



Form ADV Part 2A Brochure

Energy Square, 6688 N Central Expy, Suite 1600  
Dallas, TX 75206

214-754-8300

[www.lonestarfunds.com](http://www.lonestarfunds.com)

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This brochure provides information about the qualifications and business practices of Lone Star Americas Acquisitions, Inc. (“LSAA”), an investment adviser registered with the United States Securities and Exchange Commission (“SEC”), and its relying advisers, including Lone Star Global Acquisitions, Ltd. (“LSGA”). Together, LSAA, its relying advisers, and its participating affiliates (*See* Item 10) are referred to herein as “Lone Star.” If you have any questions about the contents of this brochure, please contact us at 214-754-8300. The information in this brochure has not been approved or verified by the SEC or by any state securities authority.

Additional information about Lone Star is also available on the SEC’s website at: [www.adviserinfo.sec.gov](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 Lone Star's previous annual update, dated March 30, 2023, including amendments to the following items (i) Item 5 includes updated descriptions of certain fees and expenses of the Lone Star Funds; (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 the Adviser's internal policies. In addition, Lone Star 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 “Lone Star” refer to LSAA, together with its relying advisers, including LSGA, and its participating affiliates (*See* Item 10).

### **A. Organization**

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

LSGA, a Bermuda exempted limited company, was formed in 1998. LSGA is controlled by Mr. John Grayken and its principal owner is LSGA Investments, Ltd. LSGA directly or indirectly owns 100% of the filing adviser LSAA and each of the relying advisers and participating affiliates listed in Item 10.

Prior to 2007, the Lone Star Funds made all of their investments in a single fund family. In 2007, Lone Star decided to utilize separate fund families, with one fund family for commercial real estate-related investments (generally known as the “Lone Star Real Estate Funds”) and another fund family for other investment classes, including non-commercial real estate loans and securities (single-family residential, consumer, and corporate) and financial and other operating companies (generally known as the “Lone Star Opportunity Funds”). In 2014, Lone Star organized the first in a fund series focused on U.S. single family residential mortgage loans and related investments (the “Lone Star Residential Mortgage Funds”). In 2019, Lone Star organized the first in a fund series focused on value-add commercial real estate investments (the “Lone Star Value-Add Funds”).

### **B. Advisory Clients**

As set forth above, our advisory Clients are the Lone Star Funds. 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).

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

### **C. Nature of Advisory Services**

The Lone Star Funds invest in a broad range of financial and other investment assets in various U.S. and non-U.S. jurisdictions, subject to the specific objectives and restrictions detailed in each Lone Star Fund’s Governing Documents.

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; and
- Securitized products such as residential mortgage-backed securities, commercial mortgage-backed securities, and other asset-backed securities.

A Lone Star Fund may invest in assets directly or indirectly through the acquisition of debt and/or subscription of equity interests in partnerships, limited liability companies, corporations, or other entities that hold the assets (collectively, the “Lone Star Fund Entities”).

### **D. Investment Process**

LSGA maintains an investment committee for each currently investing Lone Star Fund that is responsible for evaluating potential investments for such Lone Star Fund. If an investment is approved by the investment committee, it is presented to the general partner of the applicable Lone Star Fund for final approval. The Lone Star Funds’ general partners are related persons of LSGA. The investment committee and investment approval process for each Lone Star Fund is provided for in its Governing Documents.

## **E. Assets Under Management**

The right to manage, control and conduct the business and affairs of a Lone Star Fund is vested solely in the respective Lone Star Fund's general partner. As of December 31, 2023, Lone Star advised on a discretionary basis a total of approximately \$36,159,474,957 of Client assets. Please note that this figure has not been subject to audit.

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

Investors in a Client are advised to review the applicable Client's Governing Documents for a description of the specific fee and expense constructs applicable to each Client.

### **A. Management Fees**

The Lone Star Funds generally pay a management fee (the "Management Fee") to LSGA for its advisory services, which consist of origination, strategic oversight and investment advice, and certain investor relations services. Each Lone Star Fund's Governing Documents set forth the precise amount of, and the manner and calculation of, the Management Fees. Management Fees paid by Lone Star Funds are indirectly borne by their investors. For certain Lone Star Funds, Management Fees are based on the committed capital of investors to the relevant Lone Star Fund or investors' outstanding capital contributions, depending on the stage in the Lone Star Fund's life cycle. For other Lone Star Funds, Management Fees are based on the invested capital of investors in the relevant Lone Star Fund. Each Lone Star Fund and its limited partners continue to pay a Management Fee with respect to each investment that has not returned all of its capital or been written down as prescribed by such Lone Star Fund's Governing Documents. Accordingly, a lower aggregate Management Fee will likely be paid with respect to an investment that quickly returns capital than for an investment of similar size that does not return capital as quickly. Management Fees may be reduced during the life of a Lone Star Fund. The fee structures described herein may be modified from time to time. Management Fees may differ from one Lone Star Fund to another, as well as among investors in the same Lone Star Fund.

