate foreign currency risk on its compensation earned in currencies other than the U.S. dollar. HAL conducts these hedging transactions, in what are traditionally liquid currency markets, for HAL's own accounts. As a result of this hedging activity, HAL will likely, from time to time, hold the same or different positions than Clients in a given currency.

Hudson or its affiliates may, from time-to-time, advance funds to Clients as necessary for the relevant Client to pay its operating expenses and/or satisfy margin calls or other financing needs. Hudson does not make advances for investment purchases by a Client. Additionally, any such advances by Hudson or its affiliates will not be included in the Clients' assets under management for purposes of calculating Hudson Fees for asset management services.

Hudson and its affiliates do not receive any interest with respect to such advances, but are generally entitled to seek reimbursement. The right of Hudson and its affiliates to be repaid any outstanding advances will be senior in priority to investors' distribution rights from the applicable Client. Such advances are at Hudson's or its affiliates' sole discretion, and there can be no assurance that Hudson or its affiliates will continue to provide such advances in the future. If Hudson or its affiliates are unwilling or unable to make such advances to a Client in the future, such Client 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. Principal Transactions**

Section 206 under the Advisers Act regulates principal transactions among an investment adviser and its affiliates, on the one hand, and the Clients thereof, on the other hand. Very generally, if the Adviser and/or its affiliates propose to purchase a security from, or sell a security to, a Client (a "Principal Transaction"), the Adviser must disclose the material terms of the proposed transaction to the Client and obtain the Client's consent to the proposed transaction. In connection with the Adviser's advisory services for Clients, the Adviser may engage in Principal Transactions. The Adviser maintains certain policies and procedures to monitor and document Principal Transactions as well as provide notice to the Client(s) of the material terms of any Principal Transactions.

### **D. Conflicts of Interest**

The Adviser has conflicts of interest, or conflicting loyalties, as a result of the numerous activities and relationships of Lone Star, Hudson, Clients' general partners, Affiliated Service Providers, Clients, and affiliates, partners, members, shareholders, officers, directors, and

employees of the foregoing, some of which are described herein. Not all potential, apparent, and actual conflicts of interest are included herein and additional conflicts of interest could arise as a result of new activities, transactions, or relationships commenced in the future. Clients and investors in Clients are subject to additional conflicts of interest and a discussion of such conflicts can be found in the applicable Client's Governing Documents.

While the Adviser will take such actions as may be required by the Governing Documents of the applicable Clients to fully or partially mitigate potential conflicts, there is no assurance that the referenced conflicts will be fully or partially mitigated.

## **1. Diverse Interests**

Limited partners of the Lone Star Funds are expected to include diverse investors that may have conflicting investment, tax, and other interests with respect to their investments in a Lone Star Fund and when compared to the interests of investors in other Lone Star and/or Hudson affiliated entities and Co-Investment Vehicles that participate in the same investments as a Lone Star Fund. The conflicting interests of individual limited partners may relate to or arise from, among other things, the nature of the investments, the structuring, financing or acquisition of investments and the timing of disposition of the investments, the tax sensitivities of certain limited partners (including taxable and tax exempt partners), the type of limited partner (natural person or entity), and the jurisdiction or regulatory status of limited partners. As a result, conflicts of interest may arise in connection with decisions made by a Lone Star Fund's general partner or Lone Star that may be more beneficial for one or more (but not all) limited partners than for other limited partners. In selecting and structuring investments appropriate for a Lone Star Fund, Lone Star will consider the investment and tax objectives of the Lone Star Fund and its partners as a whole (and those of investors in other Lone Star and/or Hudson affiliated entities and Co-Investment Vehicles that participate in the same investments as the Lone Star Fund), not the investment, tax or other objectives of any limited partner individually. In addition, certain limited partners may also be limited partners in Lone Star and Hudson affiliated entities including Co-Investment Vehicles that invest alongside a Lone Star Fund in one or more investments, which could create conflicts for Lone Star, including in the treatment of different limited partners.

The limited partners of the SFR Fund may similarly have conflicting investment, tax and other interests with respect to the investments made by the SFR Fund. The conflicting interests of individual limited partners may relate to or arise from, among other things, the nature of the investments made by the SFR Fund, the residency or domicile of the limited partners and the structuring of the acquisition of investments, the timing of disposition of investments, and the manner in which one or more investments are reported for tax



purposes. As a consequence, conflicts of interest may arise in connection with the decision made by Hudson, including with respect to the nature, structuring or reporting of such investments, that may be adverse to limited partners generally, or may be more beneficial for one partner than for another partner, especially with respect to limited partners' individual tax situations. In selecting and structuring potential investments appropriate for the SFR Fund, Hudson will consider the investment and tax objectives of the SFR Fund and its limited partners as a whole, not the investment, tax or other objectives of any partner individually. However conflicts may arise if certain limited partners have objectives that conflict with those of the SFR Fund.

## **2. Transactions with Related Clients**

Transactions with and between Clients may be approved as set forth in a Client's Governing Documents or may be required to be approved by consent of the advisory committee of investors created pursuant to a Lone Star Fund's Governing Documents (the "Advisory Committee"). Additionally, the Adviser, in limited circumstances, may cause a Client to sell assets to, purchase assets from, or otherwise share in an investment transaction with another Client or affiliated entity. These transactions create conflicts of interest because, by not exposing any such transactions to market forces, a Client may not receive the best terms otherwise possible, or the Adviser might have an incentive to improve the performance of one Client by selling underperforming assets to another Client in order, for example, to earn fees. To address conflicts of interest, the Adviser has implemented policies and procedures to address such transactions. Subject to certain exceptions, a Client's Governing Documents generally require its Advisory Committee's prior approval of conflicts of interest between Lone Star, Hudson, and a Client or among Clients, including proposed cross or principal transactions.

For certain Client structures with vehicles investing on a side-by-side basis, certain expenses of an investment transaction may be paid by one Client vehicle and subject to reimbursement by the other Client vehicle(s). In such circumstances, the Client vehicle that has paid these expenses bears the risk that the other Client vehicle(s) will not have sufficient capital to reimburse the expenses in a timely fashion, or at all.

Clients may invest in conjunction with an investment being made by other Clients or in a transaction where another Client has already made an investment. For example, a Client may invest in debt and securities of companies in which another Client holds securities, including equity securities. Conflicts may arise in connection with such investments. Investment opportunities are from time to time appropriate for more than one Client at the same, different or overlapping levels of the capital structure of an operating company owned by a Lone Star Fund (a "Portfolio Company"). Conflicts arise in determining the

terms of investments, particularly where these Clients may invest in different types of securities in a single Portfolio Company. Questions arise as to whether payment obligations and covenants should be enforced, modified or waived, or whether debt should be refinanced. Decisions about what action should be taken in a troubled situation, including whether or not to enforce claims, whether or not to advocate or initiate a restructuring or liquidation inside or outside of bankruptcy, and the terms of any work-out or restructuring raise conflicts of interest. The involvement of such persons at both the equity and debt levels could inhibit strategic information exchanges among fellow creditors. In certain circumstances, Clients may be prohibited from exercising voting or other rights, and may be subject to claims by other creditors with respect to the subordination of their interest. In the event that one Client has a controlling or significantly influential position in a Portfolio Company, it will have the ability to elect some or all of the board of directors of such a Portfolio Company, thereby controlling the policies and operations, including the appointment of management, future issuances of securities, payment of dividends, incurrence of debt and entering into extraordinary transactions. In addition, a controlling Client is likely to have the ability to determine, or influence, the outcome of operational matters and to cause, or prevent, a change in control of such a company. Such management and operational decisions may, at times, be in direct conflict with other Clients that have invested in the same Portfolio Company that do not have the same level of control or influence over the Portfolio Company.

