



Form ADV Part 2A Brochure

2711 North Haskell Avenue, Suite 1800
Dallas, TX 75204
214-754-8400
www.hudson-advisors.com

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This brochure provides information about the qualifications and business practices of Hudson Americas L.P. (“HAM”), the filing adviser, and its relying advisers, including Hudson Advisors L.P. (“HAL”). Together, HAM, its relying advisers and its participating affiliates (listed in Item 10) are referred to herein as “Hudson”. If you have any questions about the contents of this brochure, please contact us at 214-754-8400. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

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

Item 2: Material Changes

This amendment contains material changes from Hudson’s other-than-annual updating amendment dated October 18, 2017. In general, this amendment includes significant changes to the language in all Items designed to clarify certain references and provide better organized and focused disclosures. The following information was added to the brochure regarding new business arrangements:

- Item 4 – Fund and separate account management; Hudson Executive Committee
- Item 5 – Investor relations services provided by Hudson
- Item 7 – Types of clients

In addition, significant updates were made to the language in the following areas (which do not reflect changes in underlying business practices):

- Item 5 – Fees and expenses charged to co-investment vehicles
- Item 11 – Allocation of investment opportunities, co-investment allocations; transactions with investors; possession of material, nonpublic information; valuation

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Item 4: Advisory Business

Hudson

Founded in 1995, Hudson is a global asset manager focused on real estate, credit, equity, and other financial assets. Hudson provides investment advisory and related services to private funds and other clients from offices in North America, Europe, Asia, and Latin America. A complete list of Hudson's relying advisers and participating affiliates is provided in Item 10.

Hudson provides services with respect to a broad range of financial and other investment assets in various U.S. and non-U.S. jurisdictions, subject to the specific objectives and restrictions of each client. These assets include, but are not limited to:

- Commercial Real Estate – Commercial real estate-secured debt; direct and indirect equity interests in commercial real estate and commercial real estate-related assets; commercial mortgage-backed securities ("CMBS");
- Credit – Single-family residential real estate-secured debt and mortgage servicing rights ("MSRs"); single-family residential real estate and related assets; securitized products such as residential mortgage-backed securities ("RMBS"), collateralized debt obligations ("CDOs") (the underlying assets of which generally consist of RMBS), and other asset-backed securities ("ABS"); consumer debt; and
- Corporate – Equity (typically control interests) in financially oriented and other operating companies; corporate debt.

Description of Services

Hudson provides four categories of investment advisory services:

- Project-based Advisory Services
- Asset Management
- Fund and Separate Account Management
- Hedging Services

Hudson also provides ancillary services to certain of its clients. Hudson provides services to certain LS Funds with respect to newly or recently originated corporate debt under the name LStar Capital (www.lstarcap.com).

Project-based Advisory Services

Hudson provides a variety of non-discretionary advisory services to clients with respect to current or potential investments. Hudson conducts detailed due diligence and analysis of specific assets and portfolios of assets. Hudson advises clients on acquisition and disposition strategies, including transaction structuring and financing, and assists with implementation of approved transactions. Hudson also advises clients on asset management strategies, as well as overall portfolio composition and investment strategy. Hudson tailors its project-based advisory services to the investment strategies and objectives of each client.

Asset Management

Hudson provides ongoing discretionary or non-discretionary asset management with respect to investments acquired by its clients. Hudson provides oversight of single assets or pools of assets, including oversight of loan servicers, property managers, real estate brokers, and other applicable service providers. In some cases, Hudson directly provides servicing or special servicing with respect to loan portfolios. Hudson advises on and assists with the development of Business Plans (defined below) or other guidelines governing management of the investment. Hudson manages and resolves client assets in accordance with such Business Plan or other client guidelines, and seeks client approval for asset dispositions or strategy changes as required by the client.

Fund and Separate Account Management

Hudson serves as the manager of closed-end private funds (the “Funds”). The general partners of the Funds (“General Partners”) are related persons of Hudson. Hudson is responsible for originating and acquiring investments for the Funds, and also provides asset management, hedging and related services. Hudson may also serve as the manager of separate accounts that invest alongside the Funds or independently (“SMAs”).

Hedging Services

Hudson provides a variety of discretionary and non-discretionary hedging services designed to reduce client exposures to foreign currency, interest rates, and other market risks. Hudson advises clients with respect to current hedge positions, hedging strategies for specific investments or portfolios, and documentation and regulatory considerations, and implements approved transactions. Hudson also provides ongoing oversight of capital markets exposures of client portfolios, selects hedging counterparties, and implements hedging strategies within client guidelines. Hedges are typically implemented using forwards, swaps, or option strategies depending on the underlying risk being hedged.

Ancillary Services

In conjunction with its advisory services, Hudson provides certain ancillary back office services, including legal, compliance, audit, accounting, administration and periodic reporting, cash management, tax, risk management advice, information technology development and other similar and related services. As part of Hudson’s ancillary services, it typically determines the fair value of client investments, as discussed further in Item 11, and also provides periodic financial reports on client investments, as discussed in Item 13.

Executive Committee

Hudson has established a group of senior professionals (the “Executive Committee”) to oversee the operations of the firm. The Executive Committee includes the following Hudson officials: the Chief Executive Officer, the Chief Investment Officer - Credit, the Chief Investment Officer - Commercial Real Estate, the Chief Operating Officer, and the Chief Business Development Officer.

Hudson maintains an investment committee that is responsible for evaluating potential investments for Funds and separate accounts. The investment committee consists of the Executive Committee and the General Counsel (as a non-voting member). If an investment is approved by the investment committee on behalf of a Fund, it is presented to the applicable General Partner for final approval. The composition of the investment committee or the investment approval process may vary for certain clients, as provided in the applicable offering documents or client agreements.

Lone Star

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

Hudson was originally established to provide support to Lone Star and the LS Funds. Hudson continues to provide investment advisory and related services to the LS Funds, which remain its largest group of clients. Hudson typically provides due diligence and analysis services with respect to potential LS Fund investments to support evaluation and execution of such investments by Lone Star. After an investment is acquired, Hudson is engaged to provide asset management services. Hudson also provides various ancillary services to the LS Funds and their investments. Lone Star is not involved in the day-to-day asset management of LS Fund investments, but rather provides strategic oversight and advice with respect to the management and ultimate resolution of these assets. Further information regarding Lone Star and its services may be found in Item 10 and in the Form ADV Part 2 brochure for Lone Star.

Family Accounts

HAL provides investment advisory services to certain accounts related to members of senior management of Lone Star and Hudson or their families (“Family Accounts”) through separately managed accounts. The Family Accounts do not engage in transactions related to other Hudson clients and do not invest in the same types of assets as other clients.

Ownership

HAL was formed as a Texas limited liability company in 1995 and converted to a Delaware limited partnership in 2015. The majority limited partner of HAL is The Hudson LP Holdings Trust. The general partner of HAL is Hudson Advisors GenPar LLC. Hudson Advisors GenPar LLC is owned by The Hudson LP Holdings Trust. Minot Nevada PTC, Inc. serves as Trustee for The Hudson LP Holdings Trust. Minot International Ltd. is the 100% shareholder of Minot Nevada PTC, Inc., and The Minot Purpose Trust is the 100% shareholder of Minot International Ltd. Codan Trust Company Limited serves as Trustee for The Minot Purpose Trust. HAL directly or indirectly owns 100% of the filing adviser HAM and each of the participating affiliates listed in Item 10.

Assets Under Management

As of September 30, 2017, Hudson provided investment supervisory services with respect to approximately \$43,715,200,000 in assets of its clients, including unfunded commitments of its private fund clients, calculated in accordance with the methodology prescribed by the SEC for calculating Regulatory Assets Under Management.

Item 5: Fees and Compensation

Hudson generally receives fees from clients for services provided. Hudson is also generally entitled to be reimbursed by clients for expenses paid on their behalf. Common Hudson fee and expense arrangements are discussed below. The specific fee and expense terms for each client are subject to negotiation with the client and are detailed in the applicable offering documents or services agreements.

Management Fees

Hudson receives a management fee from the Funds and SMAs. The management fee is typically based on aggregate capital invested, reduced by repayments of principal or write-offs. The management fee is typically

waived for employees, affiliates, and other related persons of Hudson, including Employee Investment Vehicles. Hudson may also modify or waive the management fee for other parties. As noted in Item 14, certain fees received by Hudson or its affiliates from third parties will be offset against management fees or other expenses payable by clients. Asset management fees and other fees and expenses described in this section generally are not subject to offset against management fees.