The Management Fees paid by a Lone Star Fund will generally be offset by: (i) the amount of fees paid by such Lone Star Fund to persons acting as a placement agent in connection with the offer and sale of interests in such Lone Star Fund to certain potential investors, (ii) the fees and expenses incurred by LSGA or a Lone Star Fund's general partner in connection with the formation, marketing, and closing of a Lone Star Fund that exceed a dollar limit specified in such Lone Star Fund's Governing Documents and/or (iii) Additional Fees (as defined below). After any reimbursement to Lone Star or a Lone Star Fund's general partner of expenses incurred on behalf of a Lone Star Fund that are permitted to be reimbursed under such Lone Star Fund's Governing Documents, the Lone Star Fund's allocable share of the Management

Fee will generally be reduced by amounts payable to Lone Star, a Lone Star Fund's general partner, or their affiliates with respect to monitoring, transaction, closing, financial advisory, investment banking, director, break-up fees, or topping fees with respect to the business of a Lone Star Fund, but excluding any fees payable to Hudson (as defined below), Lone Star, Affiliated Service Providers (as defined below) and their respective affiliates as provided in the applicable Lone Star Fund's Governing Documents ("Additional Fees"). Determinations as to whether the activities giving rise to potential Additional Fees fall within the above-referenced categories are made by the Lone Star Funds' general partners in their sole discretion. The amount and manner of such offsets and reductions, if any, are set forth in the Governing Documents of the applicable Lone Star Fund.

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

Clients pay fees to Hudson Advisors L.P. ("HAL"), a related person of Lone Star and an SEC-registered investment adviser in reliance on the registration of its wholly-owned subsidiary Hudson Americas L.P. ("HAM") for advisory services (including, but not limited to, asset management and underwriting) and administrative and support services (HAL, HAM, and HAM's relying advisers and participating affiliates collectively "Hudson," and 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.

### **C. Fees Charged by Affiliated Service Providers and Hudson Affiliates**

The general partner of each Lone Star Fund may engage service providers owned by one or more Lone Star Funds or their affiliates ("Affiliated Service Providers") or affiliates of Hudson to provide services to the Lone Star Fund as set forth in such Lone Star Fund's Governing Documents. Fees paid to such Affiliated Service Providers and Hudson affiliates are in addition to any other compensation Clients pay to Lone Star and Hudson, including Management Fees and Hudson Fees, and will not reduce or offset such Management Fees or Hudson Fees. Further information regarding Affiliated Service Providers, including conflicts of interest associated with such arrangements, is discussed in Item 11, "Conflicts of Interest."

### **D. Expenses**

In addition to the above-referenced fees, a Lone Star Fund will pay or reimburse its general partner, the Adviser, Hudson, and their affiliates for amounts they expend with respect to the organization, formation, marketing, offering, and closing of the Lone Star Fund and any parallel investment entities (each, a "Parallel Investment Entity"), subject to any applicable limits prescribed in such Lone Star Fund's Governing Documents, including but not limited to, the costs and expenses of all legal, travel, investor relations (including, but not limited to, preparation and review of marketing and other investor materials and information), potential investor diligence, placement agent diligence and engagement, limited partner side letter negotiations, and any other similar costs and expenses. A Lone Star Fund's general partner will ultimately assume full responsibility for the payment of all fees to placement agents engaged in connection with the offering of a Lone Star Fund, if any, but may cause such Lone Star Fund to pay placement fees with such payments being offset on a dollar-for-dollar basis against the Management Fees. In addition, a Lone Star Fund may be obligated to indemnify any placement agent and such indemnification will not offset Management Fees.

A Lone Star Fund also pays or reimburses such Lone Star Fund's general partner, the Adviser, Hudson, and their affiliates for all expenses related to investments that upon initial review appeared to meet the 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"); commitment fees that become payable in connection with a proposed investment that is not ultimately made; legal, tax, accounting, financing, advisory, and consulting fees and expenses; travel, accommodation, and related expenses; transaction fees; brokerage commissions; litigation expenses; printing expenses; any liquidated damages; reverse termination fees and similar payments; and other expenses. All such expenses will be allocated pro rata to all partners, generally without taking into account any applicable excuse or exclusion rights of any limited partner.

As described further in a Lone Star Fund's Governing Documents, whether such Lone Star Fund makes any profits or not, the Lone Star Fund will also pay and bear all expenses, either directly or indirectly, related to its operations (including, without limitation, the operations and activities of special investment vehicles formed to hold certain investments ("Special Investment Vehicles")), the Lone Star Fund Entities, and the Lone Star Fund's investments), which encompass a broad range of expenses and include, but are not limited to, costs, fees, charges and/or expenses related to:

- developing, sourcing, bidding on, evaluating, negotiating, structuring, obtaining regulatory approvals for, purchasing, trading, settling, monitoring, operating, maintaining custody of, holding and disposing of actual or potential investments, including without limitation any financing, legal, accounting, tax, compliance, advisory and consulting expenses, property management expenses, and any travel, accommodation, and other expenses (as more fully described below) in connection therewith, including any costs, fees, charges, and/or expenses related to the syndication of a co-investment opportunity and any insurance, indemnity, litigation, investigation, or similar expense;
- the organization, maintenance, and liquidation of any entity (including Lone Star Fund Entities; corporations, feeder funds or any other holding or intermediate entities which are formed by a Lone Star Fund's general partner or any affiliate thereof through which limited partners or their affiliates are permitted to invest in such Lone Star Fund, any Special Investment Vehicle, or any investment ("Intermediate Entities"); or other vehicles through which the Lone Star Fund or its limited partners directly or indirectly acquire, hold or dispose of any investment, or entities otherwise facilitating the Lone Star Fund's investment activities), including without limitation travel, accommodation,



and other expenses related to such entity, and costs and expenses (including airfare and lodging) of the meetings of officers, managers, directors, general partners, or managing members of such entities, and costs and expenses associated with the leasing of office space for such entities, and the costs and expenses of insurance (including brokerage and placement thereof);