### **3. Provision of Services to Multiple Clients**

Hudson is in the business of providing a variety of services to multiple Clients and, as a result, has existing and potential relationships with a significant number of sponsors, investment managers, operating partners, and companies, including those that may be sources of potential investments for the SFR Fund, including Lone Star and the Lone Star Funds. Hudson also has relationships with numerous investors, including institutional investors and senior management. One or more such investors may own interests in the SFR Fund general partner, Hudson, Hudson Homes, and/or certain targets of the SFR Fund. While it is anticipated that any such interest would give rise to conflicts of interest, no such interest will bar a limited partner from being a member of the Advisory Committee. Hudson has continued to provide services to Lone Star, the Lone Star Funds, and potentially other clients after the establishment of the SFR Fund. In providing services to such parties and the SFR Fund, Hudson may face conflicts of interest with respect to activities it recommends to, or performs for, such other parties, on the one hand, and the SFR Fund or its direct or indirect investors on the other hand. The existence and development of these relationships may influence whether or not the SFR Fund general partner or Hudson undertakes a particular investment on behalf of the SFR Fund and, if so, the form and level of such investment. Similarly, the SFR Fund general partner and Hudson may take into

consideration these relationships in the management of the SFR Fund. Accordingly, there may be certain investments or strategies involving the management or realization of particular investments that the SFR Fund general partner or Hudson will not undertake on behalf of the SFR Fund in view of such relationships that could have been profitable for the SFR Fund.

In addition, from time to time the SFR Fund's activities may be restricted because of regulatory requirements applicable to Hudson and its internal policies designed to comply with such requirements.

Except as specifically provided for in the Governing Documents, Hudson is under no obligation to offer investment opportunities of which it becomes aware to the SFR Fund, or to account to the SFR Fund in respect of any transaction or benefit received by it from any transaction.

Transactions executed on behalf of proprietary accounts, or Client accounts managed by Hudson, will be executed independently of the SFR Fund's transactions, and thus at prices or rates that may be more or less favorable than those achieved by Hudson for comparable transactions of the SFR Fund. The results of the SFR Fund's investment activities may differ significantly from the results achieved by other accounts managed by Hudson.

#### **4. Property Management and REO Servicing**

Hudson provides services for U.S. residential REO assets held by certain of its Clients through Hudson Homes. Hudson Homes' services include property preservation, oversight of renovation and repair, leasing, property disposition, and other related services. Hudson Homes is a subsidiary of HAL. Hudson Homes receives fees for REO servicing with respect to certain U.S. residential REO assets owned by the Lone Star Funds or affiliates thereof. The REO servicing fees are generally based on the unpaid principal balance of the loan at the time of foreclosure, plus certain incentive fees. The Advisory Committees of certain of the Lone Star Funds have approved certain limitations on the fees that Hudson Homes can charge the applicable Lone Star Funds on the unpaid principal balance of the loan at the time of foreclosure and on the incentive fees that Hudson Homes can charge the applicable Lone Star Funds.

Hudson Homes also provides services to the SFR Fund related to property management, leasing, lease management, acquisitions, and dispositions of SFR and other assets. In addition, Hudson Homes, directly and indirectly through affiliates and third-party vendors, will provide services related to repairs, turns, maintenance, construction, modifications, and property inspections ("RTM Services") for both acquired vacant and occupied SFR

assets. Hudson Homes is also permitted to provide certain additional services that would otherwise be provided by third parties related to the investments of the SFR Fund, including, without limitation, any property management, lending, construction, leasing, development, design, operational, legal, financial, back-office, marketing, the provision of insurance, advisory, and other services, and other similar operational matters, including brokerage services.

Northsight Management, LLC and Northsight Management Solutions, LLC (collectively, “Northsight”), indirect subsidiaries of Hudson Homes, provide property preservation, management, maintenance, renovation and repair, and related services (“SFR Property Services”) to Clients, either directly or through Hudson Homes. The fees charged by Northsight for SFR Property Services are set forth in Client fee agreements. With respect to the Lone Star Funds, the fees are an arm’s length fee based on the type of SFR Property Service being provided and the geographic location of the property. The Advisory Committees of certain of the Lone Star Funds have approved certain limitations on the fees that Northsight can charge the applicable Lone Star Funds for SFR Property Services.

Similarly, Hudson Homes will receive property management fees from the SFR Fund or affiliates. Property management fees will generally consist of a monthly management fee computed and payable monthly in arrears based on a percentage of the rent collected in a given month, acquisition fees, disposition fees, and other fees and commissions for new and renewed leases. Hudson Homes will also charge fees for RTM Services provided to the SFR Fund or Fund Entities equal to out-of-pocket costs (which includes the costs of engaging third parties or affiliates, including Northsight, to provide such RTM Services) plus a set margin, which will be subject to a pre-determined annual inflation increase. In addition, to the extent that Hudson Homes provides certain additional services that would otherwise be provided by third parties as described above, the fees charged by Hudson Homes must be either contemplated in the relevant asset management and/or property management agreements entered into between HAL (and/or its subsidiaries) and the SFR Fund (and/or its subsidiaries) or are on arm’s length terms and at market-based rates.

By virtue of its ownership interest in Hudson Homes, Hudson, certain of its senior personnel, and their associated entities will benefit from Hudson Home’s relationship with and its receipt of fees from Clients, including the Lone Star Funds and the SFR Fund. Such fees will enhance the value of Hudson, and the limited partners of the SFR Fund and the Lone Star 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 Client. Because Hudson is a related person of Hudson Homes, Hudson may have an incentive to increase the fees received by Hudson Homes from Clients, particularly as the property management and REO servicing fees received by

Hudson Homes do not reduce or offset any other compensation payable to Hudson. Conflicts may also arise in determining whether Hudson Homes has performed its obligations to Clients. Hudson believes that these conflicts are mitigated through Hudson's continuing oversight, as well as (in certain circumstances) periodic benchmarking against fees charged by third-party service providers.

## **5. Investment Allocation**

Hudson provides and will continue to provide various services to the Lone Star Funds advised by Lone Star, a related party of Hudson. Certain of the Lone Star Funds have an investment scope that overlaps with the SFR Fund and such Lone Star Funds may pursue investment opportunities that are the same or similar to investment opportunities targeted by the SFR Fund. Hudson has no control over what opportunities are pursued by the Lone Star Funds. Further, Hudson and the SFR Fund general partner are expected to refrain from pursuing investment opportunities for the SFR Fund that in their belief would compete with a Lone Star Fund.

To the extent that certain other investment funds, managed accounts and/or similar arrangements sponsored by Hudson have investment objectives or guidelines that overlap with those of the SFR Fund, in whole or in part, investment opportunities that fall within such common objective or guidelines will generally be allocated among the SFR Fund and such other accounts or arrangements on a basis that Hudson determines in its discretion to be fair and reasonable over time.

## **6. Transactions with Limited Partners and Investors**

The Clients or their entities may occasionally enter into transactions with limited partners or investors. For example, a limited partner or investor may be permitted to bid on an asset being sold by a Client or to enter into a joint venture on an asset purchased by a Client. Such transactions create potential conflicts of interest for Lone Star and/or Hudson, which may be motivated to confer a benefit on a limited partner or investor in order to encourage investment in future Clients or gain support on matters requiring investor approval. Lone Star and Hudson have implemented policies and procedures designed to ensure that any such transactions are in the best interests of the applicable Clients.

## **7. Management of the SFR Fund**

The ultimate success of the SFR Fund is dependent on the officers and employees of Hudson. Such persons will devote such time as Hudson, in its sole discretion, deems necessary to carry out the operations of the SFR Fund effectively. However, the officers

and employees have, in some circumstances, an obligation to devote a significant amount of their time working on matters related to more than one Client. Hudson personnel may also work on other projects, serve on other committees and source potential investments for and otherwise assist the investment programs of other affiliated Clients and their investments. Time spent on these other initiatives diverts attention from the activities of the SFR Fund, which could negatively impact the SFR Fund and its limited partners. In addition, should any of the officers and employees become incapacitated or in some way cease to participate in the SFR Fund, its performance could be adversely affected. Furthermore, Hudson and certain Hudson personnel derive financial benefit from these other activities, including fees and performance-based compensation. These and other factors create conflicts of interest in the allocation of time by Hudson personnel. Subject to the Governing Documents of the SFR Fund, Hudson's determination of the amount of time necessary to conduct the SFR Fund's activities will be conclusive, and limited partners of the SFR Fund will rely on Hudson's judgment in this regard. Hudson may from time to time modify its investment process and procedures, including by changing the number and composition of the SFR Fund's committees.