Asset Management Fees

Hudson receives an asset management fee from clients to which it provides asset management services, including the Funds, the LS Funds, SMAs, and others. The asset management fee is typically based on the aggregate cost basis of the assets under management. With respect to the LS Funds, the asset management fee is capped, for each type of asset, at a specific percentage of the value of the assets under management over the life of the Fund.

Project-Based Advisory, Hedging and Ancillary Services Fees

Hudson fees for project-based advisory services, hedging services, and ancillary services may be structured as hourly billing rates, fixed fees, asset value-based fees or other arrangements as agreed with the applicable client. With respect to the LS Funds, fees for due diligence and analysis, hedging services and ancillary services are typically charged using actual time incurred and hourly billing rates based on the cost of providing these services, plus a specified margin.

Billing Arrangements

Hudson typically receives fees for its services on a monthly or quarterly basis in arrears and does not bill in advance. In limited circumstances, Hudson fees may be payable in advance. If Hudson did not perform the applicable services for the entire quarter, Hudson would return to the applicable client any prepaid but unearned fees. Hudson does not require or solicit prepayment of fees six months or more in advance. A client may invest in assets directly or indirectly through special purpose entities formed to hold the client's investments (each such entity is referred to as a special purpose vehicle or "SPV"). Hudson's fees are billed to the applicable client and/or SPV.

In determining applicable billing rates, Hudson incorporates the overhead cost of the resources deployed, including, but not limited to, the costs of employee compensation and benefits, office leases, information technology, Hudson regulatory compliance, human resources, and other Hudson operations supporting the services provided. Hudson billing rates do not include costs of the General Partners, the Funds, the LS Funds, or Lone Star.

Investor Relations Services

At the beginning of 2018, several employees of Lone Star that provided investor relations services to the LS Funds were transferred to Hudson. These employees continue to provide the same services to the LS Funds that they provided while at Lone Star. Lone Star will continue to cover the cost of such services provided with respect to the LS Funds whose final closings occurred prior to 2018, without any portion of such costs being charged to the applicable LS Funds.

Expenses

In addition to the fees discussed above, clients are typically required to cover expenses related to their investments and the operations of the entities involved. Common types of expenses paid by clients are discussed below. The specific types of expenses payable by each client are subject to negotiation with the client and are detailed in the applicable offering documents or services agreements. To the extent that client expenses are initially incurred by Hudson rather than paid by clients or SPVs directly, clients will reimburse Hudson for such expenses.

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

Each Fund generally bears the costs of legal, travel, and other out-of-pocket organizational and syndication expenses incurred in connection with its formation and closing. The obligation of the Funds with respect to such organizational and syndication expenses may be limited to a dollar amount as set forth in the Fund's offering documents; if such a limitation applies, any costs in excess of this amount will be payable by the Fund and such amounts in excess will offset management fees payable to Hudson. Each Fund, SPV or other entity used to facilitate client investments generally bears the cost of its operation, including outside legal and accounting fees, insurance and litigation expenses, and any taxes, fees, or other governmental charges levied against the applicable entity.

See Item 11 for further discussion regarding allocation of expenses between clients.

Specialty Management Firms

In the course of making investments, certain of the LS Funds have acquired or created certain specialty management firms to service various assets requiring specific management expertise. Such firms are sometimes engaged to provide services to other clients of Hudson. The fees paid by the clients receiving services under such arrangements ultimately benefit both the specialty management firms and the LS Funds that own them. The conflicts of interest involved with such arrangements are discussed further in Item 11. Hudson does not have an ownership interest in such firms or share in the fees they receive.

As an example, Caliber Home Loans, Inc. ("CHL") is a full service mortgage company and special servicer jointly owned by certain of the LS Funds. CHL provides a full complement of services including managing collection, modification and reporting activities for U.S. residential whole loan portfolios and mortgage servicing rights owned by certain clients of Hudson. Certain employees of Lone Star and Hudson comprise a majority of the board of directors of CHL. Servicing fees, ancillary fees and incentive fees paid by such clients to CHL will be customary and reasonable based on the services provided and consistent with market practice. CHL's fees for servicing are generally based on a percentage of the unpaid principal balance of the loans serviced. For any ancillary services performed by CHL (such as accounting and transaction management services), CHL's fees are based on the actual cost incurred plus a specified margin. CHL may also receive the types of incentive fees customarily retained by residential loan servicers for loss mitigation activities, based on a percentage of the loan balance.

Co-Investors

Certain employees, officers, directors, executives, members and contractors ("Key Employees") of Hudson and its affiliates are given the opportunity to invest indirectly in the Funds through employee investment vehicles. In addition, certain Key Employees of Hudson, Lone Star, and their affiliates are given the opportunity to invest on a side-by-side basis with the LS Funds through employee investment vehicles (each of the Hudson and Lone Star vehicles, an "Employee Investment Vehicle"). Employee Investment Vehicles do not pay any management fees or any promote allocations. Employee Investment Vehicles generally receive distributions from the underlying investments net of fees paid to Hudson, transaction costs, and other expenses allocated to the investment. The Employee Investment Vehicles also bear a pro rata portion of the unconsummated transaction costs incurred by the corresponding Funds or LS Funds.

The General Partners may also establish other co-investment vehicles through which investors in the Funds may participate in certain specific co-investment opportunities (each a “Co-Investment Vehicle”). Co-Investment Vehicles generally pay a promote allocation to the applicable General Partner but do not pay a management fee to Hudson. The fee arrangements of Co-Investment Vehicles are not required to align with the arrangements of the corresponding Funds. Co-Investment Vehicles typically bear all expenses related to their formation and operation, and receive distributions from the underlying investments net of fees paid to Hudson, transaction costs, and other expenses allocated to the investment. Co-Investment Vehicles generally do not bear any share of unconsummated transaction costs for other investments pursued by the Funds.

In addition to Employee Investment Vehicles and Co-Investment Vehicles, the General Partners may offer co-investment opportunities to certain other parties. Such co-investors generally do not pay a management fee to Hudson or a promote allocation to the applicable General Partner; they typically receive distributions from the underlying investments net of fees paid to Hudson, transaction costs, and other expenses allocated to the investment. They generally do not bear any share of unconsummated transaction costs for other investments pursued by the Funds.

Further information regarding co-investment arrangements is presented in Item 11.

Family Accounts

Hudson typically charges fees for services provided to Family Accounts using hourly billing rates based on the cost of providing the services plus a specified margin. The cost of such services is not borne by other Hudson clients.

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

Hudson does not receive any performance-based fees for the services that it performs for clients. Each LS General Partner, which is a related person of Hudson, receives a “carried interest,” which is a certain percentage of the actual returns in excess of certain performance hurdles of each investment made by the relevant LS Fund. Certain associated persons of Lone Star and Hudson have interests in one or more of the LS General Partners and receive a portion of such carried interest. Payment of the carried interest will generally occur on an investment-by-investment basis after all capital contributed for such investment is returned and a specific preferred return on such investment is realized and paid to the relevant LS Fund’s limited partners. The specific structure of each LS Fund’s “carried interest” is detailed in its offering documents.

This fee arrangement could create an incentive for Hudson to favor a client that pays higher carried interest over a client that pays lower carried interest when allocating investment opportunities. Hudson believes, however, that there are safeguards in place that protect against this circumstance. Hudson maintains allocation policies and procedures designed to provide for equitable allocation of investment opportunities. Such safeguards are discussed further in Item 11.

The Employee Investment Vehicles are not subject to carried interest allocations. In addition to the safeguards discussed in Item 11, the conflict of interest represented by managing the Employee Investment Vehicles side-by-side with clients subject to carried interest is mitigated by the structure of the Employee Investment Vehicles. The Employee Investment Vehicle(s) corresponding to a particular client participate in the same investments purchased by such client and represent a relatively small percentage of each investment. These structural elements are designed to align the interests of participants in the Employee Investment Vehicles with the interests of clients.

Item 7: Types of Clients

Hudson's primary clients are the Funds, the LS Funds, and their affiliates. Hudson may also provide services to corporate and public pension funds, sovereign wealth funds, university endowments, foundations, other private funds, and operating companies.