- attorneys, accountants, administrative services, auditors, advisors (including tax advisors), and administrative agents, in each case, whether in-house (with respect to Hudson) or external; expenses of depositaries, loan servicers, property managers, and other service providers (including Hudson and/or affiliated servicers), custodians, trustees, and other third-party professionals; and valuation costs (including expenses incurred in connection with services performed by Hudson or any affiliate or independent valuation advisor);
- any consultants (including individuals consulted through expert network consulting firms), subscriptions, banks, investment banks, brokerage commissions and other commissions, the cost of trading (including trading errors), the cost of borrowings, guarantees (including expenses associated with any general credit facility and/or any working capital facility of a Lone Star Fund), and other financing or derivative transactions (including interest, fees, and related legal expenses);
- hedging, foreign exchange, and currency conversion;
- obtaining and maintaining technology (including the costs of any professional service providers) in connection with a Lone Star Fund;
- on-going reporting, including investor reporting and any investor-related expenses, including but not limited to, fund investment and financial reports, capital account-related activities, investor portal maintenance, fund-level accounting, and responding to U.S. Freedom of Information Act or other disclosure requests;
- compliance matters and regulatory filings relating to a Lone Star Fund and its activities (including, without limitation, expenses relating to the preparation of reports to be filed with the SEC, the Commodity Futures Trading Commission (“CFTC”), the U.S. Bureau of Economic Analysis, the Federal Reserve, and the U.S. Department of Commerce; reports, disclosures, filings, and notifications prepared in accordance with the Alternative Investment Fund Managers Directive; and/or other regulatory filings, notices, or disclosures by the Adviser and/or its affiliates relating to a Lone Star Fund’s and any Parallel Investment Entity’s activities), any service providers appointed, in connection with the laws, rules, regulations, or similar requirements of jurisdictions in

which the Lone Star Fund engages in activities (or in which any investor is resident or established), including any notices, reports, or filings (including those in connection with the offering of interests and costs associated with any related regulations, costs, expenses, charges, or fees relating to a Lone Star Fund, its Parallel Investment Entities, its Lone Star Fund Entities, the Lone Star Fund's investments, and their activities);

- any insurance including general partnership liability or other insurance for the benefit of persons entitled to indemnification by a Lone Star Fund;
- auditing, accounting, market data, and research; reporting-related expenses, charges, and related costs (including preparation and delivery of financial statements, tax returns, K-1s, and other communications or notices relating to a Lone Star Fund including investor reporting, notices, and communications);
- any federal, state, and/or other taxes and tax penalties, fees, or other governmental charges imposed on or assessed against a Lone Star Fund; and
- ongoing compliance with the provisions of any side letters with limited partners.

A Lone Star Fund will also bear any extraordinary expenses it may incur, including any litigation, arbitration, or settlement expenses involving a Lone Star Fund, any investment or entities in which it has an investment or otherwise relating to such investment, and the amount of any judgments or settlements paid in connection therewith. Further, while a Lone Star Fund does not pay or directly reimburse the general operating expenses of the Lone Star Fund's general partner, the Adviser, Hudson, or their affiliates (including payroll and other overhead costs and taxes), the Lone Star Fund's general partner, the Adviser, Hudson, and their affiliates may seek reimbursement from the Lone Star Fund for such expenses as are permitted to be reimbursed under the Lone Star Fund's Governing Documents. While it is difficult to predict the future expenses of a Lone Star Fund, such expenses may be substantial.

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 and profits interest. 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 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. Further, the allocation of profits interest at different rates, or subject to different hurdle rates, creates an incentive for Lone Star or its affiliates to disproportionately allocate time, services, or functions to vehicles allocating profits interests at a higher rate (or subject to a lower hurdle rate), or to allocate investment opportunities to such vehicles. Additionally, the existence of the general partners' profits interest creates an incentive for the general partners to cause the Lone Star Funds to make more speculative investments than they would otherwise make in the absence of performance-based compensation. The specific structure of each Lone Star Fund's profits interest

is detailed in its Governing Documents. Further information regarding profits interest and potential conflicts of interest are discussed in Item 11, “Conflicts of Interest—Profits Interest and Other Incentive Compensation.”

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

LSGA currently provides investment services to the Clients. The other relying advisors (as well as LSAA) and participating affiliates listed in Item 10 below provide advisory services to LSGA.

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**

Lone Star has wide ranging expertise originating investments. To identify potential investment opportunities for the Lone Star Funds, Lone Star monitors target markets for potential sales of assets within the investment objectives of the Lone Star Funds. Typically, Lone Star will seek potential investment opportunities from institutions such as banks, corporate sellers, or government agencies. The investment professionals at Lone Star responsible for the origination of these investment opportunities rely on their experience in and significant knowledge of the various asset markets, along with new and existing relationships with many of the potential counterparties in those markets, to identify potential investment opportunities. Lone Star’s initial due diligence and analysis generally includes assessment of current and future market

conditions for specific assets, assessment of asset sellers and other counterparties, and identification of available financing opportunities from counterparties and third parties. When considering whether, and in what manner, a potential investment opportunity should be financed, Lone Star may consider, among other things, the availability of financing opportunities, the cost of each opportunity, the duration of the financing, the relevant risks of each opportunity, and whether such financing is likely to be obtained, and obtained in a timely fashion.