## **8. Personnel Moves**

Certain employees and former employees of Lone Star, Hudson, and their affiliates have in the past, and may in the future, transition, fully or partially, to new roles with Lone Star, Hudson, Portfolio Companies, or investments/investment platforms owned by Clients or Affiliated Service Providers. Such personnel moves are typically made to account for changes in job roles, changing resource/expertise requirements at Lone Star, Hudson, or the applicable entity, or licensing/regulatory or other compliance reasons. Such a transition may have the effect of shifting, directly or indirectly, the burden of the compensation of such employees from Lone Star, Hudson or their affiliates to the applicable Client and/or its Portfolio Companies and, in the case of a transfer to Hudson or its affiliates, may result in Hudson or its affiliates earning a profit margin in respect of such transferred employee which will be borne in whole or in part by Clients. For continuity and other reasons, Lone Star, Hudson, and/or other applicable entities, in some cases, enter into secondment or other arrangements between Lone Star, Hudson, and/or other applicable entities. Conflicts may arise in connection with allocating the costs, expenses, and liabilities of such entities between Lone Star, Hudson, and the applicable entity, including in negotiating appropriate reciprocal indemnification and risk-sharing provisions. To the extent that personnel transitions impact, directly or indirectly, fees borne by Clients (e.g., Lone Star personnel moving to Hudson or the applicable entity), Lone Star and Hudson have put in place policies and procedures to confirm that relevant employees' work (i) does not fall within the scope of services for which a Management Fee is earned and (ii) is properly allocated as between Lone Star, Hudson, and the Clients, including review of personnel transitions

by Lone Star and/or Hudson compliance. While Lone Star and Hudson have put in place certain controls relating to such transitions, there is no assurance that the potential conflicts associated with such moves, including potential fee and expense-related impacts to the Client, will be fully mitigated.

## **9. Valuation**

The Lone Star Funds' investments include and 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 judgment and estimates of unobservable inputs.

The fair value of all investments or of any asset received in exchange for any investment will ultimately be determined by personnel of Lone Star and Hudson, in conjunction with and using information provided by Hudson. It may be the case that the carrying value of an investment may not reflect the price at which the investment is ultimately sold in the market, and the difference between carrying value and the ultimate sales price could be material. The valuation methodologies used to value any investment will involve subjective judgments and projections and may not be accurate. Valuation methodologies will also involve assumptions and opinions about future events, which may or may not turn out to be correct. Ultimate realization of the value of an asset depends to a great extent on economic, market and other conditions beyond Lone Star or Hudson's control.

There may be circumstances where Lone Star or Hudson is incentivized to determine valuations that are higher than the actual fair value of investments in a Lone Star Fund's accounting records or in investor reports in order to improve the performance presented to the Lone Star Fund's limited partners or prospective investors, or to minimize write-downs impacting allocations of the Lone Star Fund's general partner's profits interest and LSGA's Management Fee payments. Although Lone Star and the Lone Star Funds' general partners, supported by Hudson, have implemented valuation policies and procedures designed to mitigate these risks, there can be no assurances such valuations, or their underlying assumptions, will prove to be accurate. The valuation of investments will in certain circumstances affect the amount and timing of a Lone Star Fund's general partner's profits interest and the amount of Management Fees paid to LSGA. The valuation of investments of Lone Star affiliated clients may affect the decision of investors to subscribe for interests in a Lone Star Fund. Similarly, the valuation of investments of a Lone Star Fund may affect the ability of Lone Star to form and attract capital to new Clients. As a result, the valuation of investments of the Lone Star Funds and Lone Star affiliated clients, which generally remains in the sole discretion of Lone Star, as supported by Hudson, involves conflicts.

Based on the appraisals of investments and valuations of the SFR Fund's liabilities and other assets, Hudson and the SFR Fund Fair Value Committee (the "Fair Value Committee"), on behalf of the SFR Fund general partner, will review, approve, and document the final fair value determinations for each investment of the SFR Fund and determine the Net Asset Value of the SFR Fund in accordance with the SFR Fund's Fair Value Policy and the Governing Documents. The determination of fair value for certain direct real estate investments held by the SFR Fund is derived from an appraisal by an independent third party engaged by the SFR Fund general partner in its discretion on behalf of the SFR Fund. The appraisal is conducted in accordance with the SFR Fund's Fair Value Policy, which can be modified by Hudson in conjunction with the Fair Value Committee.

A valuation is only an estimate of value and is not a precise measure of realizable value. Ultimate realization of the market value of an investment depends to a great extent on economic and other conditions beyond the control of Hudson and the SFR Fund general partner. In addition, the estimated fair value of the SFR Fund's investments may be affected by economic and political developments in a specific market, and those effects could be material. Accurate valuations are more difficult to obtain in times of low transaction volume because there are fewer market transactions that can be considered in the context of the appraisal. If the SFR Fund were to liquidate a particular real estate investment, the realized value may differ from the appraised valuation of such investment. As such, the carrying value of an investment may not reflect the price at which the investment could be sold in the market, and the difference between carrying value and the ultimate sales price could be material. Any such determination of the SFR Fund's Net Asset Value, even when based upon appraisals and such valuations, includes subjective analysis of the fair market value of the SFR Fund's assets, and requires the use of techniques that are costly and time-consuming and ultimately provide no more than an estimate of value.

The Net Asset Value of the SFR Fund will affect the amount and timing of the SFR Fund general partner's incentive allocation and the amount of management fees payable to Hudson. As a result, there may be circumstances where Hudson is incentivized to determine valuations that may be higher than the actual fair value of investments and other assets. Further, when the SFR Fund redeems the units of a limited partner, such units will be redeemed at the Net Asset Value of the SFR Fund on the day of redemption. In such cases, the price at which the units will be redeemed or issued, as applicable, will be based on valuation estimates. If the Net Asset Value of the SFR Fund as determined pursuant to the SFR Fund's Fair Value Policy is lower than its true value, those whose units are redeemed based on that Net Asset Value will be underpaid, and limited partners who retain their units would be adversely affected if more units are issued at such low price than are redeemed at that price. In addition, those limited partners who purchase units at a Net Asset Value higher than the true value will overpay, and limited partners who retain their units would be adversely affected if more units are redeemed at the high price than are issued at that price. The calculation of the Net Asset Value of the SFR Fund and/or units may from time



to time deviate from the U.S. Generally Accepted Accounting Principles, including with respect to the amortization of organizational and offering expenses and the calculation of unrealized gains and/or losses with respect to derivative instruments.

#### **10. Rates of Third-Party Advisors**

Lone Star, Hudson, their personnel, the Lone Star and/or Hudson affiliated entities, and their Portfolio Companies will from time to time engage common service providers. In certain circumstances, advisers and other service providers may charge rates or establish other terms for advice and services provided to Lone Star, Hudson, their personnel, or any of their respective affiliates that are different from and more favorable than those charged in respect of advice and services provided to the Lone Star Funds and their investments. Moreover, whereas rates or amounts payable for such services are often negotiated on a matter-specific basis, the Lone Star Funds from time to time pay higher rates or amounts than Lone Star or Hudson would for such services.

This creates a conflict of interest between Lone Star, Hudson, and their personnel and affiliates, on the one hand, and the Lone Star Funds and/or their Portfolio Companies, on the other hand, in determining whether to engage such service providers, including the possibility that Lone Star and/or Hudson will favor the engagement or continued engagement of such persons if it, or its personnel, receives a benefit from such service providers, such as lower fees, that it would not receive absent the engagement of such service provider by the Lone Star Funds and their investments or Portfolio Companies. Neither the Lone Star Funds nor their limited partners will receive the benefit of any such favorable rate or discount provided to Lone Star, Hudson, their personnel or their affiliates, and the Management Fee paid by any Lone Star Fund will not be reduced in connection with such favorable rate or discount.