Each Fund sets its own minimum investment requirements for investors, which was twenty-five million U.S. dollars for the most recently raised Fund. The General Partner of a Fund may, in its sole discretion, waive the investment minimum. Each investor participating in the Funds is required to meet certain minimum qualifications applicable to the respective Fund, i.e., the investor must be an "accredited investor" within the meaning of Rule 501 of Regulation D promulgated under the U.S. Securities Act of 1933, as amended (the "33 Act") and must be a "qualified purchaser" as defined in Section 2(a)(51) of the Investment Company Act of 1940, as amended (the "40 Act"). The Funds are not registered under the 40 Act, and the offer and sale of interests in the Funds is not registered under the 33 Act.

As noted in Item 4, Hudson provides investment advisory services to certain accounts related to senior management and their families through separately managed accounts.

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

Investment Strategies and Methods of Analysis

Origination

To identify potential investment opportunities for clients, Hudson monitors target markets for potential sales of assets within the investment objectives of applicable clients. Typically, Hudson will seek potential investment opportunities from institutions such as banks, corporate sellers, private funds, real estate investment trusts ("REITs"), or government agencies. The investment professionals at Hudson 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.

Due Diligence

Hudson's due diligence and analysis on investments 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, an investment opportunity should be financed, Hudson 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 an investment, Hudson completes a full financial review and valuation, which includes a complete bottom-up, asset-based due diligence evaluation of the transaction. In providing these services, Hudson uses various methods of analysis, which utilize proprietary and third-party data, and are tailored to the type and location of the potential investment being evaluated.

Asset Management and Exit

In connection with the onboarding of a new investment, Hudson typically develops an initial business plan for the ongoing management of the investment (each, a "Business Plan"), in coordination with the client as applicable. Hudson conducts the asset management of each investment in accordance with the current Business Plan. Hudson periodically reviews the implementation and ongoing validity of the Business Plan; this review process is

discussed further in Item 13. Senior management of Hudson, in consultation with the client as applicable, will determine the appropriate exit for an investment, based on an ongoing analysis of buy versus hold scenarios, with a goal of maximizing overall risk-adjusted investor returns. Depending on the type of investment, Hudson will pursue a variety of exit strategies, including negotiated sales, private auctions, discounted payoffs, foreclosures, debt restructuring, and business reorganization/recapitalization.

Single-Family Residential Mortgage-Backed Securities

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

Corporate Equity and Debt

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

Whole Loans

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

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

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

Commercial Real Estate Assets

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

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

Hedging Services

Hudson provides foreign-currency hedging services, employing currency strategies that aim to reduce the foreign currency exposure of client investments. Similarly, where the clients invest in assets that have identified interest rate exposures or other risks, Hudson may provide interest rate hedging services or other hedging services related to those investments where such hedging services are deemed appropriate and cost effective. Hudson may hedge less than the full amount of an investment's currency, interest rate, or other risk exposure or may decide not to hedge such exposure. Hudson's foreign exchange and interest risk management services encompass hedging review, selection of hedging counterparties, trading and related accounting functions. Hudson implements client hedging activities through a variety of derivatives. In connection with non-U.S. dollar denominated investments, Hudson typically uses forward foreign exchange contracts and foreign currency options to manage foreign currency exposure. Additionally, if Hudson hedges the interest rate exposure of an investment, it typically uses interest rate swaps and interest rate options.

Risks

All investments involve the risk of loss that clients should be prepared to bear. A more detailed discussion of the risks relating to an investment in one of the Funds or LS Funds can be found in the applicable fund's offering documents.

Material Risks Relating to Investment Strategies

Focused Investment Strategy. The focused investment strategy utilized by Hudson on behalf of clients often does not incorporate consideration of other investments held in a client's investment portfolio. Accordingly, portfolio risk controls such as value at risk metrics, investment diversification across regions or industries or avoidance of risk concentration at the investment portfolio level are often not considered when assessing the merits of a potential investment. Instead, Hudson's investment strategy focuses on the expected returns of each potential investment on an individual basis. This focused investment strategy may result in a significantly higher risk profile compared to a strategy that actively diversifies investments across type, sector, location, and/or other risk factors.

Risk of Limited Number of Investments. As a result of Hudson's focused investment strategy, clients may participate in a limited number of investments or a limited number of asset classes and, as a consequence, the aggregate return of client portfolios may be substantially adversely affected by the unfavorable performance of even a single investment. In addition, the diversification of client investments could be further limited and proportionately more capital employed to the extent Hudson invests a significant portion of a client's capital in a limited number of transactions.

Limited Current Return. The return of capital and the realization of gains, if any, will generally occur only upon the partial or complete disposition of a client's investment. Developments in global financial markets over the past few years and new developments in global and local markets, if they occur, may adversely impact the ability of clients to dispose of investments at their expected returns. Current returns from investments may vary, as Hudson generally attempts to maximize realized returns on the disposition of client investments, and as such, will generally not favor early liquidation of an investment or foregoing potential disposition upside to maximize current returns.

Investing in Troubled Assets. Hudson may make investments in secured and unsecured non-performing loans or other troubled assets on behalf of clients that involve a significant degree of legal and financial risk and, particularly in the international context, political risks. Furthermore, investments in assets operating in workout modes or under bankruptcy reorganization laws may, in certain circumstances, be subject to certain additional potential liabilities that may exceed the value of a client's original investment. Moreover, particularly with respect to international investments in secured and unsecured non-performing loans or other troubled assets, there are additional risks and uncertainties related to litigation, bankruptcy, and other laws and regulations affecting the rights and remedies of clients, which can create additional financial risks to clients.

Risks of Investing in Real Estate-Related Assets. Investments in real estate assets and real estate-related investments are subject to various risks associated with the real estate industry generally, including adverse changes in the financial conditions of tenants, buyers, and sellers of properties; the availability of financing; real estate taxes, interest rates and other operating expenses; insurance; environmental laws and regulations, zoning laws, and other governmental rules and fiscal policies; the relative popularity of certain property types and locations; and the availability of certain construction materials. Developments in global and local financial and real estate markets over the past few years, and new developments in those markets, if they occur, may result in reductions in the value of real property interests. The real estate assets associated with client investments may be or become non-performing after acquisition for a wide variety of reasons. Such non-performing real estate investments may require a substantial amount of workout negotiations and/or restructuring, which may entail, among other things, a substantial write-down of such loans or assets. Additionally, there has been increased regulatory scrutiny from both state and federal regulators, including without limitation the Consumer Financial Protection Bureau, regarding the acquisition, servicing and securitization of non-performing mortgage loans.

Risks of Investing in Commercial Mortgage Loans. The value of clients' commercial mortgage loans and the underlying real estate will be influenced by the historical rate of commercial mortgage loan delinquencies and defaults and by the severity of resulting losses. Commercial mortgage loans are generally viewed as exposing a lender to a greater risk of loss through delinquency and foreclosure than lending on the security of single-family residences. The ability of a borrower to repay a loan secured by income-producing property typically is dependent primarily upon the successful operation and operating income of such property rather than upon the borrower's other income or assets, as most commercial mortgage loans provide recourse only to the property itself.

Credit Risks. A client's investment could lose money if the issuer or guarantor of a fixed income security is unable or unwilling, or is perceived by market participants, ratings agencies, pricing services or others as unable or unwilling to make timely principal and/or interest payments, or to otherwise honor its obligations. Securities are subject to varying degrees of credit risk, which are often reflected in their credit ratings. The downgrade of the credit of a security held by a client may decrease its value. "Opportunistic" assets are generally considered to

have significant credit risk. With respect to the financing strategies and hedging services described above, clients may also be subject to the risk that a counterparty to a financing arrangement or derivatives contract may be unable or unwilling to honor its obligations as a result of the counterparty's financial condition or insolvency.

Risks Associated with Mortgage-Backed Securities. In general, risk factors discussed herein pertaining to mortgage loans (and the type of property securing such mortgage loans), would similarly pertain to any mortgage-backed security in which clients invest. Some or all of the potential mortgage-backed securities acquired by clients may not be rated, or may be rated lower than investment grade by one or more nationally recognized statistical rating organizations. The majority of the mortgage-backed securities acquired by clients are typically lower-rated or unrated, and the original ratings of many of these securities were withdrawn or downgraded to levels that are significantly below investment grade. Lower-rated or unrated mortgage-backed securities in which clients may invest have speculative characteristics that can involve substantial financial risks. Securities rated lower than "B" can be regarded as having extremely poor prospects of ever attaining any real investment standing and may be in default. Existing credit support and the owner's equity in the property may be insufficient to protect clients from loss. If clients invest in subordinated mortgage-backed securities in particular, clients will be first in line among debt holders to bear the risk of loss from collateral delinquencies and defaults. To the extent that the mortgage loans that underlie specific mortgage-backed securities are prepayable, the value of such mortgage securities may be negatively affected by increasing prepayments, which generally occur when interest rates decline.