When evaluating 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.

## **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.

## **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, Identity 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**

LSGA is registered with the CFTC as a commodity pool operator and is a member of the National Futures Association (the “NFA”).

### **B. Relying Advisers**

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

- Lone Star Global Acquisitions, Ltd.
- Lone Star Global Acquisitions, LLC
- Lone Star Americas Acquisitions, LLC
- Acquisitions Lone Star Canada S.R.L.

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



### **C. Participating Affiliates**

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

- 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.

### **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. Hudson**

As noted in Item 5 above, Hudson, or its affiliates, have been engaged to provide advisory services (asset management and underwriting) and administrative and support services to the Lone Star Funds and the Lone Star Funds’ investments. HAL and the following direct or indirect subsidiaries of HAL that provide such services are related persons of Lone Star:

- Hudson Americas L.P.
- Hudson Advisors 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 advisor 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)

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

## **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, Lone Star Fund principals, 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; and,
- Limited partnership interests in certain Lone Star Funds held by certain associated persons of Lone Star and Hudson.

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 Membership**

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.

## **2. Investment Allocation**

The principals of the Lone Star Funds and their affiliates currently have and are likely in the future to acquire other investments, organize other funds advised by the Adviser, or manage certain investments held by third parties with investment objectives or strategies that overlap, perhaps substantially, with those of the Lone Star Funds. In connection with these activities, conflicts are likely to develop with respect to the allocation of investments when a prospective investment, or a portion of such investment, meets the investment objectives or strategies of one or more Lone Star Funds and one or more other Lone Star affiliated clients. Such conflicts may include whether to allocate a particular investment, or a portion of such investment, to one Lone Star Fund or to another Lone Star Fund or Lone Star affiliated client, including without limitation, (i) such Lone Star Fund's or Lone Star affiliated client's related investment entities (including special or alternative investment vehicles, feeder funds, or Parallel Investment Entities formed to invest with such Lone Star Fund or Lone Star affiliated client), or (ii) any Co-Investment Vehicle formed to invest with a Lone Star Fund or Lone Star affiliated client in a particular transaction and/or a specific investment strategy. Investors in such Lone Star affiliated clients and their related entities may include limited partners of one or more Lone Star Funds or their affiliated entities.

The Lone Star Funds and the Lone Star affiliated clients are subject to provisions in their respective Governing Documents that prescribe the applicable entity's investment objective, investment limitations and parameters, and exclusivity requirements (the "Contractual Investment Guidelines"). When making allocation decisions, the Adviser is guided by the Contractual Investment Guidelines of the Lone Star Funds and/or the Lone Star affiliated clients, as well as its internal allocation procedures and principles. For each investment allocation decision, Lone Star first applies the relevant Contractual Investment Guidelines; however, in some circumstances the Contractual Investment Guidelines will not be determinative, and in such situations, a portion of an investment may fall within the Contractual Investment Guidelines, or overlap with the Contractual Investment Guidelines, of one or more Lone Star Funds or Lone Star affiliated clients. In cases where a particular investment, or a portion of an investment, falls within the Contractual Investment Guidelines of more than one Lone Star Fund or Lone Star affiliated client, the Adviser will apply its internal allocation principles to determine whether the investment, or a portion of such investment, should be made by one or more Lone Star Funds, one or more Lone Star affiliated clients, or a combination thereof. In addition, Lone Star has established an allocation committee (the "Allocation Committee") comprised of senior Lone Star

professionals to oversee the application of the Adviser's internal allocation principles. The Adviser's internal allocation principles reflect considerations that we determine in good faith to be fair and reasonable, including, but not limited to:

- The Contractual Investment Guidelines;
- The nature of the asset;
- The nature of the market;
- The anticipated source of returns; and
- The investment opportunity's risk profile and other relevant factors.

While we seek to apply a generally consistent framework and approach when making allocation decisions, the application of Lone Star's allocation principles is a fact-intensive exercise. The relevance of each allocation principle will vary based on the investment opportunity, with no single factor consistently outweighing the others. Furthermore, the weight Lone Star ascribes to certain considerations will evolve over time in response to, among other things, changes in market conditions, the competition for investments and the mix of opportunities available to the Lone Star Funds and Lone Star affiliated clients. When considering the potential return of an investment, the Allocation Committee determines allocations based on the base-case scenario of the underwritten returns at the time the allocation is determined. Furthermore, decisions made by Lone Star with respect to the structuring of a potential investment (including, for example, leverage levels) are made in its sole discretion and those decisions may influence, for example, whether an investment opportunity is considered to have satisfied such underwriting criteria, and accordingly whether it is allocated to a Lone Star Fund or another Lone Star affiliated client. The determination as to whether an investment is a qualified investment or otherwise meets the strategy and objective of a Lone Star Fund and its transaction underwriting parameters will be determined solely by the Adviser and will involve the exercise of its discretion and the application of its subjective judgment and opinion. In a facts and circumstances analysis, it is difficult to mitigate conflicts of interest, because such an approach is inherently subjective. The Allocation Committee will be tasked with seeking to mitigate this conflict. Further, allocation decisions are based on the information available at the time the investment is initially originated and evaluated for investment. This information may prove, in retrospect, to be incomplete or otherwise flawed. There can be no assurance that actual returns for any such investment will meet Lone Star's expectations, and certain investments allocated to a Lone Star Fund may have different returns than Lone Star's projected returns.