#### **11. Outside Activities of Principals and Other Personnel and their Related Parties**

The principals of the Lone Star Funds and/or other employees of Lone Star and/or Hudson may be subject to a variety of conflicts of interest relating to their responsibilities to Clients and their respective investments and Co-Investment Vehicles, and their outside business activities as members of investment or advisory committees or boards of directors or advisors to investment funds, corporations, foundations, or other organizations (including but not limited to certain private and/or public companies in which a Client has an interest) with or without compensation. In addition, any such person who so serves will devote a portion of their time in the future to their duties associated with such positions. The principals are also investors in certain other investments and have the right, as described in the relevant Lone Star Fund's Governing Documents, to make certain investments for their

own benefit. The principals will devote a portion of their time in the future to the management of such investments. Also, subject to a Client's Governing Documents and relevant policies and procedures, Lone Star and Hudson personnel may be permitted to invest in alternative investment funds, real estate funds, hedge funds, and other investment vehicles, as well as securities of other companies, some of which may be competitors of one or more Clients. Investors in a Client will not receive any benefit from any such investments, and the financial incentives of Lone Star or Hudson personnel in such other investments could be greater than their financial incentives in relation to said Client.

Such positions create a conflict if such other entities have interests that are adverse to those of Clients, including if such other entities compete with Clients for investment opportunities or other resources. Decisions made by a director may subject a Lone Star Fund to claims it would not otherwise be subject to as an investor, including claims of breach of duty of loyalty, securities claims, and other director-related claims. In general, each Lone Star Fund will indemnify any person who serves at the request of its general partner, Lone Star, or Hudson on behalf of the Lone Star Fund as an officer or director. The employees of Lone Star or Hudson serving as directors may make decisions for a Portfolio Company that negatively impact returns received by a Lone Star Fund. The Lone Star or Hudson personnel in question may have a greater financial interest in the performance of the other entities than the performance of a Client. This involvement may create conflicts of interest in making investments on behalf of Clients and such other funds, accounts, and other entities. Although Lone Star and Hudson will generally seek to minimize the impact of any such conflicts, there can be no assurance they will be resolved favorably for any Client.

Certain personnel and other professionals of Lone Star have family members or relatives who are actively involved in industries and sectors in which the Lone Star Funds invest or have business, personal, financial, or other relationships with companies in such industries and sectors, which gives rise to potential or actual conflicts of interest. For example, such family members or relatives might be officers, directors, personnel, or owners of companies or assets which are potential or actual service providers to the Lone Star Funds, Lone Star, or Hudson, or actual or potential investments of the Lone Star Funds or other counterparties of the Lone Star Funds and their investments. Moreover, in certain instances, the Lone Star Funds or the Lone Star Fund Entities may purchase or sell companies or assets from or to, or otherwise transact with, companies that are owned by such family members or relatives or in respect of which such family members or relatives have other involvement. In these circumstances, a Lone Star Fund's Governing Documents may not preclude the Lone Star Fund from undertaking any of these investment activities or transactions. To the extent Lone Star determines appropriate, conflict mitigation strategies may be put in place with respect to a particular circumstance, such as recusal, disclosure,

or other steps determined appropriate by Lone Star. The limited partners rely on Lone Star to manage these conflicts in its sole discretion.

## **12. Incentive Allocation; SFR Fund Management Fee**

The SFR Fund general partner is generally entitled to receive an incentive allocation with respect to each limited partner for each predefined period, so long as such limited partner has recovered any losses from prior periods that have not been previously recouped and earned a return in excess of a predefined hurdle amount per annum during such pre-defined period on its aggregate capital contributions. Nonetheless, in certain circumstances, the SFR Fund general partner may be entitled to receive an incentive allocation with respect to a limited partner even if such limited partner has not received a return, over the life of its investment in the SFR Fund, sufficient to exceed a predefined hurdle amount per annum on its aggregate capital contributions. The existence of the SFR Fund general partner's incentive allocation and the SFR Fund management fee payable to Hudson, in each case, based on the SFR Fund's Net Asset Value may create an incentive for the SFR Fund general partner to make riskier or more speculative investments on behalf of the SFR Fund than it would otherwise make. The SFR Fund general partner may also be motivated to accelerate acquisitions in order to increase Net Asset Value or, similarly, delay or curtail redemptions to maintain a higher Net Asset Value, which would in each case, increase the SFR Fund Management Fee distribution payable to Hudson. The SFR Fund general partner may receive an incentive allocation in respect of unrealized appreciation of the SFR Fund's assets, and the SFR Fund Management Fee payable to Hudson will take into account the unrealized value of the SFR Fund's assets and any cash and cash equivalents.

## **13. Employee Co-Investment Vehicles**

Hudson and/or Lone Star have established and expect to continue to establish co-investment programs to allow certain officers, directors, executives, members, contractors, and employees (which may include certain of those persons designated as "principals" in a Lone Star Fund's Governing Documents) of Lone Star, Hudson, and their affiliates ("Key Employees") to indirectly co-invest in investments of the Lone Star Funds through one or more investment vehicles formed for such purpose (each, an "Employee Co-Investment Vehicle"). Although the purpose of the employee co-investment program is to align the interests of the Key Employees with those of the relevant Lone Star Fund, the program will also present conflicts of interest. For example, one or more of the Employee Co-Investment vehicles may be structured as an incentive program, and in connection therewith, Hudson, Lone Star, or one or more of their affiliates, and/or a third-party lender may own interests in such vehicles and/or provide all or a portion of the funding related to the interests held by such Employee Co-Investment vehicles or by the Key Employees participating in such

vehicles. Participation in the Employee Co-Investment vehicles will be determined by Lone Star 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 Lone Star Fund. Key Employees may, at the time they are given the opportunity to participate, have information regarding potential investments and the projected profitability of current investments that may be more comprehensive than information known by the investors in the Lone Star Funds at the time they made their investments. Likewise, Hudson and/or Lone Star will have this information at the time it determines the co-investment percentage. Key Employees may also be given or offered the opportunity to initiate or increase their participation in future investments during the investment period of a Lone Star Fund, 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; provided, however, ownership by the Employee Co-Investment Vehicles in existing investments will not be subject to further adjustment. Prior to a Lone Star Fund's final closing and until the participation level is determined by the Employee Co-Investment Vehicles, Hudson, Lone Star, one or more of their affiliates, and/or a third party will initially fund the minimum co-investment amount. After the Lone Star Fund's final closing, and upon determining the participation level by the Employee Co-Investment Vehicles, the ownership of the Employee Co-Investment Vehicles in the existing investments will be adjusted at a cost basis equal to the Lone Star Fund's cost basis, which may be lower than the fair market value of the investments at the time the adjustment is made. A determination of the participation level by the Employee Co-Investment Vehicles will likely take a significant amount of time, which could cause there to be a significant difference between the cost basis upon which such adjustment is made and the then-fair market value of the investments.