Risks Associated with Leveraged Buyouts. A client may structure one or more of its operating company investments as a leveraged buyout, in which the acquisition is financed using substantial amounts of debt secured by the target company's cash flows or other assets. These investments are particularly sensitive to adverse economic factors and other risks associated with leverage generally, which magnify their volatility and may substantially increase the client's risk profile. In the event an operating company is unable to generate sufficient cash flow to meet the payment obligations associated with the related acquisition financing, the value of the client's equity position in such operating company could be significantly reduced or even eliminated. In addition, such investments are subject to risks generally associated with investments in operating companies, including, without limitation, the possibility that the operating company's management may have economic or business interests or goals which are inconsistent with those of the applicable client.

International Investing. Hudson performs services for clients on a global basis, and in particular, in North America, Europe, Asia Pacific and Latin America. Hudson may also make significant investments on behalf of clients in countries that are considered "emerging markets". Risks to clients' investments may result from differences between U.S. and non-U.S. countries, such as the absence of uniform accounting, auditing, and disclosure requirements; less government oversight and other legal and regulatory differences, including weaker investor protections and fiduciary duties; less advanced bankruptcy laws; and difficulty in enforcing contractual obligations. Further risks may involve a country's potential economic, political, or social instability, which can lead to expropriation or confiscatory taxation, higher inflation, nationalization, confiscation without fair compensation, or war and can necessitate reliance on a country's diminished economic and physical infrastructure to support investment activity. Such instability may also lead to fluctuations in currency exchange rates that affect the value of a client's investments, and foreign currency and other restrictions imposed to prevent capital flight, which may make it difficult or impossible to exchange or repatriate foreign currency. Hudson analyzes risks in the applicable countries before recommending investments for clients, but no assurance can be given that a country's political, social or economic climate, or particular tax, legal, or regulatory risk might not adversely affect an investment by clients. Despite efforts by Hudson to mitigate some of the foregoing risks, these risks may ultimately limit clients' ability to dispose of certain investments or to dispose of certain investments profitably.

Financing and Use of Leverage. Clients' ability to achieve or surpass target rates of return on the investments recommended by Hudson may depend on the ability to access sufficient financing sources on desirable terms. Where available, clients' investments are typically financed by initially borrowing under a line of credit, subsequently to be replaced with SPV level financing that is secured by the specific investment that is being financed. This leverage will increase the exposure of such investments to adverse economic factors such as

significantly rising interest rates, increased risk spreads, severe economic downturns or deterioration in the condition of the investment or its corresponding market. Generally, the presence of leverage in clients' investments will magnify their volatility and may substantially increase clients' risk profile. In the event a specific investment is unable to generate sufficient cash flow to meet a margin call or a principal or interest payment required to maintain the financing arrangements related to that investment, the value of a client's equity position in that investment could be significantly reduced or even eliminated.

Clients and the SPVs use a variety of financing sources including, without limitation, bank loans and repurchase agreements. The repurchase agreements used by the SPVs for financing purposes may have various terms ranging from a month or less to five or more years. In the event that any given financing arrangement is terminated prior to its expected term, the SPV may not be able to refinance the underlying investment in a timely manner, or on the same terms as the prior financing arrangement, or on any terms.

In addition to the enhanced portfolio volatility and risk that may arise from the use of leverage, each financing instrument is subject to credit risk with respect to the counterparty. Financing transactions typically involve the transfer of legal title, pledge, or other encumbrance of the underlying investment held by the client. Accordingly, the insolvency or bankruptcy of a financing counterparty may result in legal action that impairs the value or marketability of the underlying investment, or the client's ownership rights. There can be no assurance that the client will recover all or any of the economic value of the investment under such circumstances, and any such recovery may require the payment of substantial legal costs.

Illiquidity of Investments. Most client investments are highly illiquid, and there can be no assurance that the clients will be able to realize these investments in a timely manner. It is unlikely that there will be a public market for most of the investments held by clients. Clients generally will not be able to sell securities held in their investment portfolios publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration requirements is available. In some cases clients may be prohibited by contract or regulatory requirements from selling investments for a period of time. In addition, the types of investments held by clients may be such that they require a substantial length of time to liquidate. In the event of a margin call or other loan repayment at a time in which a client does not have sufficient cash assets to cover such call or payment, clients may have to liquidate certain investments at less than their expected returns, thereby resulting in lower realized proceeds.

Swaps and Derivative Investments. Hudson may utilize swaps and other derivative transactions on behalf of clients to obtain a desired exposure and such transactions may expose clients to unlimited risk of loss. To the extent clients invest in repurchase agreements, swaps, and other "synthetic" or derivative instruments, counterparty exposures can develop and clients take the risk of nonperformance by the other party on the contract. Transactions such as these, which are entered directly between two counterparties, may expose the parties to the risk of counterparty default.

Derivatives are a financial contract with a value that depends on, or is derived from, an underlying product. Some of the risks generally associated with derivatives include the risks that: (1) the value of the derivative will change in a manner detrimental to clients; (2) another party to the derivative may fail to comply with the terms of the derivative contract; (3) the derivative may be difficult to purchase or sell; and (4) the derivative may involve indebtedness or economic leverage, such that adverse changes in the value of the underlying asset could result in a loss substantially greater than the amount invested in the derivative itself or in heightened price sensitivity to market fluctuations. Derivatives markets can be highly volatile. The profitability of investments by clients in derivatives depends on the ability of Hudson to correctly analyze these markets, which are influenced by, among other things, changing supply and demand relationships, governmental, commercial, and trade programs and policies designed to influence world political and economic events, and changes in interest rates. In addition, the assets of clients may be pledged as collateral in derivatives transactions. Thus, if clients default on such an obligation, the collateral may be at risk.

Reuse of Collateral. In connection with swaps and other derivative transactions, a client is frequently required to post collateral to transaction counterparties or clearing firms. The amount of such collateral may be material to the client's account. Such collateral may, from time-to-time and without notice to Hudson or the client, be carried in the general account of the counterparty or clearing firm and may be sold, pledged, rehypothecated, assigned, invested, loaned, commingled or otherwise disposed of, or otherwise used in the business of the counterparty or clearing firm without any claim or right of any nature whatsoever of the client. A counterparty or clearing firm holding collateral in connection with a swap or other derivative transaction is obligated to return to the client assets equivalent to those provided as collateral. Although Hudson seeks to enter into transactions on behalf of clients with creditworthy counterparties and clearing firms on favorable terms, there can be no assurance that collateral posted to such parties will be returned to clients in a timely manner. The insolvency or bankruptcy of a counterparty or clearing firm may result in partial or full loss of collateral posted and may require the payment of substantial legal costs to enforce the right of clients to the return of equivalent assets.

Use of SPVs. Clients will often use various SPVs to hold investments. The use of these SPVs may involve additional costs of formation, structuring, and operating such entities. Because of the worldwide reach of the investments made by clients, these SPVs could be of a type with which Hudson has less familiarity, and therefore provide additional informational and operational uncertainty or difficulties in managing and disposing of investments through such entities. Some of these entities may be controlled by boards of directors, one or more members of which may, for regulatory or other reasons, not be affiliated with Hudson or the client or subject to its (or its affiliates') supervision and control. An SPV that holds interests in investments on behalf of a client may be structured such that its board of directors must approve asset dispositions. A client may not be able to execute the desired exit strategies if the directors of an SPV do not approve asset dispositions in accordance with such recommendations. Clients may incur investment losses or lost opportunities, may not be able to distribute capital in accordance with their projections, and may incur additional costs as a result of the decisions of directors of such SPVs.

Investments through Partnerships and Joint Ventures. Clients will generally make investments through partnerships, joint ventures, operating companies, corporations, companies, or other entities. Such investments may involve risks not present in direct investments, including, for example, the possibility that an operating company, co-venturer, or partner of a client may commit fraud, become bankrupt, or have economic or business interests or goals which are inconsistent with those of the client, or that any such operating company, co-venturer, or partner may be in a position to take action contrary to the client's objectives. Furthermore, if a co-venturer or partner defaults on its funding obligations, it may be difficult for the client to make up the shortfall from other sources. The client may be required to make additional contributions to replace such shortfall, thereby reducing the diversification of its investments. Any default by such co-venturer or partner could have an extremely deleterious effect on the client, its assets, and the interests of the limited partners. In addition, the client may be liable for actions of its co-venturers or partners.