To the extent the Lone Star Funds, other Lone Star affiliated clients, or any Co-Investment Vehicles have different fee, expense, and compensation structures, the Adviser will have an incentive to allocate an investment opportunity based on factors such as whether a

particular Lone Star Fund, Lone Star affiliated client, or Co-Investment Vehicle would generate a higher fee, result in the payment of more profits interest or other compensation, and/or would cause the payments of either of the foregoing to be made sooner. In addition, the principals, other Lone Star senior management, and the Key Employees will generally participate directly or indirectly in investments made by the Lone Star Funds and/or Lone Star affiliated clients in which they invest. Such individuals would obtain greater financial benefit if an investment opportunity were allocated to a Lone Star Fund or Lone Star affiliated client in which they hold an interest (or allocated to a Lone Star Fund or a Lone Star affiliated client in which the individual holds a greater interest than such individual's interest in another Lone Star Fund or Lone Star affiliated client). These interests present conflicts of interest in determining how much, if any, of certain investment opportunities to allocate to a Lone Star Fund or Lone Star affiliated client. Such considerations are not permitted to be explicitly considered in making allocation decisions and Lone Star expects that its procedures and internal principles will help mitigate the risk that these incentives influence investment allocation decisions.

An allocation decision may result in a Lone Star Fund being allocated an entire investment opportunity, or the Lone Star Fund and one or more Lone Star affiliated clients and/or Co-Investment Vehicles sharing an investment opportunity on a basis consistent with Lone Star's internal allocation principles. If the decision is made to allocate all or any portion of an investment opportunity to, for example, a Lone Star affiliated client rather than a Lone Star Fund, the amount of the investment opportunity available to such Lone Star Fund will be correspondingly reduced and may result in the Lone Star Fund not receiving any portion of an investment opportunity that contains some assets that would be qualified investments under the applicable Lone Star Fund's Governing Documents. In certain cases, a Lone Star Fund's general partner may decline to pursue an investment opportunity if it determines that a Lone Star Fund's allocation is too small to be appropriate for the Lone Star Fund to invest.

In certain cases, the Adviser may not determine final allocations among Lone Star Funds or Lone Star affiliated clients until after certain expenses or other amounts have already become due and payable. In these circumstances, a Lone Star Fund may initially bear the full amount of an upfront payment or expense, even if other Lone Star affiliated clients ultimately participate in the investment. In such a circumstance, the Lone Star affiliated clients will in some (but not all) cases be responsible for reimbursing the Lone Star Fund for their proportionate share of such payment or expense when the Adviser determines the final allocation of the investment opportunity among such Lone Star Funds and Lone Star affiliated clients. While unlikely, it is possible that if a Lone Star Fund initially funded such payment or expense, the other Lone Star affiliated clients could default on their obligation to reimburse such Lone Star Fund.

A Lone Star Fund may participate in the acquisition or disposition of portfolios of assets in conjunction with other Lone Star affiliated clients. While it is anticipated that such joint transactions will benefit such Lone Star Fund, there can be no assurance that such a benefit will materialize, and such transactions create conflicts of interest for the Lone Star Fund's general partner and Lone Star. There may be circumstances, including, for example, when a seller seeks to dispose of a pool or combination of assets, securities, or instruments, and a Lone Star Fund participates in a single or series of related transaction(s) with such seller and certain of the assets, properties, securities, or instruments related to such transaction(s) are specifically allocated (in whole or in part) to the Lone Star Fund and one or more Lone Star affiliated clients. The allocation of such specific items generally would be based on Lone Star's evaluation of the expected returns and risk profile of such items and whether such items fit the Contractual Investment Guidelines of the relevant Lone Star Funds or Lone Star affiliated clients, and in any such case the combined purchase price paid to a seller would be allocated among the multiple assets, properties, securities, or instruments based on a determination by Lone Star, the seller, and/or by a third-party valuation firm. Similarly, there will likely be circumstances, including in the case where there is a single buyer who is seeking to purchase a pool or combination of assets, properties, securities, or instruments, where one or more Lone Star Funds and one or more Lone Star affiliated clients participate in a single or related transaction(s) with such buyer where certain of such assets, properties, securities, or instruments are owned (in whole or in part) by one or more of the Lone Star affiliated clients. The allocation of such specific items generally would be based on Lone Star's determination of the expected returns for such items, and in any such case the combined purchase price paid by such buyer would be allocated among the multiple assets, properties, securities, or instruments based on a determination by Lone Star, such buyer, and/or by a third-party valuation firm. There can be no assurance that the relevant investment will not be valued or allocated a purchase price that is higher or lower than it might otherwise have been allocated or received if the various assets of such investment were sold independently rather than as a component of a portfolio sale that contains investments sold by other Lone Star affiliated clients.

### **3. Transactions with Related Funds**

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.

#### **4. 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.

#### **5. Use of Subscription Lines and other Borrowings**

The general partners have used and will in the future use general credit facilities for working capital, including to fund Management Fees and other fund-level expenses, to finance investments, to bridge capital calls, to provide interim bridge financing and capital, and for other permitted purposes. Certain borrowings under the general credit facilities must be repaid or replaced with alternative financing or funding within the time periods specified in a Client's Governing Documents. The use of a general facility will delay calling capital from investors, which increases the internal rate of return ("IRR") of an investment and reduces the potential preferred return. It also increases the probability of a Client making a profits interest payment to a general partner. As a result, the performance shown is higher than if performance were calculated based on the date the relevant investment was made with the proceeds of fund-level borrowing.