The Key Employees participating in the Employee 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 Lone Star Fund. If Lone Star and/or Hudson structure one or more Employee Co-Investment Vehicles as an incentive program, the Key Employees participating in such Employee 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 Employee Co-Investment Vehicles, the Key Employees, or their affiliates to fund all or a portion of the Employee Co-Investment Vehicles' or the Key Employees' investment. Such financing or other funding arrangements could incentivize the Key Employees to make larger commitments to the Employee Co-Investment Vehicles than they otherwise would. The financing that may be provided to Key Employees, to the Employee Co-Investment

Vehicles, or to their affiliates 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 or their affiliates responsible for the provision of investment advice to recommend higher risk investments than they otherwise would. Lone Star and Hudson have implemented policies and procedures that are designed to help mitigate these conflicts. Financing may be provided by Hudson, Lone Star, any of their affiliates, and/or a third party. Any such third party will not consider the interests of the Lone Star Funds when instituting default remedies, or when otherwise dealing with the Employee Co-Investment Vehicles' or Key Employees', or their affiliates', debt obligations. Such remedies (which could include foreclosing on the Employee Co-Investment Vehicles', the Key Employees', or their affiliates' interest or seizing the related distributions, among other things) could impact a Key Employee's alignment with the Lone Star Funds, which could, in turn, negatively impact the Lone Star Funds. The interest held by any Employee Co-Investment Vehicle, the Key Employee, and/or their affiliates may be transferred pursuant to or as a result of any enforcement of such pledge and/or security interest or pursuant to a transfer in lieu of enforcement, and no such transfer shall constitute a breach of any provision of a Lone Star Fund's Governing Documents.

Also, consistent with an applicable Lone Star Fund's Governing Documents, a Lone Star Fund and any parallel investment entities (each, a "Parallel Investment Entity") typically temporarily fund the entire cost of the acquisition of investments, subject to the obligation of Employee Co-Investment Vehicles to reimburse such entities, including expenses related to any investments that upon initial review appeared to meet a Lone Star Fund's investment guidelines and the Lone Star Fund undertook efforts in furtherance of investing in (including in anticipation of allocating a portion thereof as a co-investment opportunity), but which did not become an investment of the Lone Star Fund ("Unconsummated Transactions"). Amounts temporarily funded by a Lone Star Fund accrue interest that is paid to the Lone Star Fund, together with the reimbursement of capital. The Employee Co-Investment Vehicles share in the risks and benefits of any hedging and financing transactions as well as Lone Star Fund-level guarantees that occur prior to reimbursement of the Lone Star Fund, although the Lone Star Fund is directly exposed to the Key Employees' share of these risks, as well as investment-related risks, prior to reimbursement. Such Employee Co-Investment Vehicles are not responsible for any portion of the Management Fees and other general expenses of the Lone Star Funds (including accounting and audit costs). Because the Employee Co-Investment Vehicles are obligated to acquire and dispose of investments on the same terms as a Lone Star Fund, the Employee Co-Investment Vehicles will participate in investment structures along with the Lone Star Fund. While the Employee Co-Investment Vehicles will benefit from the structuring done by the Lone Star Fund and will pay the costs and expenses associated with

such structure, they are not subject to payment of a Management Fee for the benefit of participating in such structures. Employee Co-Investment Vehicles do not directly pay any Hudson Fees, but receive distributions from the underlying investments net of Hudson Fees, transaction costs, and other fees and expenses allocated to the investment.

#### **14. Co-Investments**

If a co-investment opportunity arises in connection with a Client's investment activity, as determined by a Client's general partner in its sole discretion, the Client's general partner will initially offer the right to co-invest pursuant to the Client's Governing Documents.

There can be no guarantee, prediction, or projection of the availability to limited partners of the Clients of future co-investment opportunities. Where a co-investment opportunity is offered, a Client's general partner shall determine the structure and timing on which such co-investment will be offered in its sole and absolute discretion subject to the Client's Governing Documents. The performance of co-investments is not aggregated with that of the Clients, including for purposes of determining a Client's general partner's profits interest or Management Fees payable to LSGA. The allocation of co-investment opportunities may involve a benefit to Lone Star and/or Hudson including, without limitation, performance-based compensation from the co-investment opportunity. There can be no assurances with respect to the amount of any investment opportunity that will be allocated to a Client. Co-investors generally will not share in expenses with respect to Unconsummated Transactions.

Limited partners are not required to participate in co-investments offered by a Client's general partner. Moreover, transaction-specific returns, and a limited partner's overall returns from its exposure to a Client's investments, may be affected significantly by the extent to which limited partners are offered and choose to participate in co-investment opportunities. The actual number of co-investment opportunities made available to the limited partners may be different than those made available in connection with such limited partner's investment in another Client. In addition to the co-investment program for Key Employees, Lone Star and Hudson personnel and their affiliates are permitted to co-invest with a Client.

Potential co-investors may have a variety of different relationships with the Clients, the Clients' general partners, or Lone Star and/or Hudson, creating potential conflicts of interest in determining any co-investment strategy. As noted above in Item 5, fee and expense arrangements for co-investors are often different from those of the Clients, and the relevant Clients' general partners in their sole discretion on a case-by-case basis, may charge, reduce, or waive any or all Management Fees, Hudson or other affiliated servicer

Fees, profits interest, and other amounts and/or enter into preferential economic arrangements (including, but not limited to the cross promote of any co-investments) for the benefit of one or more co-investors, which may impact decisions on how to allocate, and which will not constitute a side letter for purposes of certain Clients. Furthermore, in the event a co-investment is contemplated to invest alongside a Client in a particular investment, expenses incurred solely for the benefit of the Co-Investment Vehicle or the co-investor(s), as well as expenses incurred in connection with making and holding an investment, may be borne by a Client and not by the Co-Investment Vehicle or co-investor(s). A Lone Star Fund has the right to bear the full amount of any upfront payment or expense of any co-investment. While unlikely, it is possible that if a Lone Star Fund initially funds such payment or expense, the co-investors could default on their obligation (if any) to reimburse the Lone Star Fund. In addition, in the event that a Co-Investment Vehicle or other similar vehicle is created to invest alongside the Lone Star Fund in connection with a particular investment (or co-investors have otherwise committed to invest in the proposed transactions), expenses incurred solely for the benefit of the co-investment vehicle or the co-investor(s), as well as expenses incurred in connection with making and holding an investment, may be borne by the Lone Star Fund and not by the Co-Investment Vehicle or co-investor(s). The Lone Star Fund may bear these expenses whether or not an investment is consummated; however, it is particularly likely to occur when a co-investment contemplated for a proposed transaction is ultimately not consummated, in which case, the full amount of any co-investment-related expenses relating to such proposed but Unconsummated Transaction will be borne by the Lone Star Fund and not by the Co-Investment Vehicle or other co-investor(s). Even if a co-investment is consummated, a Lone Star Fund's general partner may agree with potential co-investors that the Lone Star Fund will bear more than its pro rata share of certain co-investment expenses. In connection with co-investment opportunities, some co-investors (which may include one or more investors in a Lone Star Fund) may be provided with additional information or rights with respect to the applicable Portfolio Company. Such rights may limit the ability of Lone Star to take actions with respect to the Portfolio Company that Lone Star considers to be in the best interests of a Lone Star Fund. Additionally, the Clients and co-investors will often have different investment objectives and limitations, such as return objectives and maximum hold periods. Lone Star and/or Hudson, as a result, will have conflicting incentives in making decisions with respect to such opportunities. Even if a Client and any such parties invest in the same assets on similar terms, conflicts of interest will still arise as a result of differing investment profiles of the investors, among other items. Furthermore, it is possible a Client's interest may be subordinated or otherwise adversely affected by virtue of such co-investors' involvement and actions relating to its investment.

## **15. Material Nonpublic Information**

Lone Star and Hudson periodically come into possession of material, nonpublic information with respect to investment targets and other public companies in connection with advising Clients. Lone Star and Hudson maintain policies and procedures designed to protect such information in accordance with applicable regulations, including maintenance of an internal restricted list. Lone Star and Hudson also maintain policies and procedures designed to seek to ensure the confidentiality of Client information generally. However, Lone Star and Hudson generally do not maintain formal “information barriers” between different groups. As a result, possession of material, nonpublic information by Lone Star or Hudson will generally limit the ability of a Lone Star Fund to buy or sell the applicable company’s securities even if such information was not obtained on behalf of the Lone Star Fund. In addition, the Clients 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.

Also, Lone Star Fund Entities that hold interests in investments on behalf of a Client may be controlled by boards of directors, one or more members of which may, for tax, regulatory, or other reasons, not be affiliated with Lone Star or Hudson or subject to their (or their affiliates’) supervision and control. Such directors may be exposed to material nonpublic information with respect to investments held by the Lone Star Fund Entities.