Material Risks of Loss Related to Methods of Analysis

Risks Related to Hudson's Methods of Analysis

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

The due diligence and analysis services performed by Hudson may frequently be required to be undertaken on an expedited basis, as may investment decisions made by Hudson, to take advantage of investment opportunities. In such cases, the information available at the time of an investment decision may be limited, and Hudson may not have access to detailed information regarding the investment opportunity, such as physical characteristics, structural or environmental matters, zoning regulations, or other local conditions affecting an investment. With respect to real estate-related investments, Hudson may not be able to undertake all appropriate inquiries into the previous ownership and uses of a property consistent with typical commercial or customary practice. Therefore, no assurance can be given that Hudson will have knowledge of all circumstances that may adversely affect an investment. In addition, Hudson may rely upon independent consultants or other third parties in connection with its evaluation of proposed investments; however, no assurance can be given that such parties will accurately evaluate such investments, and clients may incur liability as a result of their actions.

Specific Risks Related to Hudson's Methods of Analysis

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

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

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

Analysis of Single-Family Residential Whole Loans. The material risks related to evaluating loans include: (1) changes affecting the model inputs used to project loan performance; and (2) the potential for new variables to significantly impact the likelihood of loan repayment. To address these risks, periodic model validation tests are performed and the models are adjusted to account for changes in the market, including housing trends. Multi-scenario valuations are performed in an attempt to assess downside risk. Non-performing residential mortgage loans also have increased risk of litigation in connection with the foreclosure process. To help mitigate this risk, third-party due diligence vendors may be engaged to review a sample of loans.

Analysis of Commercial Real Estate Assets. The material risks related to evaluating CMBS, commercial real estate loans and properties include: (1) changes affecting the model inputs used in the valuations; and (2) the potential for new variables to significantly impact the ability to realize a profit on the investment. To assess these risks, on-going surveillance of the market is used to adjust the model for a particular investment, and multi-scenario valuations are performed in an attempt to assess downside risk. Commercial real estate loans and CMBS also have increased risk of litigation in connection with the foreclosure process. To help mitigate this risk, third-party due diligence vendors may be engaged to review a sample of loans.

Hedging Services. Hudson may recommend that a client enter into hedging and similar transactions with respect to foreign currency, interest rate, and other risks where deemed appropriate and cost effective. There is, however, no assurance that foreign exchange risk and/or interest rate risk can be perfectly hedged or minimized where the magnitude and timing of future cash flows can only be estimated and not known with certainty. Thus, prudent

currency and interest rate hedging policies only serve to minimize or reduce these risks, but not to eliminate them completely. There can be no assurance that a client will have sufficient liquidity or credit capacity to support the hedging services provided by Hudson, and no assurance that hedging techniques will be available, be available at a reasonable cost, or be sufficient to eliminate these risks. In addition, Hudson may recommend that a client hedge the investment's currency or interest rate exposure at an amount less than the expected value of that investment or not at all. In such cases, the client may suffer losses from changes in foreign exchange rates or interest rates that may have been recouped through hedging transactions if the investment had been fully hedged. With any hedging transaction there exists a risk that any counterparty to a hedging transaction will not perform as expected. There may also be complications in the enforcement of hedging transactions in the event of partial or total dissolution of a currency block such as the Euro, the imposition of currency controls, or similar currency market disruption to a hedged currency, and litigation between clients and the hedging counterparty may result from such complications. Such a disruption to the currency markets may also cause clients to be unable to implement hedging transactions in the affected markets for an indefinite period of time.

General Risk Factors

Market Risks. Clients may have some investments that are publicly traded or traded in active private markets. The values of such investments are particularly susceptible to fluctuations based on market trends. Certain worldwide government bodies and central banks have responded to financial market turmoil with extraordinary intervention programs, the success of which has yet to be measured. As a result, credit availability has contracted and financing costs have increased, which have acted as barriers to new, sizeable, leveraged transactions. This reduced (or more expensive) credit availability, along with equity and debt security valuation declines, has negatively impacted the private equity sector. Further changes in stock prices, interest rates, currency exchange rates, or commodity prices could result in changes in the broader marketplace that adversely affect the value of publicly traded investments, particularly with respect to investments located in emerging markets or traded on relatively volatile exchanges. Clients may invest in publicly traded securities on markets that are relatively illiquid or volatile. The values of such investments are particularly susceptible to fluctuations based on market trends. Hudson may have difficulty disposing of such investments at a price and on terms that are attractive to clients.

Currency Risk. Clients may make investments in assets denominated or valued in non-U.S. currencies. To the extent that clients invest in securities or assets denominated in or indexed to foreign currencies, changes in currency exchange rates bring an added dimension of risk. Currency fluctuations could negatively impact investment gains or add to investment losses. Although Hudson may attempt to hedge against currency risk, the hedging instruments may not always perform as Hudson expects and could produce losses. Suitable hedging instruments may not be available for currencies of emerging market countries, and an investment may not be adequately hedged with respect to its currency exposure even if suitable hedging instruments are available.

Taxation. Investments in real estate, equity, credit, and other financial assets may be subject to various taxes and duties imposed by the jurisdiction in which such assets reside or operate. Depending on the jurisdiction, some investors in a Fund or LS Fund may be required to take into account their allocable share of the fund's current year activity, without regard to whether the investor has received or will receive any distributions from the fund. Accordingly, an investor's tax liability for any taxable year associated with an investment in a fund may exceed cash distributed to that investor during the taxable year.

Hudson endeavors to structure each investment to comply with all applicable laws and regulations. However, taxing authorities may challenge a structure and, if successful, additional tax may be owed. Additionally, tax laws in any jurisdiction in which clients invest are subject to changes or revocations which may expose clients to unexpected taxation and reduce their returns.

Risks of Environmental Liabilities. Under various laws, ordinances, and regulations, an owner or operator of real property may become liable for the costs of removal or remediation of certain hazardous substances and other

environmental pollutants (including, without limitation, petroleum products, asbestos, and polychlorinated biphenyls) released on, about, under, or in the property. Environmental laws often impose this liability without regard to whether the owner or operator knew of, or was responsible for, the release of hazardous substances or other environmental pollutants. The presence of hazardous substances or other environmental pollutants, or the failure to remediate hazardous substances or other environmental pollutants properly, may adversely affect the owner's ability to sell or use real estate or to borrow outside funds using real estate as collateral. Environmental liabilities with respect to a specific real estate asset may exceed the value of such asset, and under certain circumstances, subject the other assets of clients to such liabilities.

Regulatory Risks. There is no assurance that the Funds, the LS Funds, their general partners, Hudson or the SPVs will be able to: (i) obtain all required regulatory approvals not yet acquired, or that may need to be acquired in the future; (ii) obtain any necessary modifications to existing regulatory approvals; or (iii) maintain required regulatory approvals. Delay in obtaining or failure to obtain and maintain in full force and effect any regulatory approvals, or amendments thereto, or delay or failure to satisfy any regulatory conditions or other applicable requirements could prevent operations of a portfolio company, impede the development of real estate assets, delay the completion of a previously announced acquisition or sale to third parties, or otherwise result in additional costs to a portfolio company, or other investment, and in turn clients. The global investment strategies of Hudson are subject to complex, changing, and sometimes competing legal, tax, and regulatory regimes throughout the world, and there is a possibility that new or changing regulatory requirements could potentially have adverse effects on clients.

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

Item 9: Disciplinary Information

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

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

relating to the transactions involved in clause (ii) above. Paul Yoo was sentenced to three years imprisonment and a fine of KRW 4.295 billion (approximately USD 3.6 million, which was suspended). The Seoul High Court also imposed a criminal fine of KRW 25 billion (approximately USD 21 million) on KEB Holdings.

Under the SEA as applied in line with the Korean Constitutional Court's prior rulings, a court must find that a company's legal "representative" was involved in alleged violations in order to convict the company. The Seoul High Court's decision against KEB Holdings was based on the activities of Michael Thomson, whom the Court considered to be the legal "representative" of KEB Holdings for purposes of the SEA. No charges were brought against Ellis Short, Michael Thomson, or Steven Lee, the other Lone Star Directors. No Lone Star Director other than Paul Yoo participated in the proceedings. Hudson has been advised by Korean counsel that the court's finding against KEB Holdings is not a conviction against these individuals personally.