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

Client-level borrowing can also affect the preferred return that investors in a Client must receive before the Client's general partner accrues profits interest, as well as the profits interest the general partner receives, as preferred return and profits interest generally depend on the amount and timing of capital contributions and distributions of proceeds. In particular, the preferred return typically begins to accrue after capital contributions are made (regardless of when a Client borrows, makes the relevant investment, or pays expenses) and ceases to accrue upon return of such capital contributions. Using borrowing to shorten the period between calling and returning capital limits the amount of time the preferred return will accrue. Since a Client generally does not pay preferred return on funds borrowed in advance or in lieu of calling capital, fund-level borrowing will therefore reduce the amount of preferred return to which a Client's investors would otherwise be entitled had the Client called capital in lieu of borrowing on the general facility, and thus could allow the Client's general partner to receive profits interest sooner than it would without borrowing. The general partner therefore has an incentive to cause the Clients to borrow money for investments and expenses in larger amounts or over longer periods of time.

## **6. Cross-Guarantees, Cross-Collateralization, and Cross-Default**

In certain circumstances a Lone Star Fund and its investments may enter into cross-collateralization arrangements with other Lone Star and/or Hudson affiliated entities and their investments, particularly in circumstances in which better financing terms are available through a cross-collateralized arrangement. Any cross-collateralization arrangements with such Lone Star and/or Hudson affiliated entities could result in a Lone Star Fund losing its interests in otherwise performing investments due to poorly performing or non-performing investments of the Lone Star and/or Hudson affiliated entities in the collateral pool.

Similarly, a lender could require that it face only one party between a Lone Star Fund or a Lone Star and/or Hudson affiliated entity (including their respective investments), even though multiple investments of the Lone Star Fund and the Lone Star and/or Hudson affiliated entity benefit from the lending, which will typically result in (i) the party facing the lender being solely liable with respect to the entire obligation, and therefore being required to contribute amounts in respect of the shortfall attributable to the other party, and (ii) investments of the Lone Star Fund and the Lone Star and/or Hudson affiliated entity being jointly and severally liable for the full amount of the obligation, liable on a cross-collateralized basis or liable for an equity cushion (which cushion amount may vary depending upon the type of financing or refinancing (e.g., cushions for refinancings may be smaller)). If a Lone Star and/or Hudson affiliated entity were to be the party facing the lender, it is anticipated that the Lone Star Fund would enter into a back-to-back or other

similar reimbursement agreement to ensure that it bears its portion of the debt and related obligations.

To the extent that a Lone Star Fund enters into financing arrangements with one or more other persons, including, without limitation, any Special Investment Vehicles, Parallel Investment Entities, Lone Star Fund Entities, Lone Star and/or Hudson affiliated entities, or third parties, such arrangements may contain provisions that expose each of them to particular risk of loss. Financing may be entered into with a Lone Star Fund on a joint and several, cross-collateralized, or cross-default basis, or as discussed above, a Parallel Investment Entity may draw off a Lone Star Fund's general facility. Any joint and several, cross-collateralized, or cross-default provisions or the general facility being made available to a Parallel Investment Entity under the terms of a side-by-side agreement between the Lone Star Fund and a Parallel Investment Entity could magnify the effect of an individual default. If a cross-default provision were exercised, this could result in a substantial loss for all persons participating in the financing arrangements, including a Lone Star Fund. Also, a Lone Star Fund may be required to bear more than its actual share of the indebtedness incurred as well as additional costs and obligations resulting from a Parallel Investment Entity's utilization of the general facility if the Lone Star Fund is not fully reimbursed by the Parallel Investment Entity pursuant to the side-by-side agreement. It is not expected that the Lone Star Fund Entities would be compensated (or provide compensation to other Lone Star Fund Entities) for being primarily liable, or jointly liable, for other Lone Star Fund Entities' share of any financing.

## **7. Management of the Lone Star Funds**

The ultimate success of a Lone Star Fund is dependent on its principals and the officers and employees of the Adviser. Such persons will devote such time as the Adviser, in its sole discretion, deems necessary to carry out the operations of each of the Lone Star Funds effectively. However, certain of the principals of one Lone Star Fund may have an obligation to devote significant time working on matters related to one or more other Lone Star Funds or other Lone Star affiliated clients. Lone Star personnel may also work on other projects, serve on other committees and source potential investments for and otherwise assist the investment programs of Lone Star affiliated clients and their investments. Time spent on these other initiatives diverts attention from the activities of other Lone Star Fund(s) and Lone Star affiliated clients, which could negatively impact such Lone Star Fund, Lone Star affiliated client, and their limited partners. In addition, should any of the principals become incapacitated or in some way cease to participate in a Lone Star Fund, its performance could be adversely affected. Furthermore, Lone Star and certain Lone Star 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 Lone Star personnel. Subject to the Governing Documents of each Lone Star Fund, Lone Star's determination of the amount of time necessary to conduct a Lone Star Fund's activities will be conclusive, and the limited partners of such Lone Star Fund will rely on Lone Star's judgment in this regard. Lone Star may from time to time modify its investment process and procedures, including by changing the number and composition of a Lone Star Fund's investment committee or other Lone Star 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 will be no retroactive adjustment in the valuation of any investment, or the profits interest paid to the general partner, or Management Fees paid to LSGA to the extent any valuation proves not to accurately reflect the realizable value of an asset in a Lone Star Fund.