## **16. Unconsummated Transaction Expenses**

A Lone Star Fund’s general partner is not required to and in most circumstances will not seek reimbursement of Unconsummated Transaction expenses (i.e., expenses incurred in pursuit of an investment that is not consummated) from third parties, including potential counterparties to the potential transaction or potential co-investors. Examples of such Unconsummated Transaction expenses include, but are not limited to, organization and formation and other expenses; all fees, costs and expenses of lenders, investment banks and other financing sources in connection with arranging financing for a proposed investment (including commitment fees); any break-up fees, reverse termination fees, topping, termination or other similar fees; extraordinary expenses such as litigation costs, settlements and judgments; travel and entertainment expenses incurred; legal, accounting, advisory, tax, underwriting and other due diligence and pursuit costs and expenses, including fees and expenses paid or reimbursed to Hudson, and to consultants or other third-parties; and any deposits or down payments of cash or other property which are forfeited in connection with a proposed investment that is not consummated. Any such Unconsummated Transaction expenses could, in the sole discretion of the Lone Star Fund’s general partner, be allocated solely to the Lone Star Fund and not to another Lone Star



and/or Hudson affiliated entity or Co-Investment Vehicle that could have made the investment, even when the Lone Star and/or Hudson affiliated entity or Co-Investment Vehicle commonly invests alongside the Lone Star Fund in its investments or alongside the Lone Star and/or Hudson affiliated entity in its investments. In such cases the Lone Star Fund's share of expenses would increase. In the event Unconsummated Transaction expenses are allocated to a Lone Star and/or Hudson affiliated entity or a Co-Investment Vehicle, a Lone Star Fund's general partner may advance such fees and expenses without charging interest until paid by the Lone Star and/or Hudson affiliated entity or Co-Investment Vehicle, as applicable.

Examples of Unconsummated Transaction expenses related to the SFR Fund include, but are not limited to, expenses in connection with the identification of investment opportunities and the investigation of other potential investments that are ultimately not consummated, including expenses relating to due diligence, travel and legal, accounting and other professional services as well as the fees of other third-party advisers. 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 Unconsummated Transaction expenses.

## **17. Other Benefits**

Lone Star, Hudson, their affiliates, and their personnel and related parties will receive intangible and other benefits, discounts, and perquisites arising or resulting from their activities on behalf of Clients, which will not offset or reduce management fees or otherwise be shared with the Clients or the limited partners. For example, airline travel or hotel stays will result in "miles" or "points" or credit in loyalty or status programs, and such benefits will, whether or not de minimis or difficult to value, inure exclusively to the benefit of Lone Star, Hudson, their affiliates, or their personnel or related parties receiving them, even though the cost of the underlying service is borne by the Clients. The limited partners consent to the existence of these arrangements and benefits.

## **18. Side Letters**

The SFR Fund general partner, on behalf of the SFR Fund, has entered into, and/or may in the future enter into, side letters with one or more limited partners and/or parallel fund investors, which have the effect of establishing rights (other than as set forth in the SFR Fund Governing Documents as a general matter) under or altering or supplementing the terms of the Governing Documents including, but not limited to, additional or different reporting or notice obligations of the SFR Fund, transfers to affiliates and other parties, special economic terms, or any other matters described therein. As a result of such side

letters, certain limited partners and/or parallel fund investors may receive additional benefits, which may be more favorable than those offered to any other limited partners (including expanded informational rights and preferential liquidity and economic terms) and which other limited partners will not receive. Although any rights or terms so established in a side letter with a limited partner and/or parallel fund investor are intended to govern solely with respect to such limited partner or parallel fund investor, such rights or benefits may, by altering the terms of the Governing Document or parallel fund governing document, or requiring the consent of a limited partner or parallel fund investor for certain SFR Fund investments and other actions, materially impact the SFR Fund and each other limited partner.

#### **19. Conflicts Related to the Interpretation of Governing Documents and Other Legal Requirements**

The Governing Documents of each Client and related documents are detailed agreements that establish complex arrangements among the limited partners, the Client, the Client's 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 the Client, the Client's general partner, Lone Star, and/or Hudson will construe the relevant agreements in good faith and in a manner consistent with their legal obligations (and, when appropriate, in consultation with external legal counsel), the interpretations they adopt will not necessarily be, and need not be, the interpretations that are the most favorable to the Clients or their investors.

#### **20. Use of Investment Data and Operating Company Data**

Lone Star, Hudson, and their affiliates receive various kinds of investment information and operating company data and information (including information they will receive from investments reviewed by and purchased by Clients), including without limitation data and information relating to business operations, trends, budgets, customers, and other metrics. As a result, Lone Star and/or Hudson may be better able to anticipate macroeconomic and other trends, and otherwise develop investment themes or strategies, as a result of information learned from a particular investment transaction or Portfolio Company. In furtherance of the foregoing, Lone Star and/or Hudson have received and shared information and expect to continue doing so, and they may in the future enter into information sharing and use arrangements with each other and with Portfolio Companies.

Lone Star and Hudson believe that access to this information furthers the interests of their Clients by providing opportunities for operational improvements across Clients' investments and in connection with Clients' investment management activities. Lone Star and Hudson, however, have and expect to utilize such information outside of Clients' activities in a manner that may provide a material benefit to other Clients, Lone Star, Hudson, or their affiliates without compensating or otherwise benefiting any given Client. This sharing and use of such data and other information presents potential conflicts of interest. Lone Star and Hudson have an incentive to pursue certain investments based on their data and information and/or the ability to utilize such information in a manner that benefits persons other than a certain Client, such as other Clients, Lone Star, Hudson, or their affiliates. Any corresponding/resulting benefits received by such other Clients, Lone Star, Hudson, or their affiliates will not be subject to the Management Fee offset provisions or otherwise shared with the limited partners.

## **21. Insurance**

The Lone Star Funds will purchase or bear premiums, fees, costs, and expenses (including any expenses or fees of insurance brokers) with respect to general partnership liability insurance insuring the Lone Star Funds and the Lone Star Fund Entities, as well as the Lone Star Funds' general partners and persons entitled to indemnification from the Lone Star Funds, for management liability and professional liability in connection with the activities of the Lone Star Funds. The general partnership liability insurance policies cover one or more of the Lone Star Funds and Lone Star affiliated clients (and their respective fund entities), the Lone Star Funds' general partners, Lone Star, Hudson, and their affiliates (including their respective directors, officers, employees, agents, and representatives, and persons entitled to indemnification). Hudson, in consultation with Lone Star, will make judgments about the allocation of premiums, fees, costs, and expenses for said policies among one or more of the Lone Star Funds, Lone Star affiliated clients, the Lone Star Funds' general partners, Lone Star, Hudson, and their affiliates on a fair and reasonable basis, in its sole discretion. Additionally, insurance coverage limits may be exhausted in paying claims that are unrelated to one or more Lone Star Funds and therefore insurance proceeds may not be available to pay claims related to those Lone Star Funds.

The SFR Fund will purchase or bear premiums, fees, costs and expenses (including any expenses or fees of insurance brokers) with respect to general partnership liability insurance insuring the SFR Fund, as well as the SFR Fund general partner and persons entitled to indemnification from the SFR Fund, against liability in connection with the activities of the SFR Fund. The general partnership liability insurance policies cover the SFR Fund, the SFR Fund general partner, Hudson, Hudson Homes, and their affiliates (including their respective directors, officers, employees, agents, and representatives, and

persons entitled to indemnification) (collectively, the “Insured Parties”), but only to the extent that such persons are acting on behalf of the SFR Fund. The SFR Fund general partner will make judgments about the allocation of premiums, fees, costs, and expenses for said policies among one or more of the Insured Parties on a fair and reasonable basis, in its discretion.