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

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

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

Covered Period. Additionally, HAK was required to submit to the FSC a plan for taking measures against the officers/employees involved in the acts related to the ABS specialty companies.

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

In addition, the SPO charged (i) Mr. H.C. Cheong, the President of HAK, with breach of fiduciary duty for manipulation of the reported rates of return for certain investments made in Korea by certain prior LS Funds (similar to the charge above against Mr. Yoo), embezzlement and tax evasion, and (ii) an entity that was 50% owned by Lone Star Real Estate Fund III (U.S.) and Lone Star Real Estate Fund III (Bermuda), L.P. (together,

“LSF III”), vicariously for Mr. Cheong’s tax evasion charge. Although Mr. Cheong has been acquitted on most of these charges, including the one for which the LSF III investment affiliate was vicariously charged, he has been convicted of certain of the breach of fiduciary duty charges and certain of the tax evasion charges.

On November 21, 2012, certain related entities of the LS Funds initiated arbitration against the government of the Republic of Korea with the International Center for Settlement of Investment Disputes, claiming damages suffered as a result of the Korean government’s unlawful interference with those entities’ investments in Korean companies (including KEB). The claims arise out of the government’s failure to comply with its obligations under the investment treaty between Belgium and South Korea. The last arbitration hearings were held in June 2016, and a decision is not expected from the tribunal until 2018.

Item 10: Other Financial Industry Activities and Affiliations

CFTC

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

The Funds and the LS Funds currently rely on an exemption from registration provided by Rule 4.13(a)(3) under the Commodity Exchange Act (the “CEA”). In addition, HAL relies on an exemption provided by Rule 4.7 under the CEA to pools whose participants are limited to “qualified eligible persons” with respect to certain investment entities that are subsidiaries of certain Funds and LS Funds and that may be defined as commodity pools. Pursuant to this exemption, offering memoranda for the Funds and the LS Funds as well as such subsidiaries are not required to be, and will not be, filed with the CFTC.

Relying Advisers

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

- Hudson Advisors L.P.
- Hudson Advisors (Canada), LLC

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

Participating Affiliates

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

- Hudson Advisors Argentina S.R.L.
- Hudson Advisors Asia-Pacific, Limited
- Hudson Assessoria Brazil Limitada
- Hudson Advisors (Canada), LLC
- Hudson Advisors Europe Designated Activity Company
- Hudson Advisors France SARL
- Hudson Advisors Germany GmbH
- Hudson Advisors Ireland Designated Activity Company (registered as a credit servicing firm with the

- Central Bank of Ireland)
- Hudson Japan K.K. (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 Spain S.L.U.
- Hudson Advisors UK Limited (registered as a corporate finance advisory firm with the U.K. Financial Conduct Authority)

General Partners

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

Lone Star

As noted above, Hudson has been engaged to provide due diligence and analysis, asset management, and ancillary services to the LS Funds. LSGA and the following affiliates of LSGA that provide investment advice with respect to the LS Funds are related persons of Hudson:

- LSGA Holdings, Ltd.
- Lone Star Global Acquisitions, LLC
- Lone Star Argentina Acquisitions S.R.L.
- Lone Star Asia-Pacific Acquisitions (Hong Kong) Limited
- Lone Star Asia-Pacific Acquisitions (Singapore) Pte. Ltd.
- Lone Star Brasil Acquisitions Participacoes Ltda.
- Lone Star Canada, LLC
- Lone Star Europe Acquisitions Limited
- Lone Star France Acquisitions SARL
- Lone Star Germany GmbH
- Lone Star Japan Acquisitions Ltd.
- Lone Star Latin America Acquisitions, LLC
- Lone Star Netherlands Acquisitions B.V.
- Lone Star North America Acquisitions, LLC
- Lone Star North America Acquisitions, L.P.
- Lone Star Portugal Acquisitions, S.A.
- Lone Star Spain Acquisitions S.L.U.

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

Code of Ethics

Hudson has adopted a global regulatory compliance manual that sets forth certain standards for its employees, including a Code of Ethics which contains the following policies: Code of Conduct, Gifts and Entertainment Policy, Outside Business Activities Policy, Personal Trading Policy, Market Abuse Policy, and Political Activities Policy (collectively, the “Code”). Hudson adopted the Code in accordance with Section 204A of the Advisers Act. The Code emphasizes Hudson’s fiduciary duty to place the interests of clients before the interests of Hudson and its employees, including proper management of conflicts of interest.

Under the Code, employees are generally required to pre-clear personal investment transactions with the Chief Compliance Officer or designee, including transactions by others in their household. Employees are also required to periodically report personal and household investment accounts and holdings. The Code generally restricts the purchase and sale by employees of investments held by Hudson's clients. The Code also addresses pre-clearance and reporting obligations of employees with respect to gifts and entertainment given and received, political contributions, and outside business activities.

Hudson will provide a copy of the Code to any client, prospective client, or investor or prospective investor upon written request to the Chief Compliance Officer, Hudson Advisors L.P., 2711 N. Haskell Avenue, Suite 1800, Dallas, Texas 75204.

Participation or Interest in Fund Transactions

Participation or Interest in General

None of Hudson, its employees, or its related persons invest in opportunities recommended to clients, except for investments in the Employee Investment Vehicles, investments in certain other Co-Investment Vehicles authorized by the offering documents of the relevant Funds (or similar vehicles with respect to the LS Funds), interests held directly by General Partners or LS General Partners in the corresponding funds, limited partnership and other ownership interests in the General Partners held by certain associated persons of Hudson, interests in the LS General Partners held by certain associated persons of Lone Star and Hudson, and limited partnership interests in certain Funds or LS Funds held by certain associated persons of Lone Star and Hudson. Hudson will not, as principal, transact in securities with clients without first disclosing in writing Hudson's capacity in the transaction and obtaining the consent of the relevant client(s), including the Advisory Committee(s) (defined below) of any applicable funds.

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

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

Employee Investment Vehicles

The Employee Investment Vehicles co-invest with the applicable Funds or LS Funds in each investment that they acquire. The Employee Investment Vehicles do not make any differing or separate investments from the corresponding funds. The terms of the corresponding Employee Investment Vehicles are disclosed in the offering documents of the applicable Funds or LS Funds.

The LS Funds whose final closings occurred prior to 2009 made financing available to Key Employees participating in Employee Investment Vehicles through a promissory note that bears interest at a commercial rate and on a full recourse basis with the Key Employee's interest in the co-investment as collateral. The amounts borrowed are generally repaid from a portion of any and all distributions from the co-investment. The LS General Partner of an LS Fund may, under certain circumstances such as the death or incapacity of a Key Employee, and in its sole discretion, purchase such a loan from the relevant LS Fund for an amount equal to the outstanding principal and accrued interest of the loan. In such cases, the LS General Partner will enter into arrangements to ensure that any profit associated with such a purchase is repaid to the LS Fund. With respect to LS Funds whose final closings occurred after 2009, LSGA, HAL and/or one or more of their respective affiliates may provide financing, directly or indirectly, to Key Employees who participate in an Employee Investment Vehicle. HAL may provide similar financing to Key Employees who participate in an Employee Investment Vehicle with respect to a Fund.

The Employee Investment Vehicles are designed to align the interests of Key Employees with those of the applicable Funds or LS Funds. The Key Employees who participate in the Employee Investment Vehicles have personal assets at risk alongside the investors in the applicable fund. These arrangements do, however, present conflicts of interest. For example, the financing provided to Key Employees may be extensive, may have a significant effect on the net worth of these employees, and may influence employees responsible for the provision of investment advice to recommend higher risk investments than they otherwise would. The personnel of Hudson and its related persons who participate in an Employee Investment Vehicle may have an incentive to recommend the acquisition or disposition of assets based on their personal interests (which could include the obligation to repay financing provided by HAL) rather than the best interests of the applicable client. Also, because participants in the Employee Investment Vehicles typically decide whether to invest at a later time than the investors in the Funds or LS Funds, the participants in the Employee Investment Vehicle may, at the time of their investments, have information regarding potential investments that may be more comprehensive than information known by a fund's underlying investors at the time they made their investments. In addition, employees who participate in the Employee Investment Vehicles may not be financially able to meet capital calls.