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.

## **10. Advisory and Other Service Providers**

Certain Lone Star Funds have retained or will retain Hudson, a related party of Lone Star, to provide advisory services (including, but not limited to, asset management and underwriting) and administrative and support services to the Lone Star Funds and the Lone Star Funds' investments. LSGA and Hudson will receive fees from the Lone Star Funds as

set forth in each Lone Star Fund's Governing Documents, which may be substantial. By virtue of their or their associated entities' ownership interest in LSGA and Hudson, certain of the principals or their associated entities will benefit from LSGA's and Hudson's relationship with and their receipt of fees from the Lone Star Funds. Such fees will not be based on the cost incurred by LSGA or Hudson and will likely result in a profit to LSGA or Hudson, enhancing their value. Limited partners (other than those limited partners holding direct or indirect interests in LSGA or Hudson) will not participate in any increase in the value of LSGA or Hudson by virtue of their ownership of an interest in a Lone Star Fund. While Lone Star and Hudson believe that a number of factors mitigate the potential fee-related and other conflicts associated with Hudson's status as a related party of Lone Star, there is no assurance that such conflicts have been or will continue to be fully or partially mitigated or that an unaffiliated third party would not charge a lesser rate to the applicable Lone Star Fund.

While Lone Star believes that there is an alignment of interest between the Lone Star Funds and certain principals, Key Employees, and their associated entities as a result of, among other things, the co-investments by certain Key Employees alongside the Lone Star Funds pursuant to the employee co-investment agreements and investments by certain principals or their associated entities, the operations of the Lone Star Funds are subject to certain conflicts of interest, including those arising out of relationships between the general partners of the Lone Star Funds, LSGA, Hudson, the principals, the Key Employees and their affiliates, including the conflicts and potential conflicts described elsewhere in this brochure.

Affiliated Service Providers or affiliates of Hudson are expected to also receive fees and expense reimbursements from certain Lone Star Funds. Such fees and relationship will enhance the value of these entities and their affiliated entities, including certain Lone Star Funds, and the limited partners (other than those limited partners holding direct or indirect interests in these entities) will not participate in any increase in the value of these entities by virtue of their ownership of an interest in a Lone Star Fund.

Conflicts are expected to also arise in determining whether Hudson, its affiliates, or any Affiliated Service Provider has performed its obligations to the Lone Star Funds and/or any Lone Star Fund Entities, and/or whether Hudson, its affiliates, or any Affiliated Service Provider (or any related parties) is entitled to be indemnified pursuant to the provisions contained in the Lone Star Funds' Governing Document and any other agreement between such entities and the Lone Star Funds. The managers, officers, and employees of each of Hudson, its affiliates, and any Affiliated Service Provider will devote such time as the applicable entity, in its sole discretion, deems necessary to perform its obligations under its agreements with the Lone Star Funds. The managers, officers, and employees of Hudson,

its affiliates, or any Affiliated Service Provider will also perform services for other customers and conflicts of interest may arise in allocating management time, services, or functions among the Lone Star Funds and other customers of such entities. Specifically, in certain circumstances, Hudson will be required to allocate fees attributable to personnel that provide services to both the Lone Star Funds and Hudson-sponsored clients and other third-parties as well as other expenses. Such allocations, which may be done on a flat fee, hourly, or other basis, are made in Hudson's reasonable discretion and create potential conflicts of interest in that Hudson has an incentive to allocate fees or expenses to the Lone Star Fund rather than a Hudson-sponsored client or another third party. Neither the Lone Star Funds, nor the limited partners by virtue of their ownership of an interest in a Lone Star Fund, shall have any right to the compensation received by Hudson, its affiliates, or any Affiliated Service Provider in connection with the services they provide to their customers. In addition, certain of these service providers are owned by certain prior Lone Star Funds, Hudson, or one or more Lone Star and/or Hudson affiliated entities, in which certain principals and the partners of the general partners and the employees of the Adviser may have an ownership interest, and this ownership creates a conflict with respect to the engagement of, these entities and any Affiliated Service Provider for such principals, partners, and employees.

## **11. 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.

## **12. 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.

### **13. Profits Interest and Other Incentive Compensation**

The existence of profits interests or other incentive compensation in respect of investments may create an incentive for a Lone Star Fund's general partner, including individuals who participate in the profits interest received by the general partner, to make more speculative investments on behalf of the Lone Star Fund or, in the case of Hudson, including individuals who participate in incentive or other performance-based compensation, to provide more speculative advice than such entities and individuals would otherwise make or provide in the absence of such profits interest or other incentive compensation or performance-based compensation, as applicable. In addition, the method of calculating profits interests, including with regard to the Lone Star Fund's general partner's profits interest, or other incentive or performance-based compensation, may result in conflicts of interest between the general partner or Hudson and the limited partners with respect to the management and disposition of investments and the determination of the order, timing, and amount of distributions by the Lone Star Fund. The general partner clawback potentially creates other misalignments of interests between the general partners and the limited partners, such as an incentive for a general partner to delay the dissolution and liquidation of the Lone Star Fund if doing so would trigger a clawback obligation. In addition, profits interest is calculated based on the amount and timing of capital contributed and capital returned on an investment after such investment has cleared the preferred return and other relevant tranches of the Lone Star Fund's waterfall.