## **22. Limited Partners Associated with the General Partners, Lone Star, or Hudson**

Certain persons associated with a Client’s general partner, Lone Star, and/or Hudson may be limited partners of the Client. Such persons will not pay a management fee nor will the Client’s general partner receive profits interest with respect to such persons. In addition, such persons will have limited voting rights as limited partners under the terms of the Client’s Governing Documents. Such rights may give rise to conflicts of interest between such persons and the Client.

## **23. Gifts and Entertainment**

The gifts and entertainment policies of Lone Star and Hudson require the reporting of the receipt or provision of certain business gifts and entertainment, including meals and hospitality, by employees of Lone Star, Hudson, and members of their households. Nonetheless, these policies do not prohibit the Lone Star Fund principals or other employees, officers, or directors of Lone Star, Hudson, or other individuals acting on behalf of a Client from accepting gifts or entertainment from current or potential counterparties, including brokers and other providers of goods and services to a Client. The receipt of such gifts and entertainment could cause employees of Lone Star and Hudson to view relevant counterparties more favorably than others and, therefore, will give rise to conflicts of interest related to the operation of a Client and its investment activities.

## **24. Providers of Operations Support**

Hudson, Lone Star, their affiliates, their Clients, and/or an operating company owned by one or more of the Lone Star Funds may from time to time, directly or indirectly, retain other companies and individuals (“Operating Partners”), which could include (i) former employees of Lone Star, Hudson, their affiliates, or Portfolio Companies of the relevant Lone Star Fund, or (ii) third-party consultants (including specialized consultants, advisers, industry specialists, external executives, industry advisory roundtable members, and similar professionals).

The Operating Partners are engaged to provide operational support, due diligence, research, specialized operations and consulting services, and similar or related services to the relevant Clients, or in connection with, one or more Portfolio Companies or prospective

Portfolio Companies in relation to the diligence, structuring, valuation, acquisition, holding, improvement, and disposition of such Portfolio Companies (such services collectively, “Operating Partner Services”). These services may include support regarding, among other things, the company’s management (including serving in management positions or participating in determining corporate strategy), serving on a Portfolio Company’s board of directors, the company’s supply chain, revenue, and margin management (including determining sales/marketing strategy and retail strategy), data intelligence, finance (including generating metrics and reporting and business restructuring), human capital management (including recruiting personnel and determining executive/incentive compensation), information technology, corporate communications, customer service, sustainability (including, strategy, policy and reporting development), real estate matters, and similar operational matters.

The nature of the relationship with each such Operating Partner and the time devotion requirements of each such Operating Partner may vary significantly. Certain Operating Partners may be subject to contractual obligations to exclusively provide certain services to the relevant Clients and/or the Portfolio Companies. These arrangements may be memorialized in a formal written agreement or may be informal and are negotiated individually, depending upon the anticipated Operating Partner Services to be provided. Operating Partners may under certain circumstances be offered the ability to invest in a Client (or may under certain circumstances have a preferred right) to co-invest alongside the relevant Clients or may under certain circumstances be offered the opportunity directly by the Portfolio Company to invest in the company, including in investments in which such Operating Partner is involved or participates in the management thereof.

Pursuant to the Governing Documents of the relevant Clients, fees, compensation, expenses and any attributable overhead associated with Operating Partner Services (collectively, “Operations Expenses”) are paid and/or reimbursed by Lone Star, Hudson, Portfolio Companies and/or the relevant Clients. Operations Expenses (including Operations Expenses incurred in connection with an Operating Partner that is a former employee of Lone Star or its affiliates) will be determined at the discretion of the relevant Client’s general partner, taking into account the particular Operating Partner Services, may include reimbursement of an allocable portion of an affiliated Operating Partner’s compensation (including, without limitation, salary, bonus, payroll taxes, and benefits) (including vacation time and sick leave) and overhead (including, without limitation, rent, property taxes, and utilities allocable to the Operating Partner’s workspaces), an annual fee or retainer, a discretionary bonus, a success fee (in the form of cash or equity) based on predetermined targets or milestones, a profits or equity interest in the relevant Client and/or Portfolio Company or other incentive-based compensation to the Operating Partner, and will generally be determined according to one or more methods, including the value of the

time (including an allocation for overhead and other fixed costs) of the Operating Partner, a percentage of the value of the Portfolio Company, the invested capital exposed to such Portfolio Company, amounts charged by other providers for comparable services and/or a percentage of cash flows from such companies. In certain cases, Operations Support Providers have attributes of Hudson employees (for instance, they may have dedicated office space, receive Hudson administrative support services, participate in general meetings or events for Hudson personnel, have Hudson e-mail address or business cards), even though they are not employees, affiliates, or personnel of Hudson. Over time, certain former employees of Lone Star or Hudson (including senior personnel) may transition to an Operating Partner role, which may shift the burden of compensating such persons from Lone Star or Hudson or to the applicable Client and/or its Portfolio Companies and any fees received by such persons will not reduce the management fee payable by investors in the relevant Client.

## **25. Portfolio Company Services**

In certain cases, a Client and/or one or more affiliates of Clients may contract with an operating company owned by a Portfolio Company. As an example, Portfolio Companies that provide loan servicing or property management may be engaged to provide services with respect to assets owned by Clients that do not own the Portfolio Companies. The operating company will receive fees for such services and expense reimbursements. The Clients and the limited partners (other than those limited partners otherwise holding direct or indirect interests in such companies) will not share in any fees, economics, equity or other benefits accruing to these operating companies, and such fees, economics, equity, or other benefits will not offset the management fees. Conflicts may arise in determining whether such operating companies have performed their obligations to Clients and/or any Fund Entity, and/or whether the operating company (or any related parties) is entitled to indemnification pursuant to the provisions contained in a Client's Governing Documents and any other agreement between such entities and a Client. Neither Clients nor their investors shall have any right to the compensation received by the Portfolio Company, the operating company or its affiliates in connection with the services they provide to their customers. In addition, Portfolio Companies are owned by certain Clients, in which certain Lone Star Fund principals, the owners of a Client's general partner and the employees of a Client may have an ownership interest, and this ownership may create a conflict with respect to the engagement of such operating company for such principals, owners and employees.

## **26. Services Provided to Clients**

Clients expect to engage Hudson or service providers owned by Hudson or its affiliates to provide advisory services (including, without limitation, asset management and underwriting) and administrative and support services and other services to the Lone Star Funds and affiliated entities as set forth in the relevant Governing Documents. While Lone Star does not have an ownership interest in Hudson or Affiliated Service Providers and does not share in the fees they receive, conflicts may arise in determining whether Hudson or any Affiliated Service Providers have performed their obligations to the Lone Star Funds and/or any Fund Entity, and/or whether Hudson or any Affiliated Service Provider (or any related parties) is entitled to indemnification pursuant to the provisions contained in a Lone Star Fund's Governing Documents and any other agreement between such entities and a Lone Star Fund. As Hudson is an affiliate of Lone Star, such fees will not be negotiated with third parties. There can be no assurance that an unaffiliated third party would not charge a lesser rate to the applicable Lone Star Fund. In addition, while Lone Star may obtain certain data regarding third-party rates for similar services, relevant comparisons may not be available for a variety of reasons, including as a result of lack of a substantial market of providers or users for such services, confidentiality reasons and the bespoke nature of such services. As a result, market comparisons may not (and often do not) result in precise comparable data for certain services.

Hudson will receive fees from each Lone Star Fund and the SFR Fund as set forth in the Governing Documents of the relevant Fund, which may be substantial. By virtue of their or their associated entities' ownership interest in Hudson, certain of the senior management of Hudson or their associated entities will benefit from Hudson's relationship with and its receipt of fees from the Lone Star Funds and the SFR Fund. Such fees will not be based on the cost incurred by Hudson and will likely result in a profit to Hudson, enhancing its value. Limited partners of the Lone Star Funds and the SFR Fund (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 Lone Star Fund or the SFR Fund.

## **27. Other Conflicts**

Other present and future activities of Lone Star, the Lone Star Funds, the Lone Star Funds' investments, any Co-Investment Vehicles, Lone Star affiliated clients and their investments, Hudson, and their respective affiliates and related parties will from time to time give rise to additional conflicts of interest relating to a Lone Star Fund and its investment activities. Lone Star generally attempts to resolve conflicts in a fair and equitable manner, but conflicts will not necessarily be resolved in favor of the Lone Star

Fund's interests. In addition, pursuant to the Lone Star Fund's Governing Documents, an Advisory Committee will be established and authorized to give consent on behalf of the Lone Star Fund with respect to certain matters. If the Advisory Committee consents to a particular matter and the Lone Star Fund's general partner and its affiliates act in a manner consistent with, or pursuant to the standards and procedures approved by, the Advisory Committee, or otherwise as provided in the Governing Documents, then the Lone Star Fund's general partner and its affiliates will not have any liability to the Lone Star Fund or its limited partners for such actions taken in good faith by them.

## **Item 12: Brokerage Practices**

### **A. Counterparty Selection**

The Adviser seeks 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. Clients predominately invest in assets that are not market-traded instruments and even in the limited circumstances where a Client 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). Thus, while the Adviser is obligated to seek the best terms for such transactions on behalf of its Clients, such transactions are outside the scope of traditional best execution concepts. The investment counterparty for Lone Star Funds is typically chosen as part of a Lone Star Fund's general partner's and investment committee's approval of the investment, and Hudson then assists in implementing the investment decision. For other Clients, this will be negotiated on a case-by-case basis.

To the extent that Clients invest in financial and other investment assets through brokers or dealers, we will do so consistent with our duty of best execution. The Adviser defines "best execution" as seeking to obtain the lowest total cost (in purchasing) or highest total proceeds (in selling), taking into account the circumstances of the transaction and the reputability and reliability of the executing broker or dealer. 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 the Adviser with a transaction that meets the investment objectives of the relevant Client for which the transaction is executed, including a counterparty's ability to transact in unique or difficult-to-trade assets that may be traded by a limited number of counterparties;
- 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 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, the Adviser may consider any breakage costs related to a financing and the willingness of a counterparty to waive such breakage costs);
- the counterparty's credit terms prior to requiring the posting of margin;
- the amount of the broker's commission in respect of a transaction;
- the counterparty's ability and willingness to commit the capital needed to execute the transaction;
- the ability and history of the counterparty in maintaining the confidentiality of transactions;
- the ability of the counterparty to execute quickly and the ability to commit capital or financing 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;
- the counterparty's specialized knowledge or experience in a particular market; and

- whether the brokerage agreement (including a prime brokerage agreement) has favorable terms to the Clients vis-à-vis other brokers (for the avoidance of doubt, a trader may take into account the defaults and cross-defaults in an agreement (and any applicable grace periods or opportunities to cure) the existence of a lock-up agreement, the margin terms, and other terms in brokerage agreements).

## **B. Research, Other Soft Dollar Arrangements, and Investor Referrals**

We receive proprietary research and other services from certain broker-dealers, which we may use to service one or more Clients. We do not, however, cause Clients to pay higher prices in exchange for such research (sometimes known as “paying up”) and will not engage in commission-sharing arrangements or soft-dollar arrangements to pay for third-party research and services. We may, however, as discussed above, select a broker-dealer based on its ability to source investments for Clients. We do not enter into commission sharing agreements with broker-dealers relating to transactions executed for the benefit of the Client, or participate in directed brokerage arrangements.

Further information regarding use of placement agents is discussed in Item 14 – “Client Referrals and Other Compensation.”

## **C. Other Third Parties**

In addition to transactions with banks and broker-dealers, we may engage other service providers on behalf of Clients 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**

Hudson will generally aggregate Client trades in the same instrument as part of the same strategy if it believes doing so is consistent with its obligation to seek best execution for all Clients. If Client trades are aggregated, each Client shares pro rata in the average cost and expenses of the applicable transaction(s). There may be situations in which aggregation of Client trades is not possible or practical because of Client restrictions or trade logistics, which may increase transaction costs and/or result in different pricing.

## **E. Trade Errors**

Although we seek to exercise diligence and care when trading assets on behalf of Clients, 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 minimizes any loss to affected Clients. If a trade error results in a gain, the affected Client(s) will retain the gain. Any loss caused by a trade error will be addressed in accordance with the applicable Client's Governing Documents. 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**

The Clients' investment portfolios are generally private, illiquid, and long- or medium-term in nature; accordingly, our review of them is not directed toward a short-term decision to dispose of securities. The Lone Star originations and Hudson asset management teams meet periodically with Lone Star's executive leadership and others to update them on investment performance and related matters. With regard to the SFR Fund, Hudson regularly reviews and reports to the SFR Fund investment committee on the performance of its: (i) target and actual invested markets and (ii) the SFR Fund's assets. The SFR investment committee meets regularly to discuss the performance of the SFR Fund's assets, including by individual market.

We generally do not provide formal written reports to any Client unless specifically requested by the relevant Client's general partner. We 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 Clients. Hudson or its affiliates may on occasion receive certain fees from third parties with respect to the business of Clients, including financial advisory, director, or transaction-related fees ("Additional Fees"). Any Additional Fees will be offset against management fees or expenses payable by the affected Clients to the Adviser.

Neither Hudson nor its related persons directly or indirectly compensate any third party for advisory Client referrals. Hudson or Lone Star may enter into placement agent arrangements with unaffiliated third parties regarding the solicitation of investors for compensation. All fees and

expenses paid to the placement agent are ultimately the responsibility of the applicable Client's general partner, as governed by the provisions of the applicable Client's Governing Documents. The 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 applicable Client's general partner.

## **Item 15: Custody**

Not applicable.

## **Item 16: Investment Discretion**

Hudson provides discretionary investment advisory services to the SFR Fund and certain of its Clients involving a significant amount of investment discretion. With regard to the Lone Star Funds, Clients typically communicate guidelines through Client review of business plans or inclusion of Client guidelines in the applicable services agreement.

## **Item 17: Voting Client Securities**

Hudson has been delegated the authority to vote or give consent with respect to securities owned by the Lone Star Funds (the "Votes"). Hudson will also generally accept responsibility for proxy voting at the request of other Clients. Hudson has adopted a Proxy Voting Policy and related procedures that require Hudson to vote Client proxies in the best interests of the relevant Client(s) in accordance with Hudson's fiduciary duties. But Hudson reserves the right to abstain on any particular Vote or otherwise withhold its consent on any matter if Hudson determines that the costs associated with voting such Vote outweigh the benefits to the relevant Client(s) or if the circumstances make such an abstention or withholding otherwise advisable and in the best interests of the relevant Client(s).

Initially, all Votes are referred to Hudson's Legal Department. Hudson's Legal Department is responsible for executing Votes. In so doing for the Lone Star Funds, Hudson's Legal Department will consult with Lone Star's Legal Department and may rely on available information and research.

Hudson's and Lone Star's Legal Departments have the responsibility to monitor Votes for potential conflicts of interest, regardless of whether such conflicts are actual or perceived. Upon identifying a potential conflict of interest, the Lone Star and Hudson Legal Departments will refer the Vote for review by the Lone Star Chief Compliance Officer, including a determination as to whether Lone Star, Hudson, or any investment professional or other person recommending how to Vote has a potential conflict of interest. Lone Star's Chief Compliance Officer, in consultation with Hudson's

Legal Department, will use his best judgment to ensure that the potential conflict is resolved based on an independent assessment of the best interests of the Lone Star Funds.

Copies of relevant Vote-related documentation, identifying how Votes were voted in connection with a Client and copies of Vote-related policies are available to any Client or prospective client upon written request to Lone Star's Chief Compliance Officer.

## **Item 18: Financial Information**

Hudson does not require or solicit prepayment of fees six months or more in advance.

The Adviser has never filed for bankruptcy and is not aware of any financial condition that is expected to adversely affect or is reasonably likely to impair the Adviser's ability to meet its contractual obligations to its Clients.