Hudson believes that there are factors with respect to the Employee Investment Vehicles that mitigate the conflicts of interest discussed above. Once a Key Employee decides to participate in an Employee Investment Vehicle with respect to a Fund or an LS Fund currently in its investment period, that Key Employee has no ability to opt out of the Employee Investment Vehicle's future investments. Hudson (and Lone Star, with respect to the LS Funds) will decide on the amount of the Employee Investment Vehicle's participation in each investment (within a range provided in the applicable fund's offering documents). Accordingly, the maximum contribution an Employee Investment Vehicle can make to an investment is immaterial in relation to the total investment made by the participating Fund or LS Fund. Hudson has implemented policies and procedures, including the Code, that are designed to mitigate and properly manage any conflicts of interest and to require employees to act in the best interests of Hudson's clients at all times.

Consistent with the limited partnership agreement of each Fund and LS Fund, the applicable fund may temporarily fund the entire cost of the initial acquisition of an investment, subject to the Employee Investment Vehicle's obligation to reimburse the fund after it calls capital from its investors for the investment. Amounts temporarily funded by the Fund or LS Fund accrue interest that is paid to the fund together with the reimbursement of capital. With respect to an initial investment, the Employee Investment Vehicle shares in the risks and benefits of hedging and financing transactions that occur prior to reimbursement of the applicable fund, although the fund is directly exposed to the Employee Investment Vehicle's share of these risks, as well as investment-related risks, prior to reimbursement.

When executing certain hedging transactions, Hudson aggregates orders for the applicable Funds or LS Funds and any Employee Investment Vehicle invested in an asset. When aggregating orders, Hudson determines the total amount to be hedged for such investment, executes the hedging transaction for the applicable funds on a collective

basis, and then allocates the trade among the funds and any Employee Investment Vehicle invested in the asset, based on their respective capital commitments.

Other Conflicts of Interest

Allocation of Investment Opportunities

When allocating investment opportunities between clients, differences in fee and expense structures, relative performance, interests owned by related persons of Hudson, or other factors could create an incentive for Hudson to favor certain clients over others. In order to address this conflict of interest, Hudson has established policies and procedures to govern the allocation process (“Allocation Policy”). The Allocation Policy requires Hudson to allocate investment opportunities among its clients in a manner that is fair, equitable, and consistent with its obligations to all clients. In determining the appropriate allocation, Hudson may consider a variety of factors, including but not limited to the following:

- Allocation preferences granted to certain clients in applicable offering documents or services agreements;
- Strategic value that a client may contribute to the investment;
- Current holding by the client of the same or related investment;
- Current client portfolio composition;
- Client investment restrictions or capacity constraints;
- Ability of the client to accommodate structure, financing, timing or other aspects of the investment process;
- Avoiding de minimis investments;
- Potential conflicts of interest, reporting, reputational, competition, or confidentiality concerns that may arise in connection with allocation to a particular client;
- Tax, legal, or regulatory considerations; and
- Exclusion of the client from prior investment opportunities.

Allocation decisions may not be based on differences in expected fees or other inappropriate factors. The Allocation Policy provides that the LS Funds will have priority with respect to any investment opportunities identified by Hudson that appear to meet the investment objectives and opportunistic return targets of the LS Funds.

While Hudson will make its allocation decisions in good faith based on the information available at the time, this information may ultimately prove to be inaccurate or incomplete. The nature of certain investments may not be fully known at the time of acquisition and may evolve over time. There can be no assurance that application of this policy will result in allocation of a specific opportunity to a specific client or that any client will participate in all opportunities.

Cross Transactions

In certain cases, Hudson may cause one client to sell assets to another client. Hudson considers such transactions because they may benefit the clients involved, meeting the objectives of both clients while potentially reducing certain transaction costs. Cross transactions also create conflicts of interest for Hudson, which may have incentives to give one client the benefit of a non-market price or to dispose of underperforming assets, for example to increase fees earned or improve the performance of a preferred client.

In order to address this conflict of interest, Hudson has implemented policies and procedures that address cross transactions, requiring that such transactions be on arms-length terms and that all clients be treated fairly and equitably. Hudson and/or a third party (or Lone Star, with respect to the LS Funds) would determine the fair value of the assets involved. In addition to an internal review process, material cross transactions are typically subject to review by applicable clients, in accordance with the applicable services agreements or offering documents. In

the case of a Fund, any required approvals are obtained from an advisory committee of investors created pursuant to the Fund's limited partnership agreement (each, an "Advisory Committee"). Neither Hudson nor any of its employees serve as voting members of the Advisory Committee of any of the Funds.

Portfolio Company Services

In certain cases, an operating company owned by one or more Funds or LS Funds ("Portfolio Company") may be engaged to provide services to one or more other clients, Hudson, or Lone Star. As an example, Portfolio Companies that provide loan servicing or property management have been engaged to provide services with respect to assets owned by clients that do not own the Portfolio Companies. Such arrangements pose conflicts of interest similar to cross or principal transactions. In order to address this conflict of interest, Hudson has implemented policies and procedures that address Portfolio Company engagements, requiring that such arrangements be on arms-length terms and that all clients be treated fairly and equitably. In addition to an internal review process, material Portfolio Company engagements are typically subject to review by applicable clients (including any applicable advisory committee), in accordance with the applicable services agreements or offering documents. In some cases, such arrangements are disclosed to prospective investors or clients during the offering of a Fund or advisory service.

Co-Investment Allocation

As noted above, a small portion of each investment by the Funds is allocated to Employee Investment Vehicles. In addition, the General Partner of each Fund is permitted to offer a portion of any investment to other parties, at its sole discretion. It may offer co-investment opportunities to Fund investors through one or more Co-Investment Vehicles. If it elects to do so, a General Partner generally must offer investors in the applicable Fund the opportunity to invest in a Co-Investment Vehicle pro rata based on the level of their commitments to the Fund, subject to the terms of the applicable Fund's offering documents. Each General Partner is also permitted to allocate a portion of any investment to any party who has a right to co-invest under an agreement with the General Partner, Hudson or the Fund, or that the General Partner or Hudson determines is necessary or desirable for the consummation or success of the investment (which may include investors in the applicable Fund or other Funds). For example, such co-investment may be offered to parties that assisted with origination or financing of the investment, or that will be involved with management of the investment going forward. Neither Hudson nor the General Partners are responsible for allocation of co-investment interests with respect to the LS Funds.

Apart from the constraints described above, Hudson and the General Partners are under no obligation to offer co-investment opportunities to any party with respect to any particular Fund or investment, or to allocate any such opportunities offered in any particular manner. Potential co-investors may have a variety of different relationships with the Funds, the General Partners, Hudson or Lone Star, creating potential conflicts of interest for the General Partners in determining any co-investment strategy. In addition, as noted in Item 5, fee and expense arrangements for co-investors are often different from those of the Funds. In accordance with their fiduciary duties to the Funds, Hudson and the General Partners seek to use co-investments to align the interests of other stakeholders with those of the Funds and/or to provide additional capital needed to complete an investment, but there can be no assurance that these objectives will be fully achieved in each case.

Transactions with Investors

The Funds or SPVs will occasionally enter into transactions with investors or potential investors in the Funds. For example, a Fund investor may be invited to bid on an asset being sold by a Fund. Such transactions create potential conflicts of interest for Hudson, which may be motivated to confer a benefit on an investor in order to encourage investment in future Funds or gain support on matters requiring investor approval. Hudson has implemented policies and procedures designed to ensure that any such transactions are in the best interests of the applicable Funds and are carried out on an arm's-length basis.

Expense Allocations

The expenses discussed in Item 5 are typically incurred by a single client. In some instances, expenses may be shared by multiple clients. This creates conflicts of interest for Hudson in some instances, as the allocation of such expenses may impact the performance of different clients, as well as management fees and promote allocations. Hudson allocates such expenses in good faith at its sole discretion. Hudson has implemented policies and procedures designed to ensure that expense allocations are equitable and consistent with the requirements of the applicable offering 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.

Possession of Material Non-Public Information

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

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

Family Accounts

As discussed above, Family Accounts advised by HAL do not engage in transactions related to other Hudson clients and do not invest in the same types of assets as such clients. All trading in Family Accounts is reviewed in accordance with the Code of Ethics.

Valuation

Client investments 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. Hudson could be motivated to misstate the value of investments in clients’ accounting records or on investor reports in order to improve the performance presented to clients or investors (or potential clients or investors) or to minimize write-downs impacting incentive allocations and management fee payments.

In order to address these risks, Hudson employs rigorous valuation policies and procedures. All client investments are reported at fair value in accordance with U.S. generally accepted accounting principles, following the Financial Accounting Standards Board’s Accounting Standards Codification (“ASC”) 820, Fair Value Measurements. If reliable market quotations are readily available, securities and other instruments will generally be valued at their market price. Otherwise, investments will be fair valued using methodologies deemed by management to be most

appropriate for the investment type and market conditions. When available, methodologies are used that maximize the use of observable inputs. Due to the nature of the clients' investments, valuations are often based on discounted cash-flow projections, market multiples, or other valuation methodologies that rely heavily on management judgement and estimates of unobservable inputs. There can be no assurances such valuations, or their underlying assumptions, will prove to be accurate.

Each quarter, a Fair Value Review Committee comprised of senior managers in Hudson's Fund and Investment Reporting Department and the Chief Compliance Officer for Hudson reviews the valuation and valuation methodology for each investment. After the Fair Value Review Committee has approved quarterly valuations, they are submitted to the Fair Value Approval Committee. The Fair Value Approval Committee is comprised of the Chief Operating Officer of HAL, the Chief Financial Officer of HAL, and the Head of Global Portfolio Management for Hudson. The Fair Value Approval Committee must approve the fair value balance and discount rate for each investment before such valuations are reported to clients and investors.

Lone Star maintains similar valuation policies and procedures with respect to investments of the LS Funds, supported by Hudson.

Item 12: Brokerage Practices

Counterparty Selection

Hudson seeks to trade assets on behalf of its clients in a manner that is fair and equitable to all clients, and to exercise diligence and care throughout the transaction process. The majority of client assets 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). The investment counterparty is typically chosen as part of the investment committee's approval of the investment, and Hudson then assists in implementing the investment decision. Therefore, the traditional best execution concepts that apply to market-traded instruments do not easily apply to the majority of the assets that Hudson trades on behalf of its clients.

In those cases where Hudson selects broker-dealers or other counterparties for transactions in market-traded instruments on behalf of its clients, Hudson will do so consistent with its duty of best execution. Hudson defines "best execution" as seeking to obtain the best terms for its clients under the particular circumstances occurring at the time of a transaction and taking into account the overall objective for the investment to which the transaction relates. It is the policy of Hudson to seek to achieve the best qualitative execution under the circumstances. Best execution does not require Hudson to obtain the lowest possible price, commission or transaction cost. Transactions may involve specialized services or considerations (such as the type of assets the client is seeking to purchase or sell, or the availability of financing opportunities to the applicable client) that must be considered when selecting a counterparty, and thereby entail higher markups or commissions than would be the case with transactions that do not involve any specialized services or considerations. Furthermore, because Hudson's clients typically invest in assets that may be purchased from only one or a small number of counterparties, Hudson 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, Hudson 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 Hudson with a transaction that meets the investment objectives of the relevant client for whom the transaction is executed, including a counterparty's ability to source unique assets that may be held by a limited number of entities or by a single entity;
- the best price possible under the particular circumstances of the transaction (for example, for a sale transaction, Hudson may determine that the best price may be obtained through a competitive

- auction process open to a number of counterparties or, alternatively, Hudson 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 Hudson believes 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, Hudson may take any breakage costs related to a financing and the willingness of a counterparty to waive such breakage costs into consideration);
- the counterparty's credit terms prior to requiring the posting of margin;
- the counterparty's ability to commit capital needed to execute the transaction;
- the ability and history of the counterparty to maintain confidentiality of a transaction (or prior transactions);
- the ability of the counterparty to execute quickly and the ability to commit capital and/or financing quickly in light of the size of the transaction;
- the reliability, integrity, reputation and execution capability of the counterparty for effecting transactions in light of the size and difficulty of executing the order;
- the financial strength and creditworthiness of the counterparty; and
- the counterparty's specialized knowledge or experience in a particular market.

Research, Other Soft Dollar Arrangements and Client Referrals

Hudson receives proprietary research and other services from certain broker-dealers, which Hudson may use to service one or more clients. Hudson does not, however, cause clients to pay increased commissions in order to obtain the research and services provided by broker-dealers, and Hudson does not consider the provision of such research and services in the recommendation or selection of broker-dealers. When identifying potential transactions and selecting counterparties for those transactions, Hudson does not consider whether a potential counterparty provides referrals of investors or clients. Hudson does not enter into commission sharing agreements with broker-dealers relating to transactions executed for the benefit of clients, or participate in directed brokerage arrangements. Hudson will only permit clients to direct brokerage to the extent that it believes such direction will not impact its ability to seek best execution for client transactions.

During fundraising periods, the General Partners or the LS General Partners may use the services of a placement agent. All fees and expenses paid to the placement agent are ultimately the responsibility of the applicable General Partner or LS General Partner, as governed by the provisions of the applicable fund's limited partnership agreement. Hudson does not consider, when selecting counterparties, whether a potential counterparty provides referrals of investors to the Funds or LS Funds; Hudson selects counterparties pursuant to one or more factors described above under "Counterparty Selection."

Other Third Parties

In addition to transactions with banks and broker-dealers, Hudson 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 described above for counterparties, 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.

Aggregation of Client Transactions

Hudson will generally aggregate client trades in the same instrument as part of the same strategy if it believes doing so is consistent with its obligation to seek best execution for all clients. If client trades are aggregated, each client shares pro rata in the average cost and expenses of the applicable transaction(s). There may be situations in

which aggregation of client trades is not possible or practical because of client restrictions or trade logistics, which may increase transaction costs and/or result in different pricing.

Trade Errors

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

Item 13: Review of Accounts

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

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

Hudson provides reporting to other clients with content and frequency as agreed with such clients, generally no less frequently than quarterly.

Item 14: Client Referrals and Other Compensation

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

Neither Hudson nor its related persons directly or indirectly compensate any third party for advisory client referrals. Hudson or Lone Star may enter into placement agent arrangements with unaffiliated third parties regarding the solicitation of investors for compensation. All fees and expenses paid to the placement agent are ultimately the responsibility of the applicable General Partner or LS General Partner, as governed by the provisions of the applicable fund's offering documents. Lone Star has entered into a placement agent agreement with respect

to solicitation of investors in Latin America. The placement agent is paid a fee based on the amount of capital committed by each investor solicited by the placement agent and accepted by the LS General Partner of the applicable LS Fund.

Item 15: Custody

Hudson frequently has custody (as defined in the Advisers Act) of the assets of its clients. Clients that are private funds and their underlying investors receive annual audited financial statements from the fund's auditor. With respect to clients for which Hudson is deemed to have custody but that are not private funds, Hudson engages an auditor to conduct an annual surprise verification of assets under custody. Such clients will receive account statements from the pertinent qualified custodian and should carefully review those statements. If a client also receives account statements from Hudson, the client should compare them with the account statements received from the qualified custodian.

Item 16: Investment Discretion

Hudson provides investment advisory services to many of its clients involving a significant amount of investment discretion. Although each General Partner may impose restrictions on Hudson, it is not anticipated that a General Partner would do so. With respect to other clients, guidelines are typically communicated through client review of Business Plans or inclusion of client guidelines in the applicable services agreement.

Item 17: Voting Client Securities

Hudson has been delegated the authority to vote proxies on behalf of the Funds and the LS Funds. Investors may not direct such proxy voting. Hudson will also generally accept responsibility for proxy voting at the request of other clients. Hudson has adopted a Proxy Voting Policy and related procedures that require Hudson to vote client proxies with diligence, care and loyalty and in accordance with Hudson's fiduciary duty to its clients, which generally means voting proxies in a way that maximizes the value of client assets.

As applicable, the Hudson authorized officer voting a proxy will consider whether Hudson is subject to any material conflict of interest in connection with that proxy vote. The authorized officer must notify Hudson's Chief Compliance Officer if the authorized officer is aware of any material conflict of interest (or potential material conflict of interest) associated with a proxy vote. The authorized officer and the Chief Compliance Officer will consult with internal and/or outside legal counsel, as appropriate, regarding an appropriate course of action, and will document their basis for the resulting voting decision.

Hudson will provide a client or investor with information about how a proxy was voted, or with a copy of the Proxy Voting Policy and related procedures, upon written request to the Chief Compliance Officer, Hudson Advisors L.P., 2711 N. Haskell Avenue, Suite 1800, Dallas, Texas 75204.

Item 18: Financial Information

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

Hudson has never filed for bankruptcy and is not aware of any financial condition that is expected to affect or is reasonably likely to impair its ability to meet its contractual obligations to its clients.