Under current U.S. law, an investment must be held for more than three years in order for the profits interest related to such investment to be treated as long-term capital gains for tax purposes. Although a Lone Star Fund's general partner generally does not consider this holding period when making a decision on the disposal of an investment, this requirement may create a conflict between such general partner's interests and the interests of limited partners because it may create an incentive for the general partner to make different decisions regarding the timing and manner of disposal of an investment, including making a decision that takes its own tax consequences into consideration. This could motivate the Lone Star Fund's general partner to hold an investment for longer than three years in order to obtain lower tax rates on profits interest gains even if there are attractive realization opportunities earlier.

#### **14. 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"). The Employee Co-Investment Vehicles are not Clients of Lone Star for purposes of Item 4 – "Advisory Clients." 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 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 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.

## **15. 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.

## **16. Joint Venture Partners**

Lone Star Funds may from time to time enter into one or more joint venture arrangements with third-party joint venture partners. Investments made with joint venture partners will often involve performance-based compensation and other fees payable to such joint venture partners, as determined by the Lone Star Fund's general partner in its sole discretion. The joint venture partners could provide services similar to those provided by the Adviser, the Lone Star Fund's general partner, or Hudson to the Lone Star Fund. Yet, no compensation or fees paid to the joint venture partners would reduce or offset Management Fees payable to LSGA or profits interest payable to the Lone Star Fund's general partner. Additional conflicts would arise if a joint venture partner is related to Lone Star or Hudson in any way, such as a limited partner investor in, shareholder of, a lender to, or a service provider to Lone Star, a Lone Star Fund or its investments, a Lone Star and/or Hudson affiliated entity or their investments, Hudson, or any affiliate, personnel, officer, or agent of any of the foregoing.

## **17. 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.

## **18. 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.

## **19. Side Letters**

The general partner of each Lone Star Fund has entered into side letters with certain limited partners in connection with their admission to the Lone Star Fund without the approval of any other limited partner, which has the effect of establishing rights (other than as set forth in the Lone Star Funds' Governing Documents as a general matter) under or altering or supplementing the terms of the Governing Documents with respect to such limited partners in a manner more favorable to such limited partners than those applicable to other limited partners. These side letters will entitle a limited partner to make an investment in the Lone Star Fund on terms other than those described in the Lone Star Fund's Governing Documents, and that are more favorable than those offered to other limited partners. Such side letters may also provide such limited partners information rights not available to other limited partners that do not have the benefit of such agreements. Certain rights or benefits granted to limited partners by side letters may result in a Lone Star Fund's general partner being required to excuse or exclude such limited partners from one or more investments.

## **20. 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.

## **21. 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.

## **22. 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.

### **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. 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**

We generally do not aggregate orders for the Clients, although Lone Star does aggregate the transactions of a Lone Star Fund among its U.S./Bermuda Funds (if applicable), Co-Investment Vehicles, and Employee Co-Investment Vehicle(s).

## **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. However, we generally maintain ongoing strategic oversight with regard to Client investments. 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.

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.

Lone Star does not have advisory Clients other than the Lone Star Funds and certain related entities. Neither Lone Star nor its related persons directly or indirectly compensate any third party for Client referrals. We from time to time enter into placement agent arrangements with unaffiliated third parties regarding the solicitation of investors to the Lone Star Funds for compensation. LSGA has entered into placement agent agreements for certain Lone Star Funds with respect to solicitation of investors in certain regions or globally, and each such placement agent is paid a fee that is typically based on the amount of capital committed by each investor solicited by the placement agent and accepted by the general partner of the applicable Lone Star Fund. All fees paid to the placement agent are ultimately the responsibility of the general partner of the applicable Lone Star Fund, as governed by the provisions of the applicable Lone Star Fund's Governing Documents, but the general partner may cause the applicable Lone Star Fund to pay placement fees with such payments being offset on a dollar-for-dollar basis against the Management Fees. In addition, in certain circumstances, the Lone Star Funds will be obligated to indemnify, directly or indirectly, Lone Star and/or any placement agent and such indemnification will not offset Management Fees.

## **Item 15: Custody**

Not applicable.

## **Item 16: Investment Discretion**

We provide investment advisory services involving investment discretion to the Lone Star Funds. The right to manage, control, and conduct the business and affairs of a Lone Star Fund is vested solely in the Lone Star Fund's general partner. As such, each general partner may impose restrictions on LSGA, although it is not anticipated that a general partner would do so.

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

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

Lone Star has established written policies and procedures setting forth the principles and procedures by which Lone Star votes or gives consent with respect to securities owned by the Lone Star Funds for which Lone Star exercises voting authority and discretion ("Vote(s)"). In executing Votes, Lone Star, in conjunction with Hudson, seeks to maximize the economic value of relevant Lone Star Funds' holdings, taking into account the Lone Star Funds' investment horizon, the relevant Governing Documents, and any other facts and circumstances Lone Star determines to be appropriate at the time of the Votes.

It is Lone Star's general policy to vote or give consent on all matters presented to security holders in any Vote. But Lone Star reserves the right to abstain on any particular Vote or otherwise withhold its consent on any matter if Lone Star determines that the costs associated with casting such Vote outweigh the benefits to the relevant Lone Star Fund(s) or if the circumstances make such an

abstention or withholding otherwise advisable and in the best interests of the relevant Lone Star Fund(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**

LSGA does not require or solicit prepayment of fees.

